THE BANE OF RESOURCE-BACKED LOANS IN ZIMBABWE IMPLICATIONS FOR DEBT SUSTAINABILITY

Zimbabwe Coalition on Debt and Development

OPINION PAPER

2021 publication

Introduction

This paper discusses the controversial Chinese development financing model of resource backed loans (RBLs) in Zimbabwe. It argues that while the Government of Zimbabwe has received Beijing as an 'all weather friend' allegedly loaded with some messianic and 'redemptive' funding for infrastructure, there is considerable controversy over its financing model. In particular, resentment over perceived Chinese 'neo-colonialism' is brewing in the civil society, academic circles, and among ordinary Zimbabweans with an increasing loud continued voices describing Beijing as 'sub imperialist', 'mad dash', 'rogue creditor', 'resource grabber', and perpetrator of 'debt-trap diplomacy' largely because of its lending practices among the other unpalatable geo-economic instruments (Moyo, 2020a; 2020b).

This paper seeks to problematise the resource backed loans also referred to as commodity-backed loans, resource for infrastructure swaps, barter deal trading for infrastructure, and the Angola mode. By definition, resource backed loans are loans that use a country's natural resources to serve as a source of repayment or guarantee for loans to a State or a State-Owned Enterprise from another State, the private sector, and or international financial institutions (Mihalyi, 2020; Brant, 2013). While operating below the radar of public scrutiny, Parliamentary oversight, and other accountability institutions, resource backed loans have emerged as one of the most common form of financing for development in Zimbabwe over the last two decades.

Since the early 2000s, Beijing through China Exim Bank, China Development Bank and other financial institutions has been giving out financial assistance to Zimbabwe in the form of grants, concessional and non-concessional loans among other financial and non-financial assistance (Moyo, 2020a). More recently, Beijing has reported that it is committed to provide more loans and financial assistance in order to strengthen its already blooming bilateral ties with Harare (Moyo, Nhliziyo and Fayayo, 2020). However, what is under-reported, under-stated, and under-researched is the fact that the bulk of the funding from China is in the form of resource backed loans or its variants namely the commodity-backed loans, resource for infrastructure swaps, or barter deal trading for infrastructure. Some conservative figures show that Zimbabwe has contracted approximately US$ 6.8 billion as RBLs from China over the past two decades (Mutondoro et al., 2020). However due to the lack of contract transparency and the opaque nature of some of these RBLs, their real magnitude and extent is difficult to ascertain and the US$6.8 billion could be an under-estimation of reality.

It is to no surprise that the resource backed lending has received some criticism because of a lack of transparency surrounding the details of the deals and contracts that are made between Chinese investors, lenders, and financiers on the one hand, and the Government of Zimbabwe, State enterprises and business on the other. It is clear that there is lack of transparency on the size and terms of Chinese loans to Zimbabwe and this feeds into the anxieties, concerns and fears that the country's vast mineral resources have been mortgaged to China. Compared to traditional creditors including the World Bank and the IMF, detailed statistics, cohesive data sources, and information on Chinese resource backed loans in Zimbabwe is hard to obtain, and the information is almost always sketchy.

This paper therefore aims to steer a policy debate on the implications of RBLs in a debt trapped Zimbabwe. It assesses the implications of this Chinese financing model as well as the opportunities for leveraging the extractives sector to bridge the fiscal deficit in Zimbabwe without mortgaging the country's natural wealth.

As such, the critical questions in this paper are: What does the Chinese model of resource backed loans entail? What is the darker side of this model? What are the implications of the RBLs on debt sustainability? And how can Zimbabwe leverage on its mineral wealth without mortgaging the country to resource colonialists? This analysis therefore seeks to bring these important streams of questions and thought together into a deeper dialogue, interweaving insights without being prescriptive.

Contextualising Resource Backed Loans

The starting point of this analysis is the acknowledgement of the fact that the Chinese resource backed loans model is currently in dominion. A number of African countries including Angola, Ghana, Chad, and the Republic of Congo among others have experimented with this model. As previously mentioned, resource backed loans are loans provided to a government or a state-owned enterprise, in which the repayment is made in the form of natural resources (Mihalyi et al, 2020). In this model, natural resources can serve as payment in kind; the resource of an income revenue stream used to make repayments; or as an asset that serves as collateral.

Viewed from this perspective, a country in need of development finance may use as collateral some of its future production of a resource such as minerals, oil, timber, fisheries, wildlife, and agricultural produce to secure loans especially for infrastructure development or any other capital expenditures (Mihalyi, 2020; Brant, 2013). However, some observers have noted that while these loans have often provided much-needed infrastructure including roads and hydro-dams, in many cases they have led to crippling levels of debt and the risk of losing collateral that is itself worth more than the value of the loan. It is important to note at this stage that collateralisation is often covered in a contract in the event of a default; a creditor would obtain control over the said collateral (Imam, 2019).

Apparently, the resource backed loans have been very appealing to the cash-strapped Government of Zimbabwe. It is common cause that the Government of Zimbabwe has long been engrossed in a deepening crisis of a debilitating social and economic decay, persistent fiscal deficits, low foreign and domestic investor confidence and external debt which continue to impact on the injection of foreign capital flows into the economy (ZIMCODD, not dated).

Following the squabbles between Harare and the rest of the international community in the early 2000s, the majority of the multilateral and bilateral sources of finance shut their doors on Harare. The unintended effect of this

was to force the Government to rely on China for development finance resulting in the country contracting external loans on commercial terms that are collateralized by mineral exports and other natural resources. Thus, by the early 2000s, amid growing international isolation, Sino-Zimbabwe ties grew closer and stronger (also see Fang et al, 2020). Moreover, the ruling executive-military alliance led by President Mnangagwa currently feels less indebted to the West and its juridical economic institutions.
Before the arrival of the current administration, the then Mugabe regime came up with the Look East Policy which saw the development of cordial relations between Zimbabwe, Southeast Asia, and Far East countries, including Malaysia, Singapore, Indonesia, India, Pakistan, and more importantly, with China. To be sure, this Look East Policy ushered in new dynamics in terms of debt evolvement in Zimbabwe as China became one of the consistent sources of investment, trade and finance.

As such, China's visibility in Zimbabwe has been both redoubled and given new value over the recent years. Thus today, Beijing has invested heavily in Zimbabwe and its footprints are visible in the telecommunications, power generation, and extractive sectors of the country.

Against this backdrop, Beijing has emerged as a preferred development partner for Harare especially because in line with its doctrine of non-interference, it does not meddle with the country's internal affairs. This means that the Chinese Government provides development finance to authoritarian governments such as Sudan and Zimbabwe without imposing any governance preconditions (Brautigam, 2011).The ruling executive-military alliance in Zimbabwe finds resonance with this Chinese model. It is worth noting from the outset that this executive-military alliance is internationally isolated hence opacity is part of its modus operandi as it claims to be using its Beijing ties to bust the restrictive measures. Moreover, the non-western investors insist on fewer detailed, meddlesome requirements on issues such as governance, disclosure, and transparency compared to the Euro-Western lenders, creditors, and financiers.

At the same time, secretive approaches to development financing serves to hide the pervasive presence of the military hierarchy and the senior members of the ruling party in the economic, business, and commercial spheres in Zimbabwe. Some of these actors are involved in rent-seeking, financial crime and corruption, money laundering and externalisation of funds. Beijing seems to be unnerved by these activities in Zimbabwe which gives credence to the descriptors of China as a 'rogue creditor', a 'predator lender' and a 'champion of debt trap diplomacy'.

RBLs Landscape in Africa

It is interesting to note that the RBL model was not invented by the Chinese but came from within Africa. The idea was first introduced by the Standard Chartered Bank in response to the Angolan Government's demand for revenue to fund its post-conflict reconstruction programme in the early 2000s, when rehabilitation costs could not be met with concessional or alternative sources of financing (Imam, 2019). Given the Angolan government's low creditworthiness at the time, Standard Chartered Bank offered an arrangement whereby its lending was to be guaranteed by future oil revenues and this apparently became the pioneering project of RBLs which have since been reproduced and aggressively pursued by Beijing (note that China also learnt this financing model from Japan which used the RBLs in its trade and investment relations with China in the past; this is however beyond the scope of this paper). Today China is offering resource-rich African countries loans that are leveraged against their resources in-order to access financial support especially for infrastructure development.

Other African countries have fallen in this trap with China giving financial support in exchange for resources. For example, oil in Congo-Brazzaville, sesame in Ethiopia, cocoa in Ghana, and cattle hide in Senegal. In turn China provides resources for these countries to build the hydropower, telecoms, and rural electrification projects and many other infrastructure projects which are generally shunned by the Euro-American lenders and financiers together with their juridical economic financial institutions such as the World Bank and the IMF. A study carried out by the Natural Resource Governance Institute (NRGI) (2020) shows that to date eleven African countries have signed RBLs with China. These are Angola, Chad, the DRC, Ghana, Guinea, Niger, the Republic of Congo, Sao Tome and Principe, South Sudan, Sudan and Zimbabwe (Mihalyi, Adam and Hwang, 2020).

The following are the examples of the RBLs in three of these countries:

- **Angola:** The first RBL was initiated in Angola in 2004. A US$2 billion loan from China Exim Bank was used to finance the construction of infrastructure damaged in Angola's civil war. The deal involved the export revenue from 10

000 barrels of oil a day over a period of 17 years for loan repayment (Konijn, 2014). Since then, Chinese lenders have committed over US$24 billion worth of oil backed loans to Angola. However, the financial flows between Beijing and Luanda have been murky. For example, the IMF uncovered US$32 billion excess of revenues over expenditures in Angola's state budget from 2007 to 2010 which was the result of Sonangol using government oil revenues to finance quasi-fiscal operations not recorded in official budgets accounts (Mihalyi, Adam and Hwang, 2020).

- The Republic of Congo: This is the second largest African recipient of RBLs, with a total of US$5.1 billion worth of RBLs. As in Angola, these loans came in the form of advances on oil shipments. The deals were however shrouded in secrecy and the Congolese Government only revealed to the public that it had taken RBLs only when it had difficulties servicing them(Mihalyi, Adam and Hwang, 2020). The Government took these RBLs without public consultation and was therefore highly criticised by civil society (Mutondoro et al., 2020).Today, a significant share of debt of the Republic of Congo is reportedly securitised (about 70 percent of the total public external debt) (Imam, 2019).

- The DRC: is the third largest recipient of RBLs in Africa worth US$3.5 billion from barter deals. The deal states that the DRC would pay back the loans through profits and with Government guarantees (Mihalyi et al, 2020). Over ten years later, researchers conclude that the agreement was less beneficial to the DRC than it was to China. Thanks to DRC being part of the EITI, at least some information on the deal was disclosed. Nevertheless, some observers note that the deal was highly opaque in the initial stages and hard to evaluate in financial terms. More importantly, DRC lost out on an opportunity because the infrastructure built was to a low-quality standard, so the natural resources were traded for short-living infrastructure that will not increase economic or social development in the country (Mutondoro et al., 2020).

While there are some obvious advantages attached to RBLs including the fact that they might be positive in the light of infrastructure development and may

offer cheaper and faster loans to governments, and provide access to external financing when conventional unsecured financing is not available. However; the examples above also show that there are massive challenges and risks of RBLs including the fact that RBLs are hard to monitor, complex and often with several actors involved. As will become clear as this discussion unfolds, RBLs are often off-budget and not subject to budgetary safeguards, Parliamentary scrutiny, public tenders and government oversight because the borrower is seldom the government directly but state-owned entities which in the case of Zimbabwe are controlled by the members of the military hierarchy and senior members of the ruling party ZANU PF.

The Bane of RBLs in Zimbabwe

Unable to get funding from the traditional lenders such as World Bank and the IMF since defaulting on its debt in the early 2000s, Zimbabwe has been heavily relying on countries such as Belarus, China, India, Kuwait, and Russia for development finance (also see AFRODAD & ZIMCODD, 2020c). It has also received support from the AFREXIM Bank and the Preferential Trade Area (PTA) Bank among the other commercial creditors. Zimbabwe's collaterised loans owed to the AFREXIM Bank amount to US$700 million (Imam, 2019.) As such, the Government of Zimbabwe contracted external loans on commercial terms that are collateralized by mineral exports. The Government of Zimbabwe has revealed through its recently adopted five year development plan dubbed the National Development Strategy 1 (NDS1), 2021-2025 that the country has been using natural resources as collateral for loans (see NDSI, 2020).

A number of countries including Belarus, Brazil, India and Russia have been implicated in the resource for loans in Zimbabwe. However; very little information is publicly available to make a comprehensive assessment of these claims. For example, available information from press reports indicates that Belarus has its footprints in the gold, diamond, platinum, construction and infrastructure sectors in Zimbabwe. There is concern that the Mnangagwa administration has used the country's prized mineral wealth to source buses from the Minsk City (Belarus). Of note is that in the last two years the Government of Zimbabwe has received hundreds of buses from Belarus to ease woes in the public transport system. Speaking to the Chronicle Newspaper, the Minister of Finance and Economic Development, Mthuli Ncube confirmed that the buses were not a donation to the country (The Chronicle 30 January 2019). Despite the fact the buses were not donated the Government has not revealed how the buses were guaranteed and how they are going to be paid for leaving observers to speculate about the possibility of these buses being part of the RBLs.

Similarly, there are claims that Harare has used some minerals to secure some support from Russia. It is worth recollecting that in 2018 Harare and Kremlin agreed on a number of cooperation agreements ranging from platinum exploration, agricultural as well as industrial revitalisation support. On the other hand, it is also important to state that Kremlin is alleged to have supported the ruling party-Zimbabwe African National Union-Patriotic Front (ZANU PF) in the 2018 harmonised elections (BBC News, August 3, 2018; Zwicewicz, 2019). Although the Kremlin authorities through the Minister of Foreign Affairs Sergei Lavron dismissed the claims as s false given the commercial, diplomatic, political and military ties between the two countries, it is worthwhile for future researchers on RBLs to explore deeper the kind of contracts and investments that exist between the two countries.

While there is insufficient evidence to claim that countries such as Brazil and India have signed some RBLs with Zimbabwe, it is the argument of this paper that China is the trailblazer of this form of financing in Zimbabwe. Clearly, Zimbabwe's lack of alternative sources of international funding has offered the Chinese access to the country's mineral wealth. Besides, at face value, China's development finance is cheaper than many realistic alternatives, and its funds are in large amounts, more easily accessible, flexible, and have longer repayment periods and their disbursal is much quicker than that of the Euro-Western financiers and lenders (Moyo, 2020a). In return for the RBLs the agreements also come with a clause that requires procurement of goods and services from China. Table 1 below provides a snapshot of some of the debts that the country has contracted in the last ten years.

Table 1: Loans Contracted From 2010 To 2019

	FACILITY	CREDITOR	DATE SIGNED	AMOUNT (US$ MILLIONS)
1	Net-One Mobile Expansion (Phase 1)	China Exim Bank	August 2010	45.00
2	Harare Water & Sanitation Rehabilitation	China Exim Bank	March 2011	144.00
3	Medical Equipment Supplies	China Exim Bank	March 2011	89.00
4	National Defence College Project	China Exim Bank	March 2011	98.00
5	Upgrading of Victoria Falls Airport	China Exim Bank	April 2012	150.00
6	Kariba South Hydro Power Station Ext	China Exim Bank	Nov 2013	319.00
7	Net-One Mobile Expansion (Phase 2)	China Exim Bank	August 2014	218.00
8	Purchase of Small Scale Mining Equipment	Xuzhou Construction Machinery Group (CMG) China	August 2014	100.00
9	Tel-One Broadband & Network Expansion	China Exim Bank	Dec 2015	98.00
10	Construction of Hwange 7 & 8 Thermal Power Station	China Exim Bank	June 2016	998.00
11	Robert Mugabe Int. Airport	China Exim Bank	April 2018	153.00
12	New Parliament Building	China Exim Bank	2018	77.00
13	Net-One Mobile Network Expansion Project (Phase 3)	China Exim Bank	June 2019	71.00

Source: *AFRODAD & ZIMCODD (2020c)*

As shown in Table 1, the China Exim Bank together with the Chinese Development Bank have become the largest lenders in Zimbabwe, providing financing to the country than the World Bank which stopped funding Harare two decades ago as explained earlier. However; there is limited public information on collateralised debt. Some observers assert that Zimbabwe's collateralised loans amount to US$6.8 billion most of it being owed to China Exim Bank (Mutondoro et al., 2020). It is the argument of this paper however, that there are probably more loans on platinum and chrome collateralisation than currently reported on.

It is further noted that China has been extending loans beyond physical infrastructure support to other sectors including support for some vanity projects such as State House, conference facilities for the ruling party and the new Parliament Building among others. However; most of these RBLs have been generally negotiated through highly opaque deals, uncompetitive procedures and often carried out off-budget by poorly governed state enterprises and parastatals. It is therefore not clear which of the debts listed on Table 1 are RBLs and which ones are not. Moreover, since, Beijing lending to Zimbabwe is often shrouded in secrecy, one may not be wrong to suggest that the actual Chinese debt is far much higher than the figures given on Table 1.The data available to the public is constrained by the inability and unwillingness to follow the Public Debt Management Act and the Public Finance Management Act procedures in loan contracting (Imam, 2019).

This should not come as a surprise considering that the involved parties have little interest in social accountability. In fact, the Mnangagwa administration justifies the opacity in loan contraction by playing the sanctions busting cards. As intimated earlier, the Government of Zimbabwe signed a legion of RBLs deal with Chinese policy banks, State-owned enterprises and private companies. Karkkainen (2015) analysed in detail the cases of Northern Industries Corporation (NORICO), Anhui Foreign Economic Construction (AFEC) through its subsidiary Anjin and CMEC involvement in resource backed arrangements in Zimbabwe. The analysis indicates that these Chinese companies supplied Hwange Colliery Company with coal mining equipment worth US$6.2 million in exchange for coke and diamonds (AFRODAD &ZIMCODD, 2020b). Thus, NORINCO and other Chinese companies have been involved in bartering arrangements with Zimbabwe.

There are also reports of Zimbabwe Government purchasing arms from China and repaying through mining concessions and mineral exports to China. In particular, there are claims that NORINCO has in fact made sales to Zimbabwe's Ministry of Defence and Zimbabwe's Air Force and engaged in mining joint ventures in which such arms-for-minerals deals were used (Mihalyi, 2020; Brant, 2013). Similarly, Anhui Foreign Economic Construction (AFEC), a large Chinese State-Owned Enterprise entered Zimbabwe's diamond mining sector in 2009 through a joint venture (Anjin Investments) with the Zimbabwe Defence Forces. It has been reported that the mineral revenue from Anjin Investments was used to finance the National Defence College.

The RBL was structured in a manner that China Exim Bank advanced a loan of US$98 million to the Government of Zimbabwe through the Ministry of Finance and this was to be repaid using the latter's share of profits from Anjin Investments (NRGI, 2020).Table 2 below shows some of the resources for infrastructure swaps that Zimbabwe Government has agreed to over the last two decades.

Year	Project Description	Loans	Terms			Conditions (resource used	Additional agreements to secure the loan
			Interest	Grace	Period in years, % in years		
2007	Construction of three thermal plants and chrome mine	$1.3 billion	A memorandum of understanding was signed to finance three power plants with chrome export revenues. Reports issued in 2010 indicate that the agreement had not materialized				
2009	Development of platinum mine	$ 5 billion	A memorandum of understanding was signed to 50% equity in a $40 billion platinum concession for a $5 billion concession credit line. In 2011 a credit line limited to $3 billion was still under discussion				
2011	Construction of the National Defense College	$98 million	2%	7	20	Diamonds from Marange	If there is any change of laws for government policies in Zimbabwe making it difficult for either party to perform its obligation, China could declare all the sum payable immediately

Source: *Mutondoro et al (2020)*

The table above shows that platinum, chrome, diamonds have been used as collateral for various loans to Zimbabwe. This has left the country exposed and dependent on Beijing funding thereby compromising the country's sovereignty as will be explained anon. It should however be noted that China is not the only country that has been associated with RBLs in Zimbabwe. Countries such as Belarus, India and Russia have also been signing RBLs deals with Harare. For instance, in 2015, the Belarus Digest reported that Zimbabwe and Belarus entered into an agreement which allowed Zimbabwe to access capital equipment and technical know-how regarding mining of rivers.

This agreement was entered into despite the fact that Belarus had no proven record of expertise in river bed mining. More recently, in January the Standard Newspaper, one of Zimbabwe's weekly newspapers reported that the Government of Zimbabwe was contemplating an agreement with Russia involving the replacement of the former's military helicopters with the latter basing the exchange of mineral portfolio (10 January 2020, the Standard Newspaper). The same newspaper also reported that the Government of Zimbabwe was also negotiating a deal with Russia wherein it is provided the country with oil in exchange of diamonds (Mutondoro et al., 2020).

Apart from the mining sector, RBLs are also common in the agricultural sector. For example, the China National Tobacco Corporation (CNTC) gave out massive financial support to purchase heavy machinery and farming equipment for tobacco farming in Zimbabwe. This scheme dubbed tobacco for equipment was described as designed to boost the Zimbabwean economy through improving production yields, increasing farm acreage, and improving farmer incomes. There are also claims that some tracks of land have been mortgaged to the Chinese lenders and financiers thereby creating a problem of foreignisation of land (also see Moyo, 2020c).

Arguably, the mortgaging of resource in return for loans is likely going to continue into the future as the Zimbabwean economy has taken a hit from the COVID19 pandemic which will see the debt burden deepening further.

Developmental Impact of RBLs

So far, the discussion has demonstrated how China's development finance in Zimbabwe is a double-edged sword. On the one hand, Beijing is a strategic development partner of the Government of Zimbabwe, yet there is equally compelling evidence that China may be contributing towards debt distress in Zimbabwe through its resource backed loans. Indeed, the RBLs have caused much consternation and debate in the country.

Zimbabwe's debt stock is believed to be well above US$ 20 billion of which a significant portion of this debt under external debt being attributed to arrears, interest, and penalties from failing to pay back the external debt (AFRODAD & ZIMCODD, 2020). It is the argument of this paper that a large chunk of the external debt is hidden debt which is in the form of RBLs as discussed above. This section therefore focuses on the developmental impact of the RBLs at both national and local levels.

To be clear, Chinese soft loans seem attractive, but they cost the country in the long run if the Government fails to service the debt. Thus, critics have labelled China's generosity in issuing loans often guaranteed with natural resources as a new form of colonialism, especially in a debt- ridden country like Zimbabwe. The Chinese share of external debt stock as of 2018 was estimated around 34 percent. This implies that China-Zimbabwe relations are significantly having a bearing on the debt unsustainability in Zimbabwe (AFRODAD & ZIMCODD, 2020)

Table 3 below shows the nexus between RBLs and debt sustainability in selected African countries including Zimbabwe.

Table 1: African Countries with Large known RBLs and their Debt Sustainability

COUNTRY	TOTAL RBLS 2004-2016 AS % OF	TOTAL GVT DEBT STOCK TO GDP (2016)	IMF DEBT SUSTAINABI LITY ASS (NOV 2019)
Republic of Congo	65%	128%	In debt distress
South Sudan	42%	89%	In debt distress
Angola	25%	76%	n/a
Chad	21%	53%	High risk of debt distress
DRC	10%	19%	Moderate risk of debt distress
Soa Tome &Principe	8%	92%	In debt distresst
Ghana	8%	57%	High risk of debt distress
Sudan	3%	100%	In debt distress
Zimbabwe	2%	54%	In debt distress

Source: *AFRODAD & ZIMCODD (2020c)*

Given the fact that the Government of Zimbabwe has been defaulting on its debt obligations to the World Bank, African Development Bank, European Investment Bank and a legion of Paris Club and non-Paris Club over the last two decades, there are doubts that it will be able to service its Chinese debt and hence the deepening of debt distress as shown in Table 3. Thus, Chinese lending has put Zimbabwe at greater risk of falling into what is seen as a debt trap through the RBLs.

Perhaps the single most adverse factor about RBLs in Zimbabwe is that transparency is lacking in all stages of the deals. Lack of transparency is part of the Beijing financing approach globally. While Chinese development and commercial banks publish global lending aggregates on a regular basis on their lending, they rarely make loan-level information such as interest rates, maturity, and resource-security arrangements available to the public. More often, specific RBL deals are mentioned in passing in official bank or company press releases that state only the total amount of the loan and offer vague reference to resource-security. As such there is scope for corruption and illicit financial flows in such lending situations (Tan, 2019).

Another complication is that RBLs can be de facto more senior than other debts. This means that RBLs will be repaid before other loans are paid by virtue of their earmarked revenue stream. Further complication can arise when RBLs benefit from legal security in the form of additional assets provided as collateral. Lenders can seize these assets if the government stops servicing the loan, for example, where specific cargoes are assigned as security to a commodity trader. In case of non-payment the collateral lost might be of greater financial value than the loan or at least perceived as more valuable by the citizens.

With Zimbabwe sinking under the weight of debt distress, it runs a risk of Beijing seizing some of its assets as what happened with Sri Lanka which ceded control of the strategic port of Hambantota after failing to pay its debts to China (ISS, Not Dated).To avert embarrassing developments like these, the Government should ensure that all contracts are transparent, fair, and favourable to Zimbabwe's development agenda.

The other overt problem with RBLs is that there are not mutually beneficial as they cater for those involved in the negotiations, in particular, the ruling elite, members of the military hierarchy, and senior ZANU PF officials. So far, the mining communities in Zimbabwe where the Chinese are involved have nothing to show in terms of development and are often left in the dark in the process of negotiating contracts. At the same time, resource backed loans have resulted in displacement of mining communities. An example is the case of Chiadzwa, where communities were forcibly removed to pave way for mining after the discovery of diamond. Such actions have negative impacts on the livelihoods of the displaced communities (AFRODAD & ZIMCODD, 2020b). Evidently, Chinese companies in partnership with Zimbabwe State Owned Enterprises exhibit a lack of responsiveness and openness when confronted with the adverse effects of their investments in human rights. Thus, human rights violations in this context are not isolated cases but a recurrent feature in the mining sector.

Additionally, RBLs are associated with environmental degradation in Zimbabwe. Of note, is the conduct of Anjin Investments in the Marange diamond field. Anjin Investments has been accused of polluting the Save Odzi Rivers while jeopardising the right to water and a healthy environment for Marange and surrounding communities (Mtisi, 2015). At Anjin for example, Environmental Management Agency officers were detained by mine management and the military for trying to inspect and monitor water pollution caused by mining. The use of excessive force by the state security sector and private security at Anjin Investment mining claim as well as unfair labor practices have also raised concerns over the operations of the Chinese mining company in Zimbabwe.

It is also worth reiterating that Chinese loans and investments in Zimbabwe are characterised by a lack of transparency which makes it impossible to have a clear account of the implications of this borrowing on public finances. In addition to citizens' accountability, Parliament also has a role of ensuring oversight where RBLs are concerned. The Constitution of Zimbabwe empowers Parliament to play a vital oversight role on loan agreements and public debt and this includes RBLs. For instance, section 300 gives Parliament the power to enact a law that sets limits on the borrowing by the Government, the public debt and debts whose repayments guaranteed by the Government of Zimbabwe. In addition to section 300 the Constitution has subsection ④ (b) which stipulates that the Minister has an obligation to report twice a year to Parliament on the performance of loans raised by the State, and loans guaranteed by the State. However; despite all these legal and constitutional provisions the ruling executive-military alliance led by President Mnangagwa has kept a veil of secrecy on RBLs in Zimbabwe.

From both theoretical and practical perspectives, the fundamental problem with RBLs is that the main risk lies with the borrower: a country becomes increasingly reliant on its extractive sector and may be stuck and forced into oil or mineral extraction for decades. Moreover, the borrower is exposed to the volatile market prices. If prices for the commodity fall or the agreed-on volume cannot be produced within the often very short timeframe given, the borrower has to deal with the consequences. In the case of Zimbabwe which is already a perennial debt defaulter, the possibility of asset seizure is imminent unless Government comes up with a clear debt management policy and a debt management legislation that will enable the country to borrow responsibly.

In terms of principles it must be stated that there is nothing wrong with borrowing money. The cardinal principle of borrowing requires that the loan be used productively to generate a net income over and above that required for debt payment or amortisation (also see Ayittey, 2005). Sadly, the problem with Zimbabwe is that some of the loans have been contracted to finance reckless spending such as the misguided purchase of weapons which the country does not really need while other loans were simply misused. It is therefore the argument of this paper that Zimbabwe should urgently tackle the problem of debt sustainability. There is no doubt that Zimbabwe can make real economic progress but only when it begins to get on top of its debt crisis by leveraging on its extractive sector as explained below.

Leveraging the Extractive Sector

As discussed above, the main risks with RBLs lie with the borrowers as they become ever more dependent on their extractive sector. Against this backdrop, the Government of Zimbabwe is struggling to provide basic services like health care and education. It is therefore the argument of this paper that Zimbabwe needs to leverage on its mining sector.

Evidently, Zimbabwe's mining sector has grown in importance over the past few decades. Presently, there are more than forty (40) different minerals in Zimbabwe including diamonds, platinum, gold, nickel, copper, iron ore, zinc, chromium ores, asbestos, vanadium, lithium, tin and coal. In 2018, gold, platinum group of minerals (PGM), diamond, nickel, chrome and coal dominated the sector and accounted for 95 percent of the value of minerals generated in Zimbabwe (the National Development Strategy 1, 2020-2025).

By year 2019, mining played a significant role to the Zimbabwean economy, contributing about 16 percent to the country's Gross Domestic Product (GDP), more than 60 percent of exports and accounting for a significant share of foreign direct investment (FDI). Due to its intense labour requirements, the sector has created formal employment for over 45 000 people. Mining has also been a source of livelihood for millions across the country who engage in artisanal and small scale (ASM) mining. It is estimated that ASM especially in gold provides a direct livelihood for more than one million people. In 2018, ASMs contributed 65,5 percent of gold deliveries to Fidelity Printers and Refineries in the country. Gold deliveries from small- scale producers increased from 13,2 tons in 2017 to 21,7 tons in 2018. The mining sector is also one of the key sectors that the Government of Zimbabwe is hoping to leverage the achievement of an upper middle economy by 2013 as evidenced by the US$12 billion mining plan it rolled out in 2019 (also see the National Development Strategy 1, 2020, p.99).

The irony is that despite these seemingly positive attributes of the extractive sector, mining in Zimbabwe has been associated with such negative development ills such as corruption throughout the mining value chain, illicit financial flows, revenue leakages, violence amongst artisanal miners and the signing of opaque mining agreements under the ‘open for business’-mantra’. The lack of clarity associated with Zimbabwe's mineral sector is evident in the granting of licenses, negotiation of contracts, production data, the collection, allocation expenditure and accounting of mineral revenue and this also affects agreements covering RBLs in Zimbabwe.

The overall argument of this paper is therefore against the mortgaging of Zimbabwe’s natural resources. Instead of selling the soul of the country to external bidders the paper seeks to argue that the policy makers in Zimbabwe should leverage on the extractive sector to ensure sustainability in mineral resource extraction. Indeed, the recent experience of other countries shows that RBLs have not proven to be an ideal tool for African countries including Zimbabwe. In the final analysis, there is need for transparency in the awarding of contracts, mining and marketing processes, as well as in mining revenue management so that sustainable development can be achieved in Zimbabwe (*Mlambo, 2016*).

Conclusion and Recommendations

This paper has debated on the mortgaging of Zimbabwe's resources whilst highlighting the long-term benefits of leveraging on the extractive sector to ensure sustainability in mineral resource extraction. The paper also argues that RBLs are high-risk deals from a financial, sovereignty and corruption perspective. While transparency cannot prevent these risks, it can act to deter irresponsible behaviour, and help to bring accountability where this arises. It is hoped that this analysis will help stakeholders gain a more evidence-based understanding of the deepening debt burden as a result of the predatory lending from Beijing.

The following presents some key recommendations:

Noting that some of the debts contracted by the Government of Zimbabwe are illegal since they were not approved by Parliament in terms of the Constitution and the Public Finance Management Act, this paper therefore recommends that going forward all key terms of each loan contract should be approved by Parliament and should be made public. In addition, where loan contracts are bundled with contracts for extractive rights or trading, Government should publish the terms of the contract for those elements.

Given that some loans were contracted for consumptive purposes including the purchase of arms and ammunition which do not generate economic activity and the ability to repay or service the loans, this paper therefore cautions that money accrued from borrowing should not be consumed, but spent in productive investments that can generate returns over the long term that exceed their financing costs.

Cognisant of the fact that most of the RBLs are provided by China without any competitive bidding for the earmarked public sector investment project, this paper recommends that the Government of Zimbabwe should encourage competition among potential finance providers on loan terms and financed projects. This will help Zimbabwe to secure the best possible deals when presented with alternative options.

From the evidence presented in this paper, it is clear that rights to subsoil wealth make for poor collateral. Plainly put, the natural resources are very hard to value appropriately; are likely to be politically and legally contested and likely worth much less to a lender who will have difficulties utilising them without government's support, therefore, this paper nudges the Parliament of Zimbabwe to pass a law prohibiting the use of natural resources for loan purposes.

It is common knowledge that Zimbabwe has been contracting debt without a debt management framework. As such, this paper recommends that Government should come up with a Debt Management Policy as a matter of urgency to enhance the country's ability to make decisions on issuing or entering into debt obligations, exhibit a commitment to long-term financial planning that will ensure fiscal prudence and financial stability. At the same time Government should regularly publish information on the stock and composition of its debt and financial assets, including their currency, maturity, and interest rate structure to ensure transparency, accountability and prudent debt management for Zimbabwe.

Petrified that some of the loans may be obtained for personal interest and parochial purposes; this paper therefore recommends a process of a National Audit of the Public Debt in Zimbabwe in order to determine which debts are legitimate and which are not. The illegitimate and odious debts should be paid by whoever contracted them from their own private sources and from the national fiscus.

Finally, the apparent failure by the Government of Zimbabwe to manage its debts as well as its inclination towards mortgaging the country's resources, demands that civil society as well as the citizens in general should require transparency in the design, feasibility, selection, pricing, tendering and management of megaprojects. As such, civil society actors should deepen their knowledge and understanding of the contractual agreements between Harare and Beijing.

References

AFRODAD & ZIMCODD (2020a). The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

AFRODAD & ZIMCODD (2020b).Unpacking the Linkage between Debt, Extractives Sector, Inequality and Illicit Financial Flows: A Case Study from Zimbabwe.

AFRODAD & ZIMCODD (2020c). Annual Debt Management Report for Zimbabwe 2020

Ayittey, George. B. N. (2005). Africa Unchained: The Blueprint for Africa's Future, Palgrave Macmillan

BBC News (2018). Zimbabwe Elections: Opposition Calls Poll Results a Coup (3 August 2018). www.bbc.com/news/world-africa-45055223

Brant, Philippa. (2013). Chinese Aid in the South Pacific: Linked to Resources? Asian Studies Review, 2013 Vol. 37, No. 2, pp. 158–177 https://www.tandfonline.com/doi/pdf/10.1080/10357823.2013.767311

Durovic, Luka. (2016). Resource Curse and Curse and China's Infrastructure for Resources Model: Case Study of Angola, JCIR, Vol.4, No.1, pp.67-86.

Fang, Jennifer., Souza, D. Lauren., Smith, Julia and Lee, Kelly. (2020). "All Eeather Friends": How China Transformed Zimbabwe's Tobacco Sector, International Journal of Environmental Research and Public Health; doi:10.339/ijerph17030723

Imam, Patrick (2019). Collateralised Sovereign Debt-Costs and Benefits, IMF.

ISS (Not Dated).Lessons from Sri Lanka on China's 'debt-trap diplomacy': For vulnerable African countries, a reliance on Chinese financing could pose a threat to sovereignty.https://issafrica.org/amp/iss-today/lessons-from-sri-lanka-on-chinas-debt-trap-diplomacy

Konijn, Peter. (2014). Chinese Resources-For-Infrastructure (R4I) Swaps: An Escape from the Resource Curse? SAIIA: Pretoria

Mihalyi, David., Adam, Aisha and Hwang, Jyhjong. (2020). Resource-Backed Loans: Pitfalls and Potential, Natural Resource Governance Institute (February).

Mlambo, Lyman. (2016). Extractives and Sustainable Development: Minerals, Oil and Gas Sectors in Zimbabwe, Friedrich Ebert Stiftung: Harare

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

Moyo, Gorden. (2020b). 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: 2150-4075https://www.researchgate.net/publication/342356779_Obstacles_and_Opportunities_for_Financing_the_Fight_against_Covid-19_in_the_Debt_Trapped_Zimbabwe

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

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

Mtisi, S. (2015). Diamond Mining and Human Rights Violations, Unpublished LLM Dissertation, Midlands State University: Gweru.

Mutondoro, Farai., Hobi, Anna-Sophie., Dhliwayo, Mutusom & Chiname, Josephine, (2020).Resource-backed loans and the high risk of debt in light of the COVID-19 pandemic: A case study of Zimbabwe

National Development Strategy 1, (2020). National Development Strategy 1, 2021-2025, 'Towards a Prosperous & Empowered Upper Middle Income Society by 2030', Government of Zimbabwe

Tan, Weizhen. (2019). China's loans to other countries are causing 'hidden' debt. That may be a problem.https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html

The Chronicle (30 January 2019). 500 buses for Zim mass transport. https://www.chronicle.co.zw/500-buses-for-zim-mass-transport/

Were, Anzetse. (2018). Debt Trap? Chinese Loans and Africa's Development Options:

Policy Insights 66, South African Institute of International Affairs (SAIIA): Pretoria. https://media.africaportal.org/documents/saia_sop_201_konijn_20141020_9OXMVFd.pdf

Zwicewicz, Major. D. (2019). Russia in Africa: Manipulation and Expanding Influence, unpublished Master of Defence Studies Dissertation, Canadian Forces College, Canada.

ZIMCODD acknowledges the lead researcher for this paper, Gorden Moyo (Dr) who worked tirelessly to put together this publication.

Zimbabwe Coalition on Debt Development
zimcodd.org
zimcodd @zimcodd1