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ZIMBABWE COALITION ON DEBT & DEVELOPMENT

The Developmental Impacts of Afrexim Bank Loans to Zimbabwe (2018 - 2020)

THE DEVELOPMENTAL IMPACTS OF RECENTLY GAZETTED AFREXIMBANK LOANS

Zimbabwe Coalition on Debt and Development (ZIMCODD)

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1.0 Introduction

The public debt situation in Zimbabwe has become unsustainable and a major obstacle against efforts that are meant to turnaround the economy. The government has increasingly relied on debt finance for both recurrent and public sector investments; including social security, health and education, agriculture support and infrastructure development. The country's total public and publicly guaranteed debt as a percentage of Gross Domestic Product (GDP) stands at more than 70%, a figure that is well above the SADC regional threshold of 60% and also above the limit of 70% stipulated in the Constitution of Zimbabwe. External debt alone accounts for 69 % of GDP. The World Bank notes that a debt–to-GDP ratio of more than 77% for a developing country like Zimbabwe over an extended period of time slows economic growth yet most developing countries continue to borrow unsustainably. This paper provides an assessment and evaluation of the developmental impacts of the US$1.4 billion loans which were borrowed by government of Zimbabwe from the Afreximbank between 2017 and 2019 (hereafter referred to as the Afreximbank loans) and to proffer alternative public financing options for the country. The paper augments expert opinions as well as facts and indicative statistics in its analysis.

The dynamics of a country's public debt over time are not only driven by the rate at which the country contracts new borrowing but more importantly by its average economic performance relative to the average interest rate on its debt. In addition, strong institutions, especially transparency rules, regulations and systems governing public debt management are key in creating scope for sustainable public debt. The country's economic performance is key in creating capacity to repay the debt while low interest rates ensure that periodic debt servicing requirements for the country are manageable and do not choke its growth potential.

Thus while countries like Japan and the USA currently have public debt ratios of about 200% and 100%, respectively, the countries' economic bases and institutions are strong to sustain the debt levels. The countries' strong institutions keep country risks and borrowing costs low and allow them to continue attracting and retaining productive investment necessary for sustainable growth. These features are largely absent in most Sub-Saharan African countries including Zimbabwe. Zimbabwean has gone through close to three decades of general economic contraction; cumulatively losing more than 40% of its GDP between 2000 and 2019. The country has weak institutions and a porous public resource management system.

This has resulted in high country risk, low business confidence and low investment, which have collectively resulted in public debt accumulation at high and unsustainable interest cost.

In reflecting the country's adverse debt situation, the IMF's 2020 Article IV Consultation Report on Zimbabwe noted that the country is in debt distress and hinted that its external debt is unsustainable and needs a resolution for the country to grow at full potential and achieve its Sustainable Development Goals (SDGs) targets. The Mission's diagnosis identified a weak economic performance for the country as well as its reliance on commercial loans as the underlying factors for the unsustainable debt. A country is said to be in distress when it is unable to fulfil its financial obligations. The fact that Zimbabwe's external debt is unsustainable and that the country is in debt distress is undisputed. This is clearly illustrated by the accumulation of external debt arrears, which currently account for about 60% of the total public debt. Arrear payments have thus become major components of the public debt problem in Zimbabwe. This shows the increasing incapacity of the country to service the debt.

There are several multi-faceted drivers underlying the accumulation of Zimbabwe's domestic and external public debt, and some of the drivers are beyond the government's control. The country has been on the receiving end of negative international perceptions stemming from accusations for violation of human and property rights, lack of political reforms, lack of transparency in national resource use (e.g. minerals and land), currency mismanagement, and other related governance issues in areas of national politics and electoral practices. Nevertheless, in the light of recent developments, the accusations seem to cast a blind eye on some notable positive efforts meant to improve the country's investment climate, to relax laws perceived as onerous or archaic, to repair relations with Western countries, and generally, to spruce up the country's image as an investment destination. Examples of such developments include relaxation of the legal requirements imposed by the indigenisation laws on foreign investors; signing of the $3.5 billion compensation deal with displaced commercial farmers; ease of doing business reforms; among others.

The new Administration, which enjoyed international goodwill at the start from the European Union, the IMF, the US, Britain, Japan and China with even high hopes of benefiting from the US$20 billion earmarked for investment in African countries; ended up failing to access

the funds owing to alleged continued abuse of human rights and to implement meaningful economic and political transformative reforms.
In addition, the economic sanctions on the country which had been imposed by the EU block, USA, Canada, Australia, among others and had resulted in the isolation of the country from the international monetary system-were not removed as had been expected. The USA economic sanctions that had been effected through the Zimbabwe Democracy and Economic Recovery Act (ZIDERA) in 2001 remain in force to this day. In 1999, the country defaulted on its loan obligations and that practically meant that it could not access concessionary finance from the multilateral institutions such as the IMF and World Bank.

Second, the country's weakening economic performance due to poor macroeconomic policies and weak governance institutions and systems; and the subsequent erosion of the tax base due to company closures and increasing informalization especially since 2000 have reduced the capacity to finance key public expenditure requirements. Third, the country's financial sector is underdeveloped and currently underperforming. With domestic savings of less than 5%of GDP and paucity of money and capital market instruments, the finance sector has no capacity to raise enough revenue for government. This explains the country's disproportionate reliance on external borrowing. Lastly, the country has been running with persistently weak current accounts due to low capacity in the export sectors, the effect of which has been a worsening foreign resource gap that compels the country to borrow externally.

As the country's public and publicly guaranteed external debt continues to increase, a number of technical and moral questions on the need by government to balance between sustainable, responsible and transparent borrowing on one hand; and the pressure to sustain the economy and the public sector in particular under the prevailing circumstances on the other hand become imperative. Most importantly, the key question, especially for the public who eventually bear the greatest burden of financing the public sector, relates to the impact on development of new loans that are contracted by the government, which this paper looks at.

It seems evident, therefore, that government's current view and strategy is to rely on external borrowing in order to meet public expenditure requirements, especially those that need foreign currency outlays under the prevailing political and economic challenges and conditions. The government, for example, notes that the loans from Afreximbank were meant for purchase of 'strategic commodities' and 'prospective currency reforms.' The fact that the contracted loans were commercial and expensive suggests that government was compelled to utilise the loans due to the country's inadequate foreign currency reserves and lack of concessionary official support from the multilateral financial institutions. Zimbabwe's reserve positions at the time when the Afreximbank loan of US$1.4 billion was secured stood very low at (0.5 in 2017; 0.1 in 2018 and 0.2 in 2019) when other regional African countries such as Mozambique had (3.4 in 2017; 3.3 in 2018; 3.9 in 2019); South Africa (7 in 2017; 7.6 in 2018; 7.9 in 2019) and Zambia (2.09 in 2017; 1.06 in 2018 and 1.42 in 2019). The required national reserve position is 3 months of import cover. It can, therefore, be argued that the commercial loans are part of government's last resort to sustain development in the economy.

The Afreximbank loans, which are the consideration of this study were borrowed between 2017 and 2019 as the Zimbabwean economy faced increased domestic and external macroeconomic pressures and instabilities. The loans were gazetted on 12 February 2021 (Government Gazette Extraordinary: Vol. XCIX. No.20). The government gazette states that the loans were for purposes of purchasing strategic commodities and to support prospective currency reforms. These loans were disbursed in three tranches, with varying term structures as shown below:

Table 1: Terms of the Afreximbank Loans

Date	Amount (US$m)	Interest	Other Charges	Use
27/12/2017	600	LIBOR+6.5%	1.5% Management fee, 0.5% draw down fee	Procurement of strategic commodities
21/05/2019	500	LIBOR+6.5%	1.12% Management fee, 1.25 advisory fee, 1.25 participation fee, 0.5 standby LC fee	Purchase of strategic commodities and the Prospective Currency Reform Programme
03/12/2019	300	LIBOR+6.5%	1.25 management fee, 1.25% arrangement fee, 2% commitment fee	Purchasing strategic commodities

The paper is largely opinion based, with findings and conclusions depending on our logical opinion and assessment of the link between public debt in general and the Afreximbank loans in particular on one side; and indicators of development on the other. The paper further depends on the views and opinions of the public, development experts and representative organisations of various sectors, to ascertain the developmental impacts of the loans. Fortunately, because the loans were gazetted, they have received considerable public attention and scrutiny to enable a fair and objective assessment of their impact on socio-economic development and people's livelihoods. The various views and opinions are augmented by reference to secondary data and information in its various forms to substantiate specific sentiments, opinions and conclusions. The fact that the conclusions are largely opinion based, therefore, does not imply that they do not follow from what would obtain from the reality and facts on the ground. The indicators of development that are looked at to assess the impact of the loans include the country's debt sustainability situation, the exchange rate, inflation, production, material access and living standards. Authoritative literature sources also inform us that the development potential of a loan is largely determined by its term structure, which we also question in this paper.

The paper is arranged as follows: section 2 presents the objectives of the paper; section 3 looks at Zimbabwe's public debt situation; section 4 focuses on the evolution and political economy of the country's public debt situation; section 5 evaluates the statutory compliance of the Afreximbank loans; section 6 looks at the impact of the Afreximbank loans on development; and lastly, section 7 concludes with policy options.

2.0 Objectives of paper

The objectives of the paper are as follows:

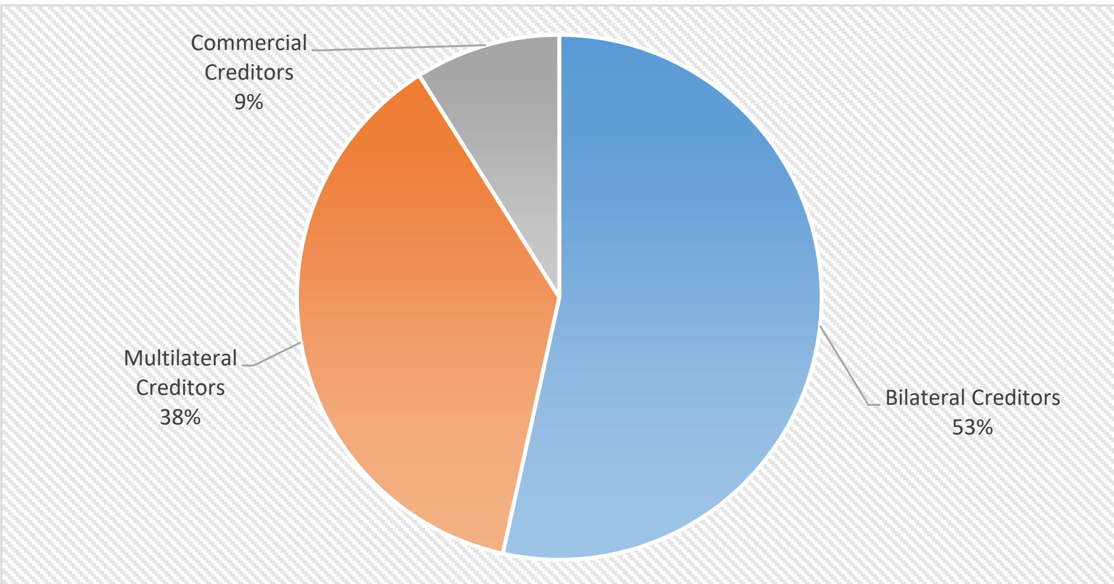
i. To determine and establish the nature of expenditures for the loans;
ii. To track and assess the medium to long term developmental impacts of the loans;
iii. To provide a gendered analysis of the loans and assess how the loans impacted on the vulnerable and marginalised, including the women;
iv. To provide insights on the statutory compliance of the contraction of the loans; and
v. To suggest alternative policy options for development finance in the future.

3.0 The evolution of Zimbabwe's public debt

Zimbabwe is the third most indebted country in the region after Mozambique and Angola. Its total public and publicly guaranteed debt of around US$18 billion is estimated at more than 70%of GDP, which is above the 60% SADC benchmark. Much of the country's public debt is external, which currently stands at US$10.5 billion and accounting for 69% of GDP. While domestic debt is a challenge on inflation and fiscal space, it accounts for about 20% of total GDP. The country's high inflation and exchange rate movements have acted as automatic cushions against domestic debt. While it is interesting to analyse the evolution of the domestic debt, it is beyond the scope of this paper whose core focus is on external loans and debt.

The public and publicly guaranteed external debt has, however, been exploding over time and has reached unsustainable levels that exert a major burden on the population and frustrate the country's growth potential. Since the late 1990s when the country was cut-off from accessing official finance and balance of payments support from the multilateral financial institutions and other bilateral concessionary windows, the country has increasingly relied on commercial borrowing at punitive interest rates—a factor that raised the stock of expensive loans in its public debt portfoliowhich worsens the destabilising effects of the external debt. The commercial debt component constitutes about 10% of total external debt, and this is not sustainable under the country's weak macroeconomic base. Figure 1 below shows that the multilateral debt of US$ 2.65 billion accounts for about 38% of the total external debt while bilateral creditors account for 53%.

Figure 1: Composition of Public and Publicly Guaranteed External Debt



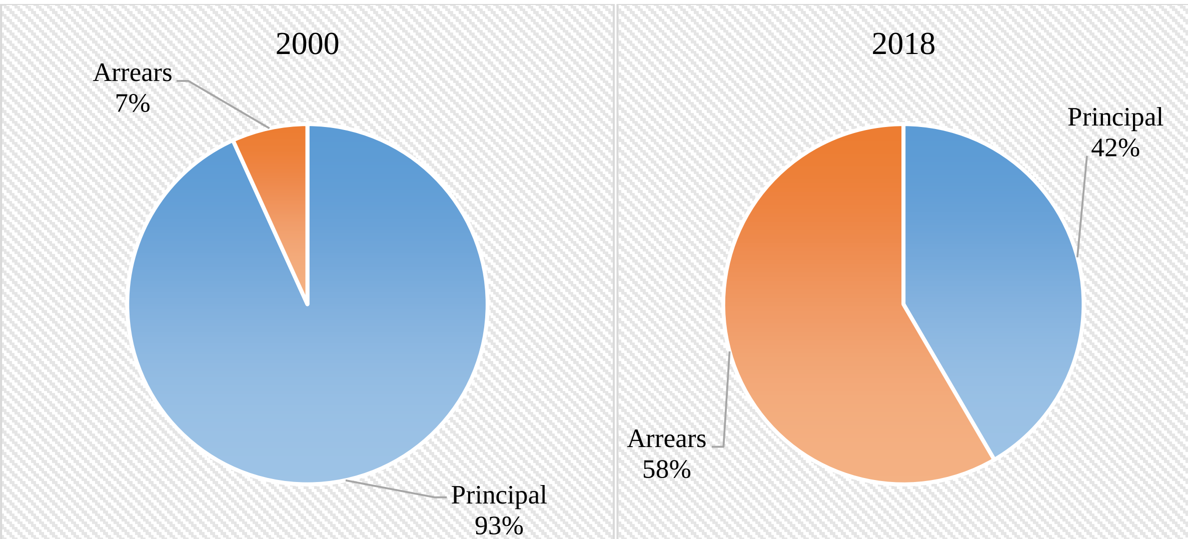
Data Source: IMF (2020) &

Ministry of Finance and Economic Development

What is worrisome is the fact that much of the country's external debt has been accumulated from arrears and penalties due to failure to service the debt. The arrears, which constituted only 7% of total external debt stock in 2000 have grown over time and currently stand at close to 60% of the external debt. In the US$2.66 billion multilateral external debt, 90% percent are arrears. The accumulation of arrears is result of the country's poor macroeconomic policies, weak public debt management systems, high country risk and low investment which reduced the capacity of the country and government to service its foreign debt obligations. The country's external debt has of late been disproportionately reflecting an increasing burden of the more expensive commercial debt the country has been contracting.

The debt overhang continues to affect the country's risk rating and access to cheap and affordable financing thereby undermining attainment of the country's growth potential. The situation is not only destabilising to the current macroeconomic state. It represents unsustainable haemorrhage from potential future income streams from the country's resources; especially mineral resources. Its intergenerational consequences are entrenched and adverse**.** Future generations pay the price for runaway public debt. Figure 2 below summarises the evolution of external debt arrears since 2000**.**

Figure 2: The evolution of external debt arrears



Data Source: IMF Reports (2001 & 2020)

The external debt dynamics of Zimbabwe, especially its explosion over time is explained by the weak economic growth relative to the high average interest rate on debt; failure to service the existing debt stock as well as new borrowings, such as the Afreximbank loans. The country has had negative average growth since 2000, which with the high interest rates on commercial loans has led to an exploding external debt. Cumulatively, Zimbabwe's economy has contracted by more than 40% since 2000 and its capacity to absorb more debt has been falling despite the increase in foreign borrowing. It seems, therefore, that government has resorted to collateralised foreign borrowing as a strategy against the high-country-risk posed by its unsustainable external debt.

3.1 Resource-backed loans: Does Zimbabwe have an option?

In its March 2020 Article IV Consultation report, the IMF noted the gravity of Zimbabwe's external debt situation and the negative burden it exerts on the economy, particularly the country's continued recourse to collateralised external borrowing on commercial terms. The report alerts that without a resolution of the country's unsustainable external debt, the economy will be trapped at growth rates below its potential. Zimbabwe has been facing limited access to concessionary foreign loans, grants and aid since the late 1990s after defaulting on the IMF loan repayment, with the placement of the country on international sanctions worsening its situation. Inwardly, the country has limited alternative revenue sources to finance the public sector, with tax revenue almost exclusively accounting for total government revenue. To worsen the matter, the major tax revenue sources are thinly distributed across sectors and tax heads. Despite the predicament, the demand for public investments has remained high, more so in the wake of climate-change disasters and the COVID-19 pandemic.

The country's situation has compelled it to rely on resource-backed foreign loans as the only source of foreign financing in order to bridge the foreign resource gap or requirements for key fiscal requirements to sustain the economy. Consequently, it is estimated that much of the external debt contracted by the country since 2000 is resource backed. In principle, resource-backed loans can involve outright surrender of ownership of a natural resource in exchange for a package of foreign investment and/or a loan; or collateralisation of a foreign loan by some domestic resources, or an agreement to ring-fence the future income streams from the sale of some domestic commodities for purposes of servicing a foreign loan. The resources involved are usually minerals and other commodity exports such as tobacco.

Transparency should guide the securing of resource-backed loans because opaque processes promote corruption, breed externalisation and money laundering and a possibility of undermining national sovereignty especially when resource ownership is surrendered to creditors. In a country with weak accountability and governance institutions for the extractive sectors, the resource-backed financing model usually circumvents the oversight of parliament and the general public. The model can, therefore, lead to over-collateralisation or outright theft of the country's natural resources and deprive future generations of the right to exploit and use the natural resource endowments. Examples of countries that have relied on natural resource backed loans, especially from China include Venezuela, Zambia, Uganda and Angola.

Despite the criticisms against resource-backed loans, Zimbabwe continues to use the model as an option of last resort given its situation. The Centre for Advanced China Research, for example, indicates that the Government of Zimbabwe collateralised legal title to the country's platinum deposits, while there have been claims that other minerals such as gold, chrome and diamond have been used as collateral against loans from Chinese Eximbank and China Development Bank. Given the country's circumstances, the model allows the country to access foreign lines of credit at low interest cost than would be the case without collateralisation. The system reduces the country's risk premium on the loans.

It is, however, important that Zimbabwe adheres to global best practices in the use of natural resource backed loans to augment its public resource gap. The Natural Resource Governance Institute has identified key principles that should guide the use of natural resource backed loans by countries, which Zimbabwe should consider implementing. These include the need for improved transparency on the loans, wherein the government should follow the statutory provisions that guide all other government borrowing such as going through Parliament and gazetting the terms and conditions of the loans for the information of the public. In addition, the loans should be managed through the national budget rather than through State Enterprises; and should be used productively. It is also important that the borrowing process be as competitive as possible with all the potential lenders given an opportunity to lend to the country through the system in order to reduce the costs on the loans. The government should also remain with the country's sustainable borrowing limits inclusive of the natural resource backed loans while refraining from the use of resource rights as collateral.

4.0 Statutory compliance of the loans

Statutory compliance of loans relates to the extent to which Afreximbank loans abided by the laws, rules and regulations associated with the procurement and use of loans. Snap surveys of provisions governing public loans procurement in African countries suggest that while most countries' constitutions have extensive provisions relating to parliamentary oversight over loan procurement by either the Cabinet or ministers of finance on behalf of Government, and also have legislations such as the National Government Loans Guarantees Act, External Loans and Credits Acts, Public Finance Management Acts, Public Debt Management Acts, Central Bank Acts, and even have specific Public Debt Management Units under ministries of finance; the overall picture is one of stressed compliance. Most country experiences point to cases of more visibility in breach of regulations than compliance. The provisions relating to parliamentary oversight, disclosure requirements, reporting requirements and conditions that should be satisfied before parliament can approve a loan by Cabinet or Minister of Finance are generally clearly specified in the Constitutions of Zimbabwe and other countries in the region. Unfolding scenarios, however, suggest that the missing link is more on the political will to enforce compliance than absence or inadequacy of laws and rules governing the securing of loans.

The above scenarios by and large characterize Zimbabwe's public debt management system. The management and control of public resources in Zimbabwe; including revenue from taxes, duty, licences, royalties and debt issuance is governed and guided by the Constitutional law of Zimbabwe as the supreme law, the Public Finance Management Act (22:19) and the Public Debt Management Act (22:21). The primary institution responsible for administering the Public Debt Management Act is the Public Debt Management Office (PDMO), which falls under the Ministry of Finance and Economic Development. The statutory compliance of the process leading to and after the US$1.4 billion Afreximbank loans is accordingly assessed on the basis of the requirements and provisions of the three laws identified above. However, from the onset, expert opinion largely and widely suggests multiple non-compliant issues during and after contraction of the Afreximbank loans; especially with regard to lack of transparency.

The Constitution of Zimbabwe, section 298 requires that the public debt management and control system should be transparent and accountable in all matters of public finance management; oriented and directed towards national development; fair and equitable in terms of resource burdens and benefits; and that public funds should be utilised transparently, prudently, economically and efficiently. The Constitution also requires that there be transparent, clear and responsible fiscal reporting on all the country's public and publicly guaranteed debt and associated transactions. The need for an equitable and fair public resource management system indicates that the public finance management system should not only be development-oriented; but rather inclusive as well, with special provision for the marginalised groups such as women, the youths and the unemployed.

Section 300 of the Constitution, on limits for State borrowings, public debt and State guarantees required an Act of Parliament first to be enacted and for Members of Parliament to prescribe in the Act, the terms and conditions for the Afreximbank loans. All these requirements were not complied with in the process of acquiring the Afreximbank loans. The loans were contracted without parliamentary approval and subsequent enactment of an Act of Parliament. Procedurally, the Constitution required the Minister of Finance and Economic Development to introduce a Bill into the National Assembly seeking condonation of the unauthorised expenditure for which the loan was meant and to gazette the loan and its terms and conditions within sixty days after concluding the loan agreement. In addition, section 300(4a) required the Minister of Finance to report the performance of the Afreximbank loans to Parliament at least twice every year. These statutory requirements were not complied with until February 2021.

The aforementioned non-compliance issues during and after the contraction of the Afreximbank loans show that lack of transparency around the contraction of the loankept the public who are the taxpayers and key stakeholders in the management of the public resources uninformed about the extra debt burden, its terms and conditions and how the money was utilised for close to twelve months. The terms and conditions of the loans were only conveyed to the public in February 2021 after a court ruling in December 2020, which instructed government to gazette the terms and conditions of all the loans and guarantees from the Afreximbank loans and other creditors for public information and use. It may therefore be argued that the Loan details were gazetted under duress.

In assessing the independence and appropriateness of the Debt Management Office to manage the country's public finance system, the Parliamentary Portfolio Committee on Public Accounts noted that the institution is a department in the Ministry of Finance and; hence is compromised to effectively and transparently implement the provisions of the statutory requirements on public finance management. Thus, while the statutory requirements about public debt compliance are clearly spelt out and earmarked to promote and uphold transparency, lack of operational independence for the PDMO is responsible for frustrating statutory compliance. Henceforth, concluding on non-compliance issues surrounding the contracting of the Afreximbank loans in 2019, the Chairman of the Committee, Mr Tendai Biti noted that there is an entrenchment of a culture of non-compliance by the officials in government with regard to the country's public debt management system and processes.

The fall-back circumstances that would support the constitutionality of the contraction of the Afreximbank loans is in respect of section 11 of the Public Debt Management Act (22:21) under which the contraction of the loans by the Minister of Finance was authorised by the President for purposes of mitigating against a disaster, or to finance a critical investment outlay, or for purposes of stimulating the economy from recession. However, these circumstances still required the Minister of Finance to introduce a Finance Bill for the loans in Parliament and seek approval for the loans. In addition, the new loan contractions violated section 11(2) of the Public Debt Management Act by exceeding the borrowing limit of 70% to GDP. This implies that the loans amounted to over-borrowing by government, which in the medium to long term leads to more debt distress, higher country risk and limited access to offshore finance.

5.0 Development impact of the loans

The envisaged channel through which public loans should lead to development in the medium to long term is premised on the view that the loans are invested in public investments with net positive immediate or future benefits for the society. Technically, this means the projects' social rate of return should at least surpass the cost of the loan or debt now and in future. The loans or created debt should convey socially reasonable net benefits to the country, which justifies the cost borne by the present citizens and future generations. In this regard, the government is urged to borrow for purposes of public investments with high impacts on development, for example, infrastructure, education and health, which have far-reaching spill-over benefits and create needed debt servicing capacity for the country. Consumptive borrowing creates a debt burden without creating capacity to repay; hence detrimental.

The government gazette, which published the Afreximbank loans, did not specify details about the specific uses for the loan other than indicating that the loans were for currency reforms and strategic imports. It, however, is most likely from the stated loan purposes that the loans were utilised for the government's multiple subsidy and support programmes, including farmer support under the Command Agriculture programme, fuel and utilities subsidies and finance support for the productive sectors in general while currency reforms involved supporting stabilisation of the currency, especially after the introduction of the domestic currency in 2019.

However, even though the Gazette on the Afreximbank loans suggests that the loans were for productive purposes, there have been claims that a significant part of the loans was abused and went into consumptive activities. The local Standard newspaper of July 21, 2019, for example, reported that there were no proper disbursement records for close to US$3 billion under the Command Agriculture Support programme; one of the major agriculture interventions by government between 2017 and 2019 and the Zimbabwe Anti-Corruption Commission was investigating possible abuse of funds under the programme.

Similarly, another local newspaper, the Herald quoted the Reserve Bank of Zimbabwe Governor on March 23, 2021 reporting to the Parliament Committee on Budget, Finance and Economic Development the existence of rampant abuse of foreign currency under the Foreign Currency Auction system by companies, which diverted allocated funds from productive use into parallel market activities. The allegations suggest that a significant amount of money from the Afreximbank loans was ultimately used for consumptive expenditures including for personal enrichment. This observation also follows from the tenure of the loans, which is not long enough to finance long-term capital investment. We argue that the benefits of the loans were front-loaded in the short-run. In the long run their marginal developmental impact for the country is adverse.

The following subsections provide an evaluation and assessment of the developmental impacts of the loans based on available data, our opinion and expert opinions from a targeted sample of respondents who shared their views on the subject. Because of the time constraints, 45 out of the targeted 100 experts to provide their opinions on the developmental impacts of the three Gazetted Afreximbank loans, managed to share their views on the subject.

5.1 Short-run impact

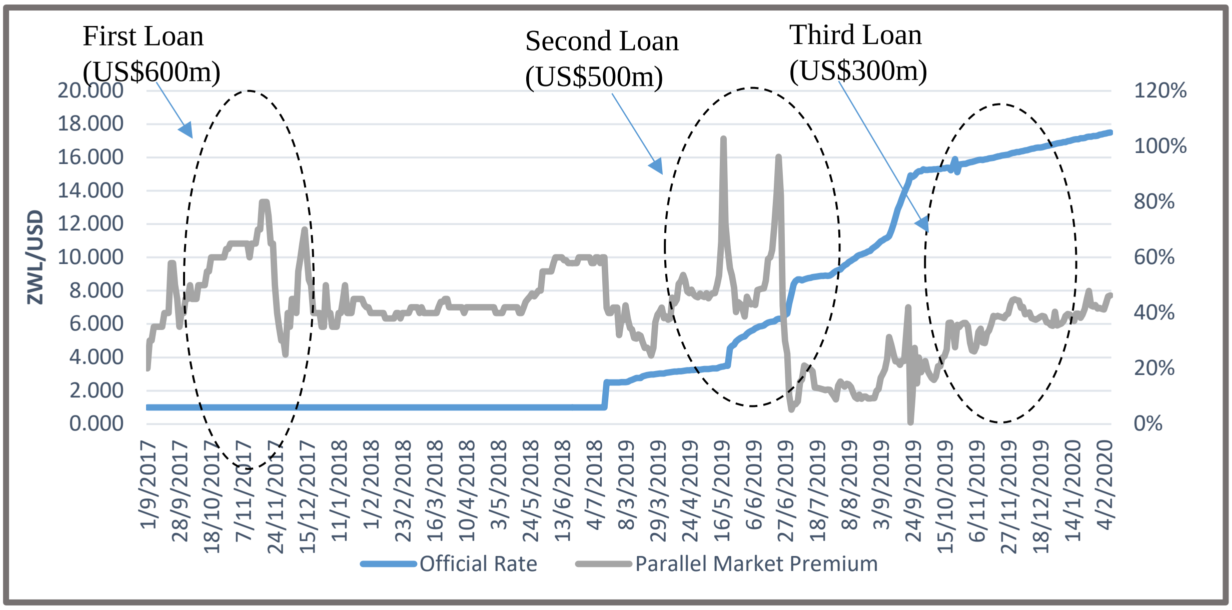
The loans had immediate and short-run benefits to the economy in terms of stabilising the currency and reigning in on inflation, especially on commodities that were subsidised by government, notably food, water, electricity, fuel, transport and public health services. With assurances on adequate supply and quality delivery on the commodities, the subsidies and hence the loans would have important redistributive effects in favour of the low income and marginalised population segments whose expenditure on the commodities is usually high.

5.1.1 Currency Stability

Figure 3 shows that all the Afreximbank loans coincided with periods of high pressures on the domestic currency[1]; hence confirming the purpose of currency reform support as gazetted by government. It also follows that the loans assisted the run-away situations by easing the pressures on the currency as reflected by acute declines in the parallel market exchange rate premiums around the periods corresponding to the contractions of the loans. Thus, to the extent that the foreign loans managed to support the currency, it means they were utilised by importers of both capital and finished goods; with the first having some positive impact on production, industry capacity, employment and incomes. However, it is likely that the benefits of currency support were short-lived and unsustainable as shown by the systematic and predictable re-emergence of the renewed currency pressures after the support interventions.

Figure 3: The currency stabilization effects of the Afreximbank loans

[1] Domestic currency contextually means both the RTGS and the domestic Zimbabwean dollar, which was introduced in February 2019



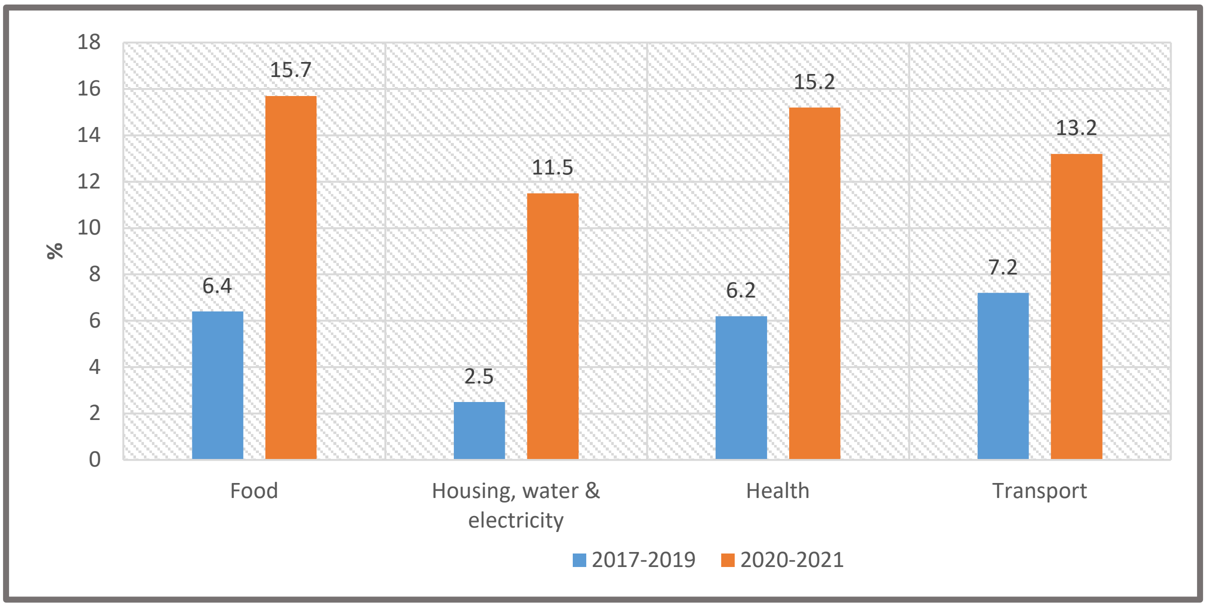
Source: Author computations

5.1.2 *Price stability on strategic commodities*

Another short-term impact of the loans, vis-a-vis, the use of the Afreximbank loans for strategic imports involved supporting the production or importation of food, fuel, electricity, water, transport, health and education services in order to keep their prices low. The objective was to target consumers of the products and to have their incomes protected from inflation. The plots in Figure 4 confirm the low prices on these commodities during the loan period 2017-2019. Given that low-income individuals, the unemployed and marginalised spend disproportionately large percentages of their incomes on these products than the high-income earners, the marginalised groups enjoyed the greatest benefits more than others.

However, it is worth observing that most of the subsidies did not achieve the intended goal of protecting the incomes of the poor. First, the subsidies were not targeted by incomes or wealth, which saw the rich also dipping into the benefits; and in some cases like fuel, well-off groups benefited even more than the poor. Second, the subsidies compromised on the supply and quality of the commodities as experienced through erratic supply or shortages of most of the basic commodities before 2020.

Figure 4: Inflation on strategic commodities with and without subsidies



Data Source: ZimStat (2021)

5.2 Medium to long-term impacts

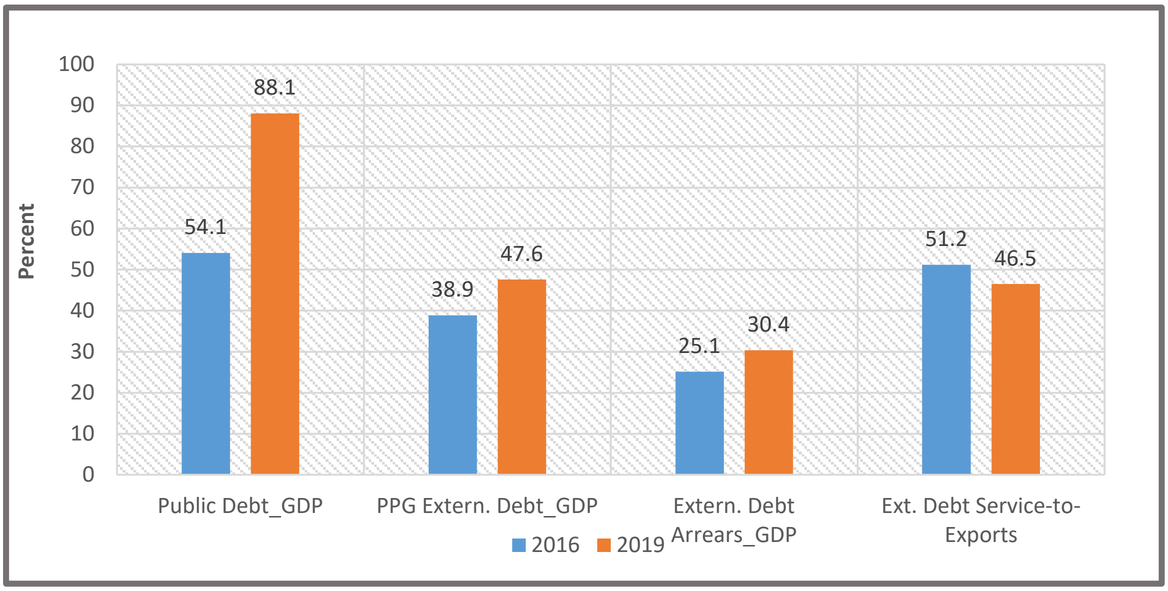
In the medium to long-term, the impact of the Afreximbank loans is absent and at best marginal for a number of reasons unpacked in this section. The medium to long term gains would only accrue from the part of the loans which was used to support the productive sectors, especially under currency reform support. The assumption would be that supporting the productive sectors would raise production and stabilise prices and the exchange rate. However, published statistics and information does not seem to confirm this. Industry capacity has remained low at less than 50% over the loan years; unemployment and poverty have remained high while informality is thriving. In overall terms, the performance of the economy has remained sluggish and low, with a positive growth of 5.5% in 2018 and a negative 6% in 2019.

5.3 Afreximbankloans and external public debt sustainability

The average computed interest cost on the gazetted Afreximbank loans comes to 10.5% per annum, inclusive of other charges, which is punitive and exorbitantly higher than the effective interest cost of less than 3% per annum usually charged on concessional loans of developing countries in Zimbabwe's category. The cost on the Afreximbank loans, therefore, bleeds the economy of potential resources that could be used to finance other public sector priorities such as infrastructure, social security, and the health and education sectors now and in future.

Besides the high cost of the Afreximbank loans, the country's total public and publicly guaranteed debt worsened from 54% of GDP in 2016 before the loans to about 88% in 2019 after contraction of the loans. The external debt ratio worsened from 40% to 48%. Similarly, the external debt arrears ratio worsened from 25% to 30%. The external debt service to exports ratio marginally improved between 2016 and 2019.

Figure 5: Zimbabwe's debt situation before and after Afreximbank loans



Data Source: IMF, 2020 & Government of Zimbabwe, Ministry of Finance

While it is acknowledged that the changes in the public debt indicators between 2016 and 2019 are confounded with other debt related changes such as loan repayments and contraction of other debt outside the Afreximbank debt, it is apparent that much of the changes resulted from the Afreximbank loans given the country's limited access to other international creditors. However, the worsening debt sustainability situation for the country has pushed the country into debt distress and stifled the country's medium to long term growth potential.

The unsustainable debt situation means the country, especially the private sector, will not be able to access productive offshore finance. Thus, the increased indebtedness reduces fiscal space at home and crowds out the more productive private sector from accessing international lines of credit. The restoration of debt sustainability is, therefore, urgent and requires fiscal prudence across the public sector, as well as support for a debt rescheduling by creditors.

5.4 Corruption and externalisation

There are widespread views from the study respondents that the Afreximbank loans encouraged corruption and externalisation of funds from the country; which negated on growth. Of the interviewed individuals, 80% echoed that the facilities are opaque and lack public scrutiny, which make them targets for corruption and externalisation of public funds. First, it was noted that part of the currency reform support financing was done when the country was under dollarization with a 1 to 1 parity between the US dollar and the domestic currency and that this automatically encouraged those who could access hard cash from banks to externalise from the pool of the facilities against their RTGS balances. Second, there are suspicions that the loans are resource-backed, which create possibilities of externalisation of the country’s resources.

5.5 Budgetary implications

The high interest cost of the Afreximbank loans exerts pressure on the current and future fiscal budgets. This, points to more tax and hence financing burden for the populace under weakened economic conditions. Usually, the future generations bear the bigger burden as the current generation has tendency to postpone payment and create debt arrears. Alternatively, the government may be forced to print money in light of the limited fiscal space. In that case, the consequences will be high inflation as is currently the case.

5.6 Effect on women and the marginalised

As argued above, the Afreximbank loans could only benefit the marginalised to the extent that the loan had long-term dampening effects on prices of basic commodities, or on employment, or if the borrowed funds were directly invested in pro-poor areas and projects such as public health, education or social security. Already, it has been shown that the effect on prices of basic commodities was short-lived, which reversed the gains on the marginalised. Similarly, it has been argued as well that the loans did not sustainably and significantly increase industry performance and employment; hence the benefit to the marginalised was practically short-term. Again, the revision of government expenditures to avail resources to service the external loans will not spare social protection, health care, education, as well as gender-based violence prevention and response services amongst others. This reduction of expenditures in these sectors and services has a disproportionate impact on the rural poor; most of which arewomen and children who rely on these services.

Cutting care services in the face of high debt servicing costs will directly and disproportionately impact women’s lives because in providing care, be it paid or unpaid, women face multiple and intersecting forms of discrimination based on age, race, and income levels. Furthermore, it is critical to highlight that in efforts to reduce expenditures to meet the debt obligations, Zimbabwe is likely to make decisions of reducing the wage bill. This will have gender implications given that more women are disproportionately employed in civil service. Thus, women’s contribution to the overall growth of the economy will be undermined as they will be the first ones to lose their jobs.

Reducing care services will also affect children as schools are forced to charge exorbitant fees when government reduces support to the education sector. This means that fewer people will be able to send their children to school. The combination of low school enrolments, high dropout rates and poor-quality education will restrict progress towards improved literacy. This perpetuates further the economic and cultural neglect and limitation of educational opportunities for women and girls. Furthermore, reduced social safety nets will increase rural and urban nutritional gap, thus increasing the prevalence of stunting and child deaths.

6.0 Recommendations and alternative financing options

The proposed alternative financing options for development take cognizance of Zimbabwe’s current situation, vis-à-vis limited or no access to official foreign finance; the weak economic base, the currently unsustainable public debt and the low capacity for domestic finance.

6.1 International re-engagement

The persistence of strained relations with Western countries underpinned by economic sanctions, political mud-slinging and suspension of lines of credit has not made Zimbabwe's fiscal and public debt situation any better over the years. Against that background, the government has to intensify its re-engagement efforts with the international community with the view of formulating a comprehensive debt strategy in consultation with all creditors. Re-engagement should further lead to the possibility of refinancing out the more expensive commercial debt with cheaper debt acquired on more concessionary terms.

6.2 Prioritisation of marginalised groups

While it has to be appreciated that public debts in general have implications on human rights, the effect is particularly felt in the area of women's rights, and to an extent, children's rights too. In the African context generally, studies conducted to date have revealed that costs of servicing debt are normally disproportionately borne by women, and when governments borrow, the spending of the funds rarely prioritises women. In addition, it is quite common for creditors to set loan conditionalities that compel governments to introduce cuts in spending on critical social investment and public services such as social protection and health care, yet the major consumers of such services are mostly women.

The observation points to the need for the formulation of debt policies which are gender sensitive and respect human rights in general. When the Government of Zimbabwe borrows in future, it should consider investing the funds in areas that promote gender equality and women's and children's rights by using comprehensive gender budgeting tools. The government may also consider undertaking human rights impact assessments to ascertain the impact of the country's debt on the rights of women, girls and children.

The strategy to prioritize the marginalized groups, however, is effective and works well when there is inclusive growth and the benefits of growth reach the poor and marginalized. Non-inclusive growth in an environment of high income and wealth inequality may perpetuate the plight of the poor who bear the burden of the new debt. Alternatively, the strategy should involve more direct re-allocation mechanisms that transfer incomes and wealth to the poor such as selective or targeted subsidies on commodities mostly consumed by the poor as well as direct cash transfers to cushion the poor from the burden of the debt.

While Zimbabwe has tried to implement targeted or selective subsidies in the past through electricity, water, and transport prices; the interventions have been flawed and largely missing the target. A recent study by the World Bank under the theme '*Advanced Policy-Focused Poverty Analysis in Zimbabwe*' using the Poverty Income Consumption and Expenditure Survey (PICES) data, for example, finds that the benefits of the electricity subsidies in the country are not commensurately falling on the poor and marginalized but rather on wealthier individuals who have access to electricity. In addition, the general decline in the country's economic performance tends to worsen the vulnerability of the poor to the adverse effects of unsustainable borrowing.

6.3 Increasing transparency in handling borrowed funds

Findings presented in this report unambiguously cast the handling of funds from the Afreximbank as shrouded in secrecy. This development does not only indicate a blatant disregard to legislative provisions for openness and transparency, but further complicate practices of accountability through information starvation to relevant stakeholders such as the parliament, public, media, women's rights organisations, political parties and civil society, among others. Transparency is a central tenet of good fiscal governance and international borrowing practices. There is a positive association between fiscal transparency and borrowing costs. Where there is debt transparency, potential lenders are able to comprehensively and more accurately assess risks associated with buying bonds that government may issue. Where there is uncertainty on country debts, lenders will increase the cost of borrowing.

More importantly, the government should demonstrate political will to curb the growing and unsustainable debt through establishing stronger legal frameworks that provide clear consequences on abusers of public funds and those who borrow without following the provisions of the Public Finance Management Act and the Constitution at large. This will not only improve accountability by public officials, but will also reinforce public trust in the government. The recent past has seen heightened oversight by Parliament on adherence to the provisions of the Constitution, especially the Public Finance Management Act, with regard to issuance of public debt and use of the public funds. Together with efforts of the civil society, this has created pressure on Government to increase transparency on management of public resources. In fact, the eventual gazetting of the Afreximbank loans in February 2020 was a direct result of the pressure. However, it remains critical for the Constitution of Zimbabwe to clearly spell out enforceable penalties for deviant actions and activities that violate the requirements and provisions of the Public Finance Management Act.

6.4 Development of the domestic market

The government may also make efforts to widen and deepen the domestic financial market especially with regard to availing long term instruments for use by both government and the corporate sector to raise finance for long term investments. The country can take advantage of the current high financial dollarization levels to raise the much-needed foreign currency from the domestic market once appropriate and conducive instruments are in place. The pre-requisite for the operationalization of this strategy, however, requires appropriate and conducive macroeconomic policies that facilitate investment and business needed to grow the country's economic base. This includes strengthening the country's economic and political institutions and adhering to the rule of law in all economic, political and social processes.

6.5 Use of joint ventures and public private partnerships

Some of the widely used public financing options include joint ventures and public private partnerships (PPPs). These initiatives are normally inter-sectoral and commonly involve the government and its agencies on the one hand, and private companies on the other. The initiatives are usually implemented on a project basis, and in practice, preference has been towards capital intensive infrastructure development projects which the government cannot afford on its own. At the heart of joint ventures and PPPs is the idea of sharing risks and rewards between government and private sector players. Their partnership is borne out of the realisation that government presents opportunities for investment in capital projects to private companies which, for their own part, enjoy advantages of having capital to invest in the projects as well as the required managerial and technical expertise which may not be readily available in government. The Government of Zimbabwe should therefore intensify its implementation of joint ventures and PPPs in financing large capital projects that are commercially viable. One shared feature of joint ventures and PPPs is that both are not debt creating.

6.6 Structuring resource-backed borrowing

Considering the current high-country risk and high cost of borrowing attached to external loans, it may be worthwhile for the government to take advantage of the country's natural resource endowments to structure cheap external loans backed by such resources. Resource-backed loans are extended to the government where the repayment is made either using the actual resources or from income streams proceeding from the sale of mineral resources. The government can therefore use mineral resources as collateral to guarantee loan repayment. Resource-backed loans offer a cheaper financing option especially for infrastructure development. The option further leaves leeway for renegotiating the loans in difficult times. However, while there are several advantages associated with resource-backed loans, global experiences reveal that resource-backed loans are very opaque and contract documents are rarely made public, which is a practice that effectively embeds the problem of lack of transparency in the governance of borrowed funds. There is need for government to be cautious enough to limit the resource-backed financing model to collateralization of resource cash flows only and not allow ownership of the resources themselves.

6.7 Improve domestic resource mobilization

Various schools of thought have argued the need to focus on the search for sustainable development financing in Africa on domestic resource mobilization. Resources for international cooperation have been getting smaller as rich countries are increasingly focusing on their domestic issues. What is clear from this paper is the understanding and appreciation that Zimbabwe needs to finance its development programs from its own resources. In Zimbabwe's environment of a protracted poor economic performance, the domestic savings has largely been negative. The domestic savings rate only improved to 15% of GDP in 2018 and 2019. It is critical, therefore, for government to provide conducive domestic conditions, especially on inflation and macroeconomic stability necessary for effective domestic resources mobilization. In addition, given the country's high informalization, the government should expand the taxable base by reaching out to the informal sector and all other economic groups which might be omitted from the tax-payers' bracket and support them through skills development, infrastructure support, finances and integration to the formal economy. While this will increase the tax base, it also has a positive implication for gender and women development noting that a vast proportion of informal actors are women.

6.8 Implement mineral value addition for increased foreign currency and export revenues

Zimbabwe has a highly mineral resource base of over 60 exploitable minerals. Another avenue for domestic resource mobilization that is well addressed in many policy documents yet lacks implementation is that of processing the minerals that the country is endowed with like gold, diamond and platinum. As with other African countries which export these minerals in their raw form, Zimbabwe should beneficiate these minerals and sell them at higher prices. Already existing policies to beneficiate minerals from local mines should be implemented. This can create new or expand existing production sectors – creating jobs, expanding the tax base and potentially forestalling illicit financial flows. Through beneficiation, the country would increase export revenue and cushion itself from vulnerabilities associated with any decline in world commodity prices that can affect the current major export earners such as platinum, gold, nickel and chrome. These incomes can then be used to repay existing debts, import strategic commodities and capital goods and for local development purposes.

Zimbabwe should learn from the experiences of South Africa and Botswana in the region. Although the countries are not involved in 100% beneficiation, they have significantly increased their participation in the total global value chain of the products that are intensive in their minerals, including products made from gold, platinum and diamonds. The OECD, for example, estimates that 70% of final demand for manufactured products in South Africa is made up of domestic value addition. In addition, the country has up to 11% participation on mineral resources. Zimbabwe should invest in the necessary capacity to build up both its domestic value addition and global value chain participation to comparable levels.

6.9 Development of clear country strategies and initiatives for debt management

While other highly indebted countries such as Angola and Mozambiquehave a Medium-Term Debt Management Strategy (MTDS) in place, at the time of writing this paper, Zimbabwe is not among the countries with a Medium-Term Debt Management Strategy (MTDS). Debt Management Strategies guide debt management decisions and operations of government authorities, link borrowing with macroeconomic policy; help countries maintain sustainable levels of debt and facilitate domestic debt market development. Developing and implementing a MTDS will help the Zimbabwean government manage risk exposures arising from its debt portfolio, reduce macro-financial risks, reinforce fiscal policy and support the development of a functioning government securities market.

7.0 CONCLUSION

The paper looked at the development implications of the Afreximbank loans that were gazetted by government in February 2021. The loans were for the purposes of financing importation and production of strategic commodities, which we interpreted as food, fuel, electricity, health services and products, water and intermediate capital components. Secondary data and information, our own views and opinions, and those from targeted experts were utilised to get to the presented observations and conclusions.

The paper notes that the loans did not comply with the provisions of the Constitution, the Public Finance Management Act and the Public Debt Management Act during the process that led to, and after contraction of the loans, which were gazetted more than six months after issuance.It has been observed that the loans had some positive impact on the economy only in the immediate to short-run through exchange rate and inflation stability. In the long run, it has been observed that the loans have worsened the country's public debt situation and have potential destabilising effects on the performance of future budgets and development prospects. The paper notes that there are high chances that the borrowed funds were externalised and promoted corruption and rent-seeking among those with access to the funds.

A number of policy alternatives to finance development have been proffered; including the need for the government to be more aggressive and speed up the re-engagement process and to embark on a holistic and comprehensive debt strategy to resolve the current debt distress and create more fiscal space. Above all there is need for greater public debt transparency.

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