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THE WEEKEND READER

"Your Weekly Read on Debt, Development & Socio-Economic Justice"

THE CURSE OF RESOURCES BACKED LOANS ON ZIMBABWEANS

Zimbabweans received shocking news from the Treasury which showed the extent of poor management of natural resources and continuous disregard of Parliament on the contraction of public debt. The Minister of Finance and Economic Development, Prof. Mthuli Ncube, after being compelled by legislators to itemize the value of agreements entered into between the Governments of Zimbabwe and China, revealed that the former had borrowed the latter about US$200 million in October 2006 for farm mechanization equipment. The ironic part is that the loan was collateralized with mining rights to the tune of 26 million ounces of platinum resources which were owned by government through the Zimbabwe Mining Development Corporation (ZMDC) -resource-backed loan (RBL). To date, the loan is in arrears amounting to US$172 million. For starters, RBLs are loans given to a government where repayment is either made directly in natural resources or from a resource-related future income stream.

As a result of failure to honor financial obligations when they fall due, Zimbabwe can no longer easily access concessionary borrowing from International Financial Institutions like the World Bank and African Development Bank (AFDB). The authorities have now resorted to RBLs to augment its domestic sources of finance. However, these RBLs are costly as a payment default may lead to appropriation of a country's assets, one high-profile example being Sri Lanka which had to hand over a strategic port to Beijing in 2017 after it could not pay off its debt to Chinese companies.[1] Also, an asset collateralizing an RBL is mortgaged way below its market value. For instance, at the current global prices of USD900.00 per ounce of platinum, the 26 million ounces used as collateral are equivalent to a whooping US$23.4 billion, an amount that is adequate to repay all of Zimbabwe's external debts independently estimated at US$22 billion.

The latest Treasury revelations should be of grave concern to all citizens who are trapped in a vicious circle of poverty as borrowed loans are used to benefit only the politically connected elites. Those who received farm equipment under the farm mechanization scheme did not repay back. The then Reserve Bank of Zimbabwe (RBZ) Governor Gideon Gono is on record saying that it was not a loan scheme and beneficiaries were not required to pay for the equipment they received.[2] In other words these were freebies for the privileged yet 60% of the population is wallowing in abject poverty. This explains the increased rate of unsustainable resource extraction in Zimbabwe over the last two (2) decades which is leaving mining host communities with nothing to show other than a degraded environment, forced displacements which are increasing human-wildlife conflicts and polluted water sources bearing the moniker of a Natural Resource Curse. All of the foregoing mining problems were also highlighted during Civil Society Organizations (CSOs)'s District Alternative Mining Indabas conducted in the Great Dyke and Mutoko.[3]

1 https://www.cnbc.com/2020/05/11/belt-and-road-china-may-have-to-write-off-loans-as-countries-struggle-topay.html
2 https://www.sundaynews.co.zw/2007-2008-farm-mechanisation-programme-was-not-a-loan-scheme/
3 http://zimcodd.org/sdm_downloads/challenges-for-small-scale-and-artisanal-miners-notes-from-the-shurugwi-dami/

Apart from mortgaging minerals by maintaining weak security systems at ports of entry, the government is promoting illicit financial flows like smuggling of precious minerals like diamonds and gold. The official estimates show that Zimbabwe is losing at least US$1.2 billion annually through gold smuggling alone[4]. Regardless of its mineral wealth, Zimbabwe continues to experience economic decay, low foreign and domestic investor confidence, external debt and perennial fiscal deficits over the years. The country's external debt is officially standing at US$13.2 billion as at end of June 2022 as presented in the Mid-term Budget Review by the Minister of Finance and Economic Development on the 28th of July 2022. It is difficult for one to trust these official statistics which seem to be conservative. This is because Zimbabwe is yet to undertake an independent debt audit to ascertain the exact quantum of legitimate debt stock. The latest revelations show that for 16 years, the Parliament together with the public were unaware of a Chinese loan backed by platinum resources. As a result of this display of lack of transparency in loan contraction and debt management, it is likely that there exist some huge external debts which are not disclosed or are underreported.

In its Monthly Economic Review for July 2022, ZIMCODD highlighted the dire impacts of unsustainable debt on the performance of the economy. At 0.3%, the country has one of the lowest debt-to-reserve ratios in the region. This is a key ratio as it shows how many dollars a country has in reserves for every dollar of debt owed to external creditors and its flexibility to react to adverse or unforeseen contingencies. The danger with this is that Zimbabwe's reserves are lowest at a time the world is experiencing a seismic shift in climatic conditions. Natural disasters like droughts, floods, and cyclones are becoming more frequent and are having a huge toll on the Global South (developing) countries. As such, the ballooning public debt is constraining public investments in the green economy. Recently too, the AfDB indicated that debt distress is affecting the private sector, particularly exporters[5]. Zimbabwean exporting firms are facing difficulties in accessing lines of credit as corresponding international banks are hesitant to provide help due to Zimbabwe's high-risk profile posed by debt distress. Furthermore, the unsustainable debt is constraining the countercyclical effects of fiscal policies and affecting capital accumulation via heightened long-term interest, higher distortionary tax rates, and chronic inflation recently recorded at 256.9% as of July 2022.

Recommendations

1. Transparency in borrowing to ensure public scrutiny: Going forward all key terms of each loan contract should be approved by Parliament and be made public.
2. Independent public debt audit: An independent debt audit will inform the scale and nature of the country's debts, which are often not transparently publicized. An audit will also become a building block to popularize discussion about the legitimacy of certain debts and whether they should be repaid.
3. Revamping public debt management to establish a strategy that ensures that the government's financing needs and its payment obligations are met at the lowest possible cost and consistent with a prudent degree of risk -interest rate risk, currency risk as well as other risks.
4. We recommend the government to borrow not for current consumption but for future consumption -investing in projects that generates income for repaying the borrowed funds.

4. https://www.chronicle.co.zw/us100-million-gold-smuggled-out-of-zimbabwe/
5. https://kubatana.net/2022/05/03/zimbabweans-deserve-better-than-harmful-secretive-debt-deals/

5. Government of Zimbabwe should encourage competition among potential investors on loan terms and financed projects.

6. Parliament of Zimbabwe needs to increase its due diligence on the use of natural resources for loan purposes.