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THE Weekend Reader

"Your Weekly Read on Debt, Development & Social & Economic Justice"

3rd Zimbabwe Annual Multi-Stakeholder Debt Conference Calls for Improved Debt Governance

AFRODAD and ZIMCODD are hosting the Zimbabwe Annual Multi-Stakeholder Debt Conference in Harare from the 22nd to the 24th of September running under the theme *"Strengthening Debt Governance in Zimbabwe in the context of COVID-19"*. Major highlights from the Debt Conference are centred on the urgent need for transparency and accountability in public finance management, these include but are not limited to parliamentary oversight in all loan agreements contracted by the government, COVID-19 earmarked funds, and mineral revenues. The major concern that is emerging and being concurred on by the participants is the role and place of ordinary citizens in the public finance equation.

The conference established that the major drivers of the debt crisis in Zimbabwe and Africa in general, are both internal and external. This is fuelled by a development strategy that relies heavily on borrowed funds due to weak domestic resource mobilization, lean tax base, and poor mineral resource governance. There is poor public debt governance due to weak institutions and ineffective public debt management frameworks, and a profit-driven new creditor landscape where there is an emergence of Non-Paris Club lenders offering high interest loans with shorter maturity.

Due to high debt distress, citizens are bearing the brunt of poverty as the government fails to provide and deliver quality social services such as health and child welfare, education, housing, water, and sanitation. Young people who constitute over 65% of the total population and women are disproportionately bearing the debt burden as most of them remain unemployed thus trapped in a vicious cycle of poverty.

In addition, the debt injustice is fuelling other injustices such as environmental injustice through undertaking unsustainable means of resource extraction. The environment is witnessing land degradation and pollution especially perpetrated by mining companies from megadeals struck by the government. The high debt level has affected government resource mobilization capacity. Hence, the government is now resorting to massive and multiple regressive taxes on citizens notwithstanding declining incomes from ratcheting inflation and subsequent social decay and rising poverty levels.

The accrued Zimbabwean loans are shrouded in secrecy as the Parliament is starved of its oversight role. The lack of transparency on the quantum, terms, and conditions of loans also breeds corruption, misappropriation, and abuse of the borrowed funds. This was highlighted in 2014 when it was revealed that City Fathers used part of the loan amount intended to upgrade water and sewerage reticulation to buy luxury cars[1]. Hence, there is a need for transparency in debt management. There were also calls for the debt audit to ensure the legitimacy of the debt.

The Debt Conference also dwelt on the issue of Resource Backed Loans (RBLs). This is when the government accesses loans using resources such as minerals as collateral. In recent years, China has become the champion of RBLs, especially towards the mineral resource-rich African continent. One may ask this question: Is it good or bad to finance projects using RBLs? The answer is 2-sided as there is a good side and a bad side to the RBL concept.

On the former, RBLs are attractive to African leaders as they are a cheap infrastructure financing model, and the deals are concluded quickly. However, RBLs fuel overborrowing yet failure to repay may lead to foreignisation of public resources assets. For instance, when Sri Lanka defaulted on the Chinese debt, China took a 25% equity in a constructed port. Furthermore, loaned money does not come directly to the borrowing country to have a direct impact on citizens and the economy. The companies used to do construction work and most materials used are imported from China with only menial employment for the locals.

The Conference also highlighted that high debt has crippled the local governments, state enterprises, and parastatals gravely affecting their operations. For instance, Air Zimbabwe planes have a history of their planes being impounded abroad because of lending fees in arrears. The losses and debts being incurred by these entities are assumed by the government increasing debt stock without any benefit to the common man.

There is now a lack of public trust between the public and Councils leading to the breaking of a social contract -the public not paying their taxes worsening public service delivery. However, the failure of service delivery can not only be attributed to huge debts but also issues of corporate governance. Governance issues have been spotted and highlighted in AG reports.

1. https://www.herald.co.zw/city-bosses-divert-loan-cash-to-cars-%E2%80%A2-25-luxury-vehicles-bought-%E2%80%A2-funds-meant-for-water-sewage/

Some of the key asks that emerged from Conference on the debt issue that require answers include that; considering the continued increase in external debt from compounding interests and penalties, #HowFar is the government with the development of a viable and sustainable Debt Clearance Strategy to settle the debt issue once and for all? and #HowFar are we with debt audit to verify legitimacy of some of the debts?

As the Conference is ongoing, these are some of the recommendations made in Day 1 and Day 2:

- There is need for inclusive debt management framework that will encompass a multi-stakeholder approach. Also, national Treasury should table a Charter of Fiscal responsibilities and ensure policy consistency.

- There is also a need for a comprehensive and independent debt audit with increased parliament participation. Also, all loans must be contracted in line with the provisions of the Constitution and other Acts of parliament. Transparency can be improved through the adoption of the International Public Sector Accounting as well as capacitating anti-corruption institutions like parliament, EMA and ZACC. This is so because it is not possible to reign on debt when corruption is on the rise.

- Given that some of the debt is assumed from loss making state institutions and local governments, there is need to improve governance of the aforementioned. This can be done through implementation of OAG reports recommendations as well as ensuring independence of these institutions and local authorities -insulating them from political interference.

- The government should do away with borrowing to invest in lavish projects for the rich but borrowing to support social service delivery and the value chains. Promoting value addition and beneficiation of minerals will reduce unsustainable extraction and exportation of minerals in their raw form. Also, government should not mortgage public resources and assets in exchange for loans as default may lead to grave consequences.

- Between 1980-2017, Zimbabwe has had 7 droughts, 22 epidemics, 12 floods, 7000 deaths and 20 million affected with a total cost of US$950 million. This ever-increasing climate change and associated costs needs urgent attention.

For more information contact us: 9 Bargate Road, Mount Pleasant, Harare, **Email:** zimcodd@zimcodd.co.zw **Tel/Fax:** +263-242-776830 **Website:** www.zimcodd.org.zw