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Zimbabwe Coalition On Debt And Development
ZIMCODD
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"Your Weekly Read on Debt, Development & Socio-Economic Justice"

# OF MURKY DEALS & A GROWING, UNSUSTAINABLE PUBLIC DEBT BURDEN: MBUDZI INTERCHANGE PROJECT

This week, the Minister of Finance, Prof. Mthuli Ncube, revealed through General Notice 131B of 2023 that the Government of Zimbabwe (GoZ) entered into a loan agreement with Fossil Mines (Pvt) Ltd on the 6th of December 2021.[1] The two parties signed a US$88 million loan for the sole purpose of funding the construction of the Mbudzi Interchange and Divergence Routes Road Infrastructure project (the Project hereafter). This loan has a grace period of nine (9) months with the final maturity date 6 June 2025 and a loan interest rate using the London Interbank Offered Rate (LIBOR)[2] plus 5% per annum. According to the General Notice, the loan financier (Fossil Mines) shall oversee the implementation of the Project and disburse funds directly towards the implementation of the Project.

As is usual, questions & concerns have risen around the Project including the cost, parallel funding through the International Monetary Fund Special Drawing Rights, contractors involved, parliamentary involvement (or lack thereof) and value for money (VFM) audits.

1. https://www.newsday.co.zw/local-news/article/200007208/govt-borrows-us88m-from-project-contractor
2. LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

## Of Concern

### *The Project Cost*

The idea of the Mbudzi interchange was mooted after years of disturbing traffic congestion at the intersection of major roads High Glen, Simon Mazorodze and Chitungwiza. As such, the Project was long overdue to remedy the dire situation. However, its cost has raised pertinent questions in the public domain when it is compared to the cost of other regional interchanges of great magnitude than the Project. In defending the price tag, the government highlighted that the quoted US$88 million comprises US$65 million for the Project structure and US$23 million for works including costs of relocation, creation of detours, geo-tech surveys, royalties and professional fees.[3] While one needs more information to dispute the Project cost, overcharging of the government by its contractors and suppliers is not a new phenomenon in Zimbabwe. Prevailing weak public financial management systems are fuelling corrupt activities and solidifying price distortions. To note as below, in 2022, all government road rehabilitation projects in Midlands province were put on hold pending value for money audits due to this crisis.[4]

### *Value for Money Audits*

GoZ confirmed that the Project had followed the dictates of the Public Procurement and Disposal of Public Assets Act which include value for money, integrity, fairness, competitiveness, accountability and transparency. However, it is difficult to presume the Project had considered maximization of value for money for taxpayers given that a sister company of the Project financier, Fossil Contracting, is part of the TEFOMA Consortium working on the Project. Also, it is alleged that the Project financier is linked to Kudakwashe Tagwirei who is on the US sanctions list on the accusation of capturing the government and profiteering on illegal government tenders.[5] As such, it is difficult to rule out economies of affection in the awarding of the tender for this Project.

### *Parliament Involvement*

The constitution and the Public Debt Management Act together with other statutes provide for the full involvement of Parliament in the contraction of debt by the Treasury. However, over the years, the august House has been relegated by the executive branch and is failing to perform its constitutional mandate. For instance, it was revealed in 2021 that Treasury incurred a cumulative budget overrun of over ZWL100 billion in 2019 and 2020, expenditures that occurred outside parliamentary approval. It is highly unlikely that Parliament was consulted when GoZ entered into a loan agreement with Fossil Mines. The mere fact that the General Notice has been publicized over a year after the contraction of this debt is an indicator of that impunity in itself & that exclusion of parliament has become the norm. For instance, in 2002 GoZ mortgaged about 22 million ounces of platinum reserves in exchange for a US$200 million loan from China.[6] These details were revealed by Treasury in 2022.

### *Special Drawing Rights*

When the country received over US$960 million worth of SDRs from the IMF in 2021, Treasury promised and delivered their SDR funds draw-down plan. The plan had shown that all of the US$144 million SDR funds set aside for the Transport sector were fully withdrawn in 2021.

3. https://www.herald.co.zw/minister-clarifies-us88m-mbudzi-interchange-costs/
4. https://www.zimeye.net/2022/11/09/overpricing-road-construction-in-eds-home-province/
5. https://www.newsday.co.zw/news/article/28977/sanctions-hit-tagwireis-business-empire
6. https://zimbabweobserver.com.au/2022/08/zimbabwe-pays-china-us52-billion-for-a-us200-million-loan/

Intriguingly, the Mbudzi interchange was part of the cost centers for the transport ministry. Now the General Notice has shown that the deal between GoZ and Fossil Contracting occurred in December 2021. This raises questions about the authenticity of the details in the Notice. If it is the case that the Mbudzi interchange ended up being crowded out by other demands at the transport ministry, at least the public should have been notified for the sake of transparency and accountability. There is a need to audit the use of SDR funds to ascertain if these funds were used for the government's intended purposes listed on a plan which was shared with Parliament.

***Interest Payment***

The grace period of the loan of 9 months given to the government is lucrative. A grace period can be defined as a period after the due debt during which payment may be made without a penalty. During this grace period, no penalties are charged and the delay cannot result in default or cancellation of the loan. Nevertheless, forgetting the principal repayment totaling a staggering US$88 million to be paid at maturity in 2025, the loan interest to be paid per annum alone is fiscally unsustainable. At the current Libor rate of about 5.4% "plus 5%," it means that the loan interest rate for 2023 is effectively 10.4% (US$9.2 million). Over a 4-year tenure, Treasury will likely pay Fossil Mines at least US$35 million as loan interest. This is a huge amount that can transform the dilapidating social sector. It should not go unnoticed that the government is expecting to float a US$100 million domestic bond, an external loan facility from Afreximbank of about US$400 million, and ZWL82.8 billion Treasury Bills to help fund the projected 2023 budget deficit. These loans will also carry an interest rate.

***The Reality of Public Debt***

As stated above, Fossil Mines is guaranteed to make a minimum of US$35 million over four years. Pending provision of full details by GoZ on how the SDR facility & Fossil loan are both financing the project, concern over the interest rate and consequent losses are valid. What could US$35 million do for citizens? In a country struggling to provide basics such as paracetamol in hospitals, it could go a long way. Zimbabwe has 5 radiotherapy machines and all are not functional right now. The cost of one is between US$2 million to US$3 million. Hence, this amount could purchase over ten (10) life-saving machines. Sinking a borehole costs an average of $2 500. This amount could sink 14 000 boreholes solving the water crisis for rural populations. Following, there is a need for government to do the needful on the murky details of this debt as the burden to pay back lies with citizens.

***Conclusion***

Zimbabwe has debt in arrears which are attracting interest and penalties despite government efforts to extend token payments to creditors. Treasury debt figures show that as of the end of September 2022, the total debt stock stood at about US$17.6 billion inclusive of US$6.32 billion in arrears and penalties. Zimbabwe's public debt is rising at a time the global financial markets are tightening as major central banks have declared war on inflation. Consequently, the rising interest rates will exert enormous pressure on borrowing and debt servicing costs. The debt burden will probably plunge Zimbabwe into debt default thus forcing the nation to use its minerals for loan repayment. This happened when the government mortgaged its gold and nickel to pay US$226 million Trafigura fuel debt.[7]

7. https://miningzimbabwe.com/zimbabwe-discusses-deal-to-use-mineral-earnings-to-pay-off-trafiguras-old-fuel-debts/

With the financier already in the mining sector, the government may be tempted to offer mining concessions to settle its loan at maturity. This promotes unsustainable mining activities which disproportionately affect mining host communities through forced displacements and invasion of farm and communal lands.

***Recommendations***

- **Debt Audit:** Zimbabwe's current public debt standing (US$17,6 Billion) is unsustainable. The thorn in the side however is that citizens are unaware of who borrowed and for what use. There is need for an audit to ascertain where the money went and where it is illegitimate, the responsible account.
- **Increased Parliamentary Oversight:** There is growing impunity in debt contraction shown by sidestepping Parliament's right to oversee the executive. This upset of democratic checks and balances has a cost in monetary terms and lived livelihood realities of citizens. Parliament should diligently increase its oversight role on behalf of citizens starting with punitive measures for ministries/ ministers side-lining this necessary constitutional dictate.
- **Mandatory Value for Money audits:** Government's track record on public deals is worrisome and presents serious losses to the fiscus. Mandatory value for money audits should be conducted on all projects, especially the 'mega deals'.

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- Conduct Value For Money Audits on the Implementation of NDS1 and Utilization of SDRs Funds. To apply: https://zimcodd.org/sdm_downloads/call-for-consultants-to-conduct-value-for-money-audits-on-the-implementation-of-nds1-and-utilization-of-sdrs-funds/

Deadline: 13 February 2023

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