SOUTHERN AFRICA'S DEBT CONUNDRUM

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INVESTIGATIVE REPORT

CONTENTS

Executive Summary

This investigative journalism project was necessitated by the growing need to better understand the nature of southern Africa's debt crisis—with particular reference to Angola, Mozambique, Zambia and Zimbabwe.

These countries were selected in view of the fiscal solvency of their fragile economies and their vulnerability to a rising debt stock, as well as the wider impact on socio-economic development.

The report provides an overview of the risks and challenges faced by the regional states as they seek a path to debt sustainability. In sub-Saharan Africa, 16 countries are classified as having either a high risk of debt distress or being in debt distress. The average public debt in the region was estimated at 57% of Gross Domestic Product (GDP) as at the end of 2018. Between 2010 and 2018, the debt payments of developing countries increased by 85%, which sent alarm bells ringing.

Although borrowing can enhance a nation's capacity to deliver on socio-economic development, it can also precipitate structural vulnerabilities if the resultant debt burden is not handled prudently. How best can nations navigate the treacherous road to debt sustainability? In this discourse, it is vital to ask: What are these countries borrowing for?

When a government borrows for investment, the country could face challenges in the short term, but in the medium to long term, as the pay-back from such investment kicks in, sustainability may be secured. However, we must consider the obverse: when a government borrows for consumption, the long-run benefits are sacrificed on the altar of unsustainable consumption and the government will have to secure resources from elsewhere to repay the debt.

We unlock **Southern Africa's Debt Conundrum** by tracing the genesis of the debt problem and scrutinising the role of governments and international financial institutions.

Southern Africa, a region endowed with vast natural resources, is now an intriguing theatre of the geopolitics of strategic minerals as China, the United States and Russia are now locked in a scramble for economic opportunities in this part of the world. But from a public debt sustainability perspective, can the regional countries rise to the challenge by taking advantage of the global powers' renewed interest? This report uncovers the nexus between unsustainable debt and unsatisfactory delivery of social services, showing how debt is contributing to poverty and economic turmoil. Policy recommendations to enhance debt sustainability are then proffered.

Regional Recommendations

For governments:

1. Improve on economic governance, through enhanced legislative oversight, stronger public finance management, and better deal-making frameworks for natural resource exploitation.
2. Formulate alternative revenue mobilisation strategies, for example VAT or tax on electronic transactions or activities that undermine the environment.
3. Governments should formulate policies and enact laws to guide public officials who handle Eurobonds. In the absence of clear legislation and policy guidelines, public officials may not always act in the best interests of a nation.
4. Improve public investment efficiency; infrastructure must contribute to socio-economic progress; return on investment must be high; ensure the loan terms are favourable.
5. Militaries must be accountable to civilian authority. In the 4 regional states where we conducted investigations, the armies are running autonomous budgets beyond the scrutiny of parliamentary oversight. In all the countries, the sitting presidents are former defence or security ministers—and almost all of them have been implicated in opaque defence contracts.

For international financial institutions (IFIs):

1. Borrowers and lenders should show transparency in their dealings. Both public officials and IFIs have to be held accountable for their actions.
2. IFIs should abide by the UN principles on sovereign debt restructuring, which emphasise legitimacy, sustainability, equitable treatment, and impartiality.
3. Vulture funds should stop milking vulnerable countries.

For civil society and media:

1. Pay attention to Public-Private Partnerships (PPPs). Governments are increasingly using PPPs to mask public debt. For example, the Batoka hydro-electric project: The two governments want to use PPPs involving an American company and a Chinese company to structure a US$5,2 billion deal that will not reflect on the public accounts of both states—yet taxpayers are ultimately liable.
2. Debt management policy and practices must comply with international human rights law and UN Sustainable Development Goals.

Methodology

For this investigative journalism project, the team used a combination of methods for gathering information and for verifying its validity. We used live interviews, documentary research, site visits and observations.

Live interviews: In the journalistic tradition, we openly name the interviewees, except in instances where anonymity is requested. Efforts were made to verify material facts through multi-sourcing. We spoke to policymakers, bureaucrats and the citizenry. As part of the information-gathering process, the investigative team also attended conferences and public forums where the debt crisis was discussed.

Documentary research: The team used outside sources, by way of documents, to gather information. We have provided the citations and references, through endnotes at the end of the report.

Acronyms

AfDB	African Development Bank
Afreximbank	African Export-Import Bank
IFI	International Financial Institutions
IMF	International Monetary Fund
PPP	Public-Private Partnership
RBZ	Reserve Bank of Zimbabwe
TB	Treasury Bill
UN	United Nations
WHO	World Health Organisation
ZAMCO	Zimbabwe Asset Management Company
ZESCO	Zambia's power utility, formerly Zambia Electricity Supply Corporation
ZIMCODD	Zimbabwe Coalition on Debt and Development

Angola

By Carlos Rosado de Carvalho

KEY FINDINGS

1. Angola is one of the most heavily indebted countries in sub-Saharan Africa and is considered at high risk of plunging into a full-blown debt crisis
2. Most of the public debt comprises external debt, exposing the country to interest rate fluctuations and exchange risk
3. The country over-reliant on oil revenue, making it vulnerable to international price fluctuations
4. Lack of transparency in public debt management
5. Public spending on health and education has declined while expenditure on defence and debt servicing has increased

RECOMMENDATIONS

To government:

1. Craft a viable framework for the efficient and viable management of public resources
2. Diversify the economy to reduce dependency on oil revenue
3. Prioritise budgetary allocation for health and education
4. Introduce social safety nets for vulnerable segments of society
5. Enhance transparency in national budget formulation
6. Reveal the true extent of the debt to China and other major creditors

To civil society:

1. Demand transparency in public debt management
2. Push for citizen participation in national budget formulation
3. Hold both borrowers and creditors accountable for their actions

To media:

1. Expose corruption in the management of public finances
2. Empower citizens with information on debt management, budget formulation and good governance

FACT FILE

- Total Official Debt: US$77,2 billion (Includes debt of the central government, external debt of state oil company Sonangol and state airline TAAG, and guaranteed debt)
- External Debt: US$49,3 billion (63,9% of GDP); Includes US$23 billion Chinese loans
- Official debt payments arrears: US$4 billion
- External Debt Payments: 57% of revenue (2018)
- Donor Assistance: US$223,2 million
- Total Debt Service: 13,4% of value of exports
- Domestic Debt: US$22,9 billion (36,1% of GDP)
- Under-5 Mortality Rate (per 1 000 live births): 81,1

With an official sovereign debt of US$77,2 billion in 2018, Angola is the second most indebted country in southern Africa (after South Africa's US$209 billion) either in absolute terms, or in relative terms (with a public debt equivalent to 87,8% of GDP), behind Mozambique whose debt is 100% of GDP.
Public debt-to-GDP and debt-service-to-revenue ratios are high, reflecting increased deficit financing, a lower nominal GDP and currency depreciation.

When President Joao Laurenço rose to power in 2017, he promised to institute a sweeping anti-corruption campaign in the upper middle-income country, but revelations of massive graft on his watch have dented public confidence and could blight his record. Much of Angola's public debt is the result of a volatile cocktail of fluctuating oil prices, murky transactions involving the security establishment, weak institutions, bad governance, compromised politicians and shadowy international companies. In a bid to plug the fiscal deficit, the government has passed a supplementary budget this year. This comes after the International Monetary Fund extended a US$3,7 billion loan to Angola last year. How are taxpayers benefitting from the huge loans? Our investigation delved into the funding of crucial social sectors to uncover the state of a health delivery system brought to its knees by reduced budgetary support. We uncover the poor funding of healthcare and education by Africa's second-biggest oil exporter.

THE ANGOLAN SITUATION

Luanda, the world's most populous Portuguese-speaking capital city, offers a display of fascinating contrasts.
More than 6 million people call the city home. From the bustling streets to the sparkling sandspit of Ilha do Cabo (Luanda Island) packed with restaurants, bars and beaches, Angola's biggest urban zone buzzes with life.

Angola's 27-year civil war ended in 2002. The protracted conflict and a gruelling Cold War experience partly explain why the lower middle-income country is still struggling to develop economically, despite being Africa's second-biggest exporter of oil.

The Southern African Debt Conundrum team spoke to medical doctors and other health personnel in Luanda with a view to gaining a better understanding of the challenges faced by the health delivery system. We also spoke to ordinary citizens.

A common thread runs through these interviews: due to a culture of fear, all the health personnel declined to be named.

A physician based in Luanda described public funding for the health sector as "woefully inadequate".

"As doctors, it breaks our hearts to see the suffering. Patients come to the hospitals expecting to be given proper treatment, but in many instances you find that we don't have the required medication. Our hospitals need more medicines and better medical equipment," said the doctor.

Another doctor revealed that medical personnel are so poorly paid they cannot afford to buy personal cars.

"If there's an emergency at the hospital and I'm at home, what happens? It's difficult to react swiftly. In many parts of the world, a medical doctor must be able to afford a decent car, but here in Angola it's a different story. Where is the money from the oil industry going?" asked the doctor.

Angolans who spoke to our investigative team said there is a general feeling among citizens that top politicians do not use local health facilities, opting to travel to either South Africa or Europe for treatment.
"They don't trust local hospitals, not even private ones. They have no confidence in their own local facilities here," remarked a construction worker.

ANGOLA'S DEBT PORTRAIT

Public debt has increased to 87,8% of GDP on the back of larger financing needs and currency depreciation. The government has a medium-term target to reduce the ratio of public debt to 65% of GDP by 2023.

External debt (at 63,9% of GDP), compared to 36,1% of GDP for domestic debt, constitutes the largest component of Angola's debt. It is denominated in foreign currency, mainly US dollars, representing 92% of the total, making the country highly vulnerable to exchange risk. Worsening the situation is the fact that part of the domestic debt is also denominated in US dollars. According to the Annual Debt Plan, when the external debt is combined with the domestic debt component indexed in US dollars, about 84% of the entire stock of government debt is vulnerable to exchange risk.

In addition to exchange risk, Angola is also exposed to interest rate risk. Annual Debt Plan estimates for 2019 show that the interest rates application to 56% of public debt are variable. External debt is the most vulnerable to interest rate fluctuations, with 81% of that debt exposed to variable rates.

In the face of unpredictable oil prices on the international market, the government has been financing budget deficits using external credit.

"Angola will have to maintain gradual fiscal consolidation, improve revenue mobilisation and implement strong reforms in public financial management practices to put public debt on a sustainable path," says the World Bank.

Although official statistics show that gross international reserves reached US$16,7 billion in January 2019—equavalent to 6-month import cover—the country is under pressure to reduce dependency on oil while lifting huge segments of the population out of extreme poverty.

But analysts say more inclusive development will require improved governance, better public finance management, diversification of the economy and higher investment in education and healthcare. It is also vital to create safety nets for social protection.
The International Monetary Fund, which approved a US$3,8 billion financing facility for Angola last year, says it is impressed with the economic reforms being undertaken by the country. The oil exporter was hit hard by the decline in international commodity prices from 2012 to 2014. By 12 June 2019, the IMF had disbursed US$1,24 billion to Angola under the Extended Arrangement.

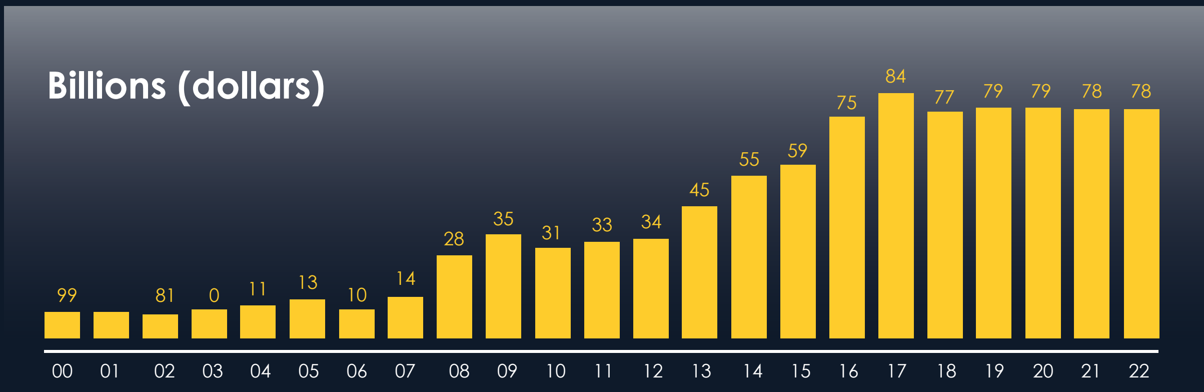
DEBT EXPLOSION

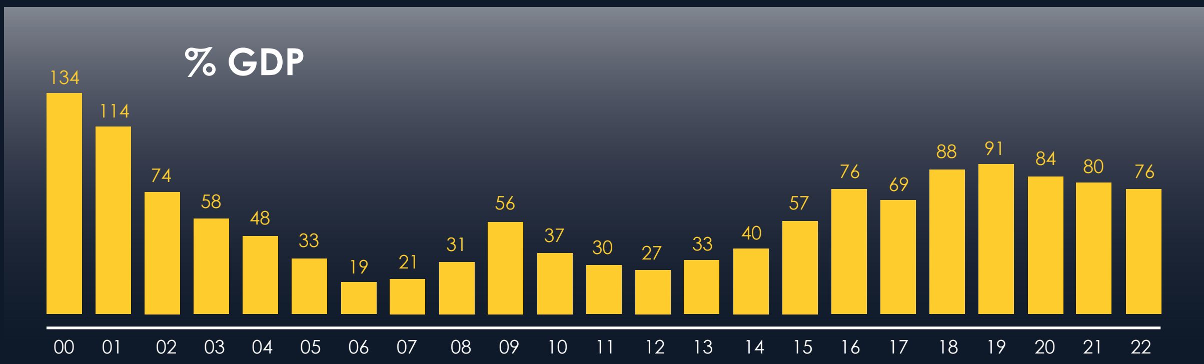
A close analysis of Angola's debt profile shows public debt has exploded in the last 6 years.

From 2012 to 2018, Angolan government debt increased from US$34,1 billion to US$77,2 billion (see graph below). As a percentage of GDP, the debt rose by 61,1 percentage points from 26,7% of GDP to 87,8%. The debt is projected to rise this year.

The graph shows Angola's public debt (in billions of US dollars, top) and as a percentage of GDP (bottom) since 2000 and the projections going forward. Source: IMF

Since 2016, the Angolan public debt has exceeded 60% of GDP, above the threshold set by the Southern African Development Community (SADC). Previously, the country's legislation prohibited public debt above 60% of GDP, but the law was amended in 2016 to scrap that legal stipulation. However, the government is still required in terms of the law to present a plan to reduce indebtedness to below 60% of GDP. No such plan has been announced.
The rising debt has seen a sharp increase in debt servicing costs, particularly interest rates. Between 2013 and 2017, interest rates on debt more than trebled from US$1 billion to US$3,3 billion. The weight of interest on total expenditure skyrocketed almost 7 times from 1,8% in 2013 to 12% in 2017.





The graph shows Angola's public debt (in billions of US dollars, top) and as a percentage of GDP (bottom) since 2000 and the projections going forward. Source: IMF

OIL DEPENDENCY

Prices of natural resources tend to be unpredictable. Oil-producing countries have been buffeted by this uncertainty countless times. However, analysts say there are ways to hedge against such risk. The starting point is for the government to used realistic (or conservative) price assumptions when drafting the national budget.

The price is not the only uncertainty faced by an oil-dependent economy. Petroleum production output is another variable that can throw a budget into disarray, especially in a setting where officials base their projections on overly optimistic calculations. In 2018, oil production fell to 1,478 million barrels per day from 1,632 million barrels per day (see graph below).

Apart from the volatilities arising from commodity price and production output variability (see graphs below), the country has had to grapple with the institutional frailties associated with the state-run oil company Sonangol which over the years had become synonymous with corruption, incompetence, cronyism, nepotism and inefficiency.

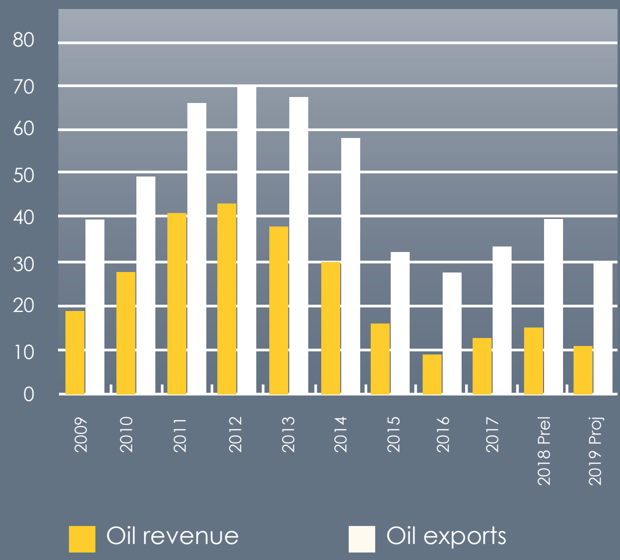
The government has resolved to use windfall oil revenue to retire some of its public debt and clear domestic payments while downsizing on using future oil revenue as collateral for loans contracted offshore.

On May 8 2019, President Laurenco fired Sonangol chairperson Carlos Saturnino, who had replaced Isabel dos Santos—the daughter of former president Jose Eduardo dos Santos. Another daughter, Welwitschia, has fled Angola after complaining of intimidation.

To help diversify the economy, the government says it will invest US$230 million in the next 6 years in a programme to boost productivity in the agricultural sector.

Oil Exports and Revenue

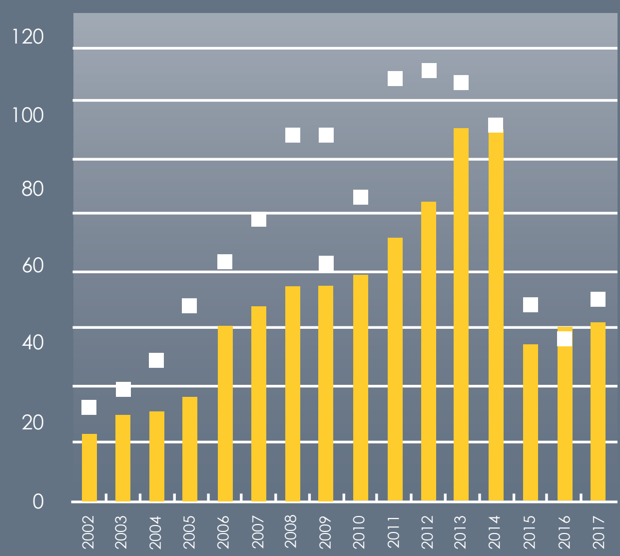
(Billions of U.S. dollars)



The graph shows oil revenue since 2009 and projected output for 2019 Source: IMF

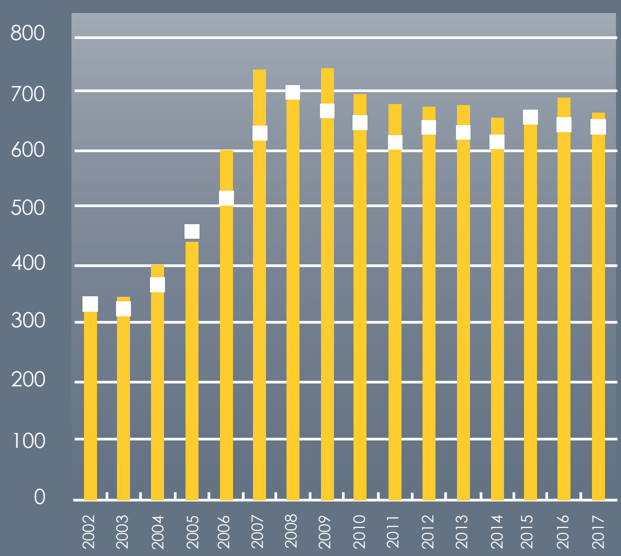
Oil Price

(U.S. dollars per barrel)



Oil Production

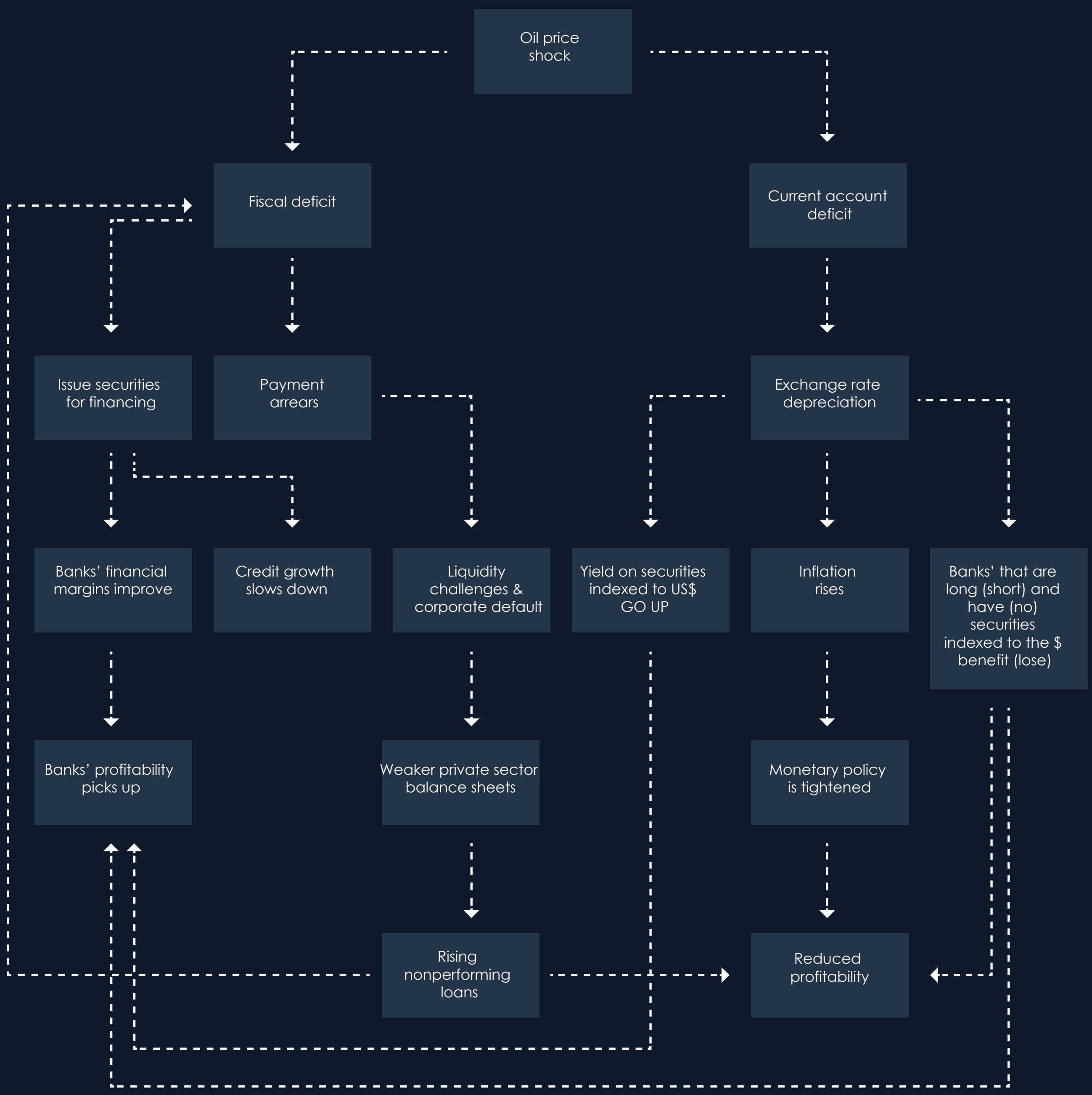
(Million of barrels)



Budget

Actual

Graphs show fluctuation of oil price (left) and production volumes (right). Source: IMF



The diagramme explains the effects of oil price fluctuations on Angola's overall economy. Source: IMF

LACK OF TRANSPARENCY

The explosion of public debt has not been adequately explained by the government. In successive reports, the IMF has attributed the debt crisis to the budget deficit, weak economic growth, sharp devaluation of the kwanza (local currency), the recapitalisation needs of parastatals and the regularisation of arrears payments to suppliers. Regarding state-owned enterprises, the government has injected about US$3 billion into Banco Poupanca e Credito (BPC) from 2016 to 2018.

Between 2013 and 2018, Angola recorded a fiscal deficit of 16,5% of GDP. Growth averaged only 1%, with three recessions in the last three years, and the kwanza lost almost 70% of its value.

The debt burden has seen a decline in public spending on the vital social sectors of health and education.

THE SONANGOL ROT

In the face of volatile international prices, state oil company Sonangol has increasingly come under pressure to institute far-reaching reform and deliver better value to the country.

Board chairperson Sebastião Pai Querido says 72 companies in the Sonangol group will soon be divested under a restructuring programme.

Over the years, the state oil company has been a source of both success and failure. The government has been accused of imposing quasi-fiscal obligations upon Sonangol by forcing the state oil company to finance an ambitious National Urbanisation and Housing Plan. This project siphoned millions of dollars.
The company's lending policy has been questioned. Last year, Sonangol borrowed US$1,5 billion from French banks Société Générale and Natixis, as well as Afreximbank and Standard Chartered. The company is this year expected to borrow a further US$1 billion. These borrowings, which lack transparency, contribute to the sovereign debt stock.

Sonangol is not the only parastatal causing headaches for the taxpayer; the state airline TAAG has relied on loans to fund operations.

ILLICIT FINANCIAL FLOWS

Jose Filomeno dos Santos, the former president's son, was fired by President Laurenco from managing the country's Sovereign Wealth Fund after being accused of attempting to embezzle billions of dollars.
US$2,35 billion was recovered from British and Mauritian bank accounts controlled by Quantum Global asset management firm. Dos Santos' son and Jean-Claude Bastos de Morais, the Swiss-Angolan founder of the asset management company, were released from detention after reaching a settlement with the government.

The National Asset Recovery Service, a desk in the Attorney-General's office, has repatriated US$4 billion of illegally externalised money. Last year, Angolans with undeclared foreign accounts holding more than US$100 000 were given a 6-month amnesty to bring the money back into the country or face criminal prosecution.

DODGY DEFENCE CONTRACTS

In an astonishing turn of events, Angola has been rocked by a debt scandal which bears an uncanny resemblance to the Mozambican hidden debt saga. The Angolan Defence ministry reportedly entered into a US$650 million contract with Abu Dhabi-based shipbuilder Privinvest for the purchase of ships and to enhance maritime construction capacity.

Simportex—a company owned by the Defence ministry—signed dodgy contracts in 2015 totalling US$155 million. In December that same year, Simportex signed another contract worth US$9,2 million for the purchase of maritime communication and security equipment, including two ultra-fast patrol boats with a company called Whitehead Sistemi Subacquei SPA.

The Angolan government signed another agreement with the French subsidiary of Privinvest, CMN, for the construction of a hydroelectric project, although the engineering works never got off the ground.

President Joao Laurenco, who came to office in September 2017, visited Mozambique during his tenure as Defence Minister between 2014 and 2017 in a bid to strike a deal for Angola with the controversial company ProIndicus, which looms large in Maputo's hidden debt scandal.

THE CHINESE FACTOR

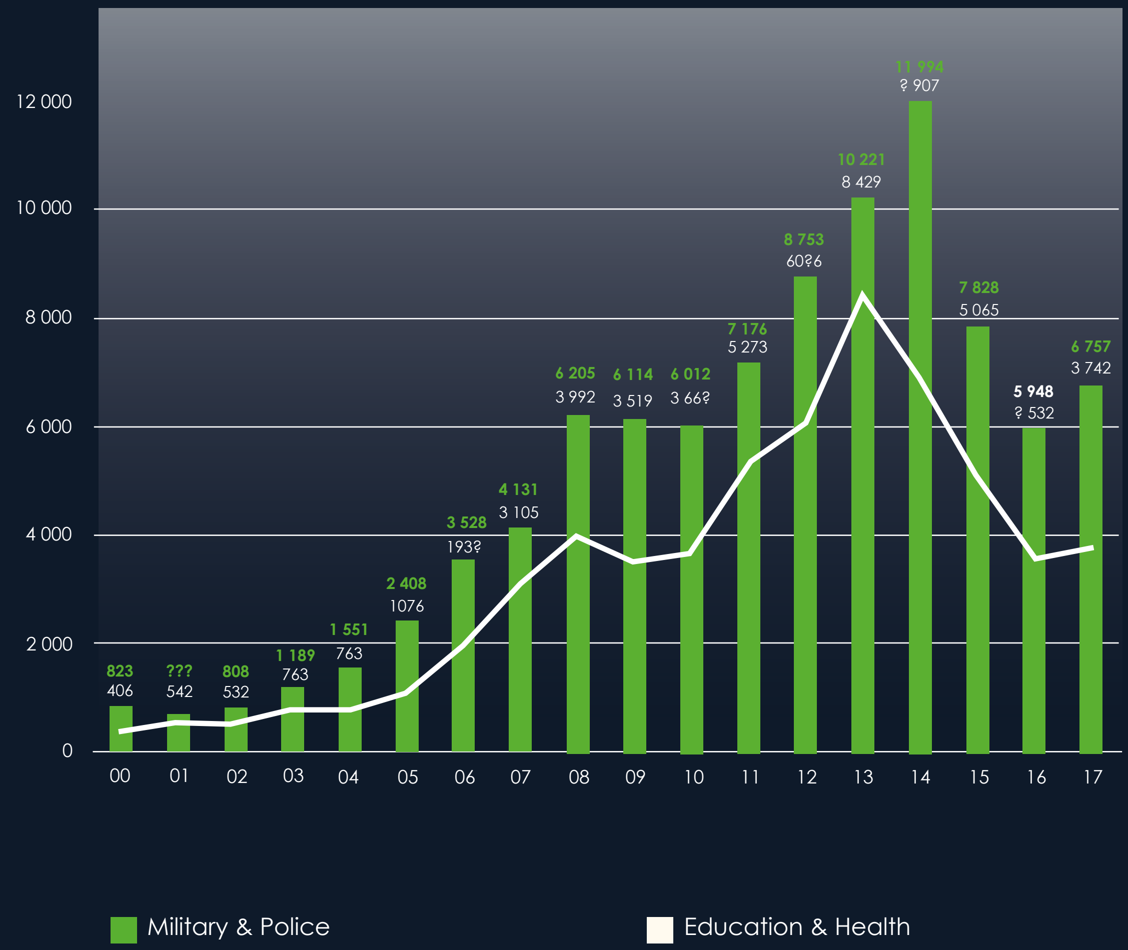
Most of Angola's exports (56%) are channelled to China in repayment for infrastructure projects.

Luanda owes Beijing an estimated US$23 billion, according to official data.

Some analysts say the "Angolan model"—anchored on the financing of infrastructure projects via the mortgaging of future natural resource revenues—has had its successes. Other economic commentators say some of the infrastructure projects are already dilapidated before the country finishes paying for them. The state-owned oil firm Sonangol is receiving no money from this deal. The government has resolved to be more cautious when contracting loans collateralised with petroleum revenues.

WHY A DEBT AUDIT IS NEEDED

The Southern African Debt Conundrum investigation reveals that the government's official data on debt must be audited to ensure that correct and reliable statistics are made available.



The graph, plotted by Carlos Rosado de Carvalho, shows the combined budgetary allocation (in millions of US$) spent on health and education compared to defence and security, from 2000 to 2017.

For instance, the legacy arrears—particularly those pertaining to the civil war and opaque defence deals—appear to have been grossly understated. Arrears, to both private commercial creditors and bilateral financiers, were put at US$4 billion by the government. But fresh information filtering through shows that the authorities had elected not to acknowledge additional debts totalling at least US$300 million arising from murky bilateral loans contracted by the former government.

The former Yugoslavia (now Serbia) is one of the countries owed by Angola. One of the biggest questions is whether these debts are legitimate in the first place. The government has now kick-started a process to have the debts certified. However, in the absence of a comprehensive audit, it will remain difficult to correctly compute the country's debt.

Also highlighting the need for a debt audit is the realisation that, in Angola, official statistics on the private sector's contribution to external debt are difficult to ascertain.

HEALTH AND EDUCATION UNDERFUNDED

Considering that Angola has a total official debt of US$77,2 billion and a population of 30 million people, it means each child born today owes US$2 573.

Health spending declined by 61,4% from US$3,3 billion in 2013 to US$1,3 billion in 2017. While interest payments on debt servicing trebled, public spending on education dropped by 51,9% from US$5,1 billion in 2013 to US$2,5 billion in 2017. Health funding as a percentage of the total national budget fell from 5,7% to 4,6%.

...WHILE DEFENCE IS OVER-FUNDED

In 2017, Angola spent US$6,8 billion on defence and security—making it the third highest spender on the continent behind Algeria and South Africa. Although this was 33,2% less than the US$10 billion spent on the military in 2013, it is still far more than the combined health and education budgetary allocations. And while spending on the social services fell, the defence budget increased from 17,8% to 24,3%. (See graph below).

This confirms Angola's trend, since 1991, of spending more on defence (US$6,8 billion translating to 24,3% of total national budget) than on health and education combined (US$3,7 billion translating to 13,4%). The gap has widened. In 2017, the defence budget exceeded the combined health-and-education allocation by 10,8 percentage points, compared to 3,1 percentage points in 2013.

Spending on health is an important indicator because Angola has one of the world's highest child mortality rates.

This runs counter to the National Health Development Policy (2012-2025). The strategy has 5 priorities: combating disease, providing healthcare to communities, developing a human resource base in the health delivery system, developing a financing model, and building a properly constituted national health system.

The reduction in per capita spending on health could see an upswing in child mortality and maternal mortality. Anchored on the primary healthcare and hospital assistance programme, the health delivery service has been affected by scarcity of financial resources, a weak management system, poor sanitation, limited access to drinking water, inadequate staffing, among other challenges.

The World Health Organisation says there are deficiencies in rolling out a child immunisation programme countrywide. Malnutrition remains a problem and this is worsened by drought and any downturn in the economy.

One of the major talking points over the revised national budget is a 9% cut in expenditure. This could adversely affect vital construction projects in the health, education and transport sectors.

A cash-transfer programme has been ushered in to cushion vulnerable segments of society from economic shocks. Government social spending levels are still not enough to improve the quality of life of most Angolans.

Although an economic reform programme monitored by the IMF has somewhat calmed the nerves of investors, it has fuelled fears of austerity-induced social hardships. The Economist Intelligence Unit says "the recession that has plagued the country for three years is expected to continue in 2019, with a fall of 4,5% of real GDP". However, in May the rating agency Moody's said Angola could emerge from recession this year, although the debt burden means the country remains vulnerable.

DEBT CLEARANCE STRATEGY

Angola faces difficult choices in its quest to diversify non-oil revenue streams while servicing the public debt obligations.

One possible solution entails the use of excess oil revenue as well as new sources of non-oil revenue to pay down the debt. By reducing the debt burden in this way, the government may significantly lower the debt-to-GDP ratio from 90% in 2018 to perhaps 60% within a decade.

With a reduced debt service obligation, the government would then be able to lessen the shocks arising from volatile international oil prices.

There is a growing realisation that infrastructure investment is not inherently problematic. It is all about the quality of the infrastructure and how it contributes to overall economic development. The IMF, in a report released on June 12 2019, acknowledged as much. "Angola's public investment management framework should be improved to reduce inefficiencies (which have been estimated to be high), increase the quality of public infrastructure, and maximise the crowd in of private investment," noted the institution.

THE CORRUPTION SCOURGE

After 38 years of the strong-arm rule of President Jose Eduardo dos Santos, a new administration led by President Joao Laurenco came into office in 2017 amid lofty expectations of rapid national transformation.

The new leader has instituted investigations into some public entities. Many officials have been fired and others prosecuted. This has gone a long way in instilling confidence. However, there is growing scepticism over whether President Laurenco's reform agenda will be thorough enough to dismantle the deep-rooted networks of corruption which have continued from the old order.

Analysts say if the reforms are to make a difference, they should usher in broad changes in the governance ethos. Any slip-ups by the government will see Angola squandering the immense international goodwill it has enjoyed since the exit of Dos Santos.

The quest for better governance begins with the very basics. They include but are not limited to: proper fiscal mechanisms, accurate economic data, stronger legislative oversight, an independent judiciary, a free Press, safeguards for human and property rights, better regulated markets and improved frameworks for decisively tackling illicit dealings that undermine macro-economic stability.
The budget formulation lacks transparency. Parliament is not robust enough in fulfilling its oversight over the executive.

DEBT SUSTAINABILITY

Angola's high debt brings to the fore the question of sustainability.

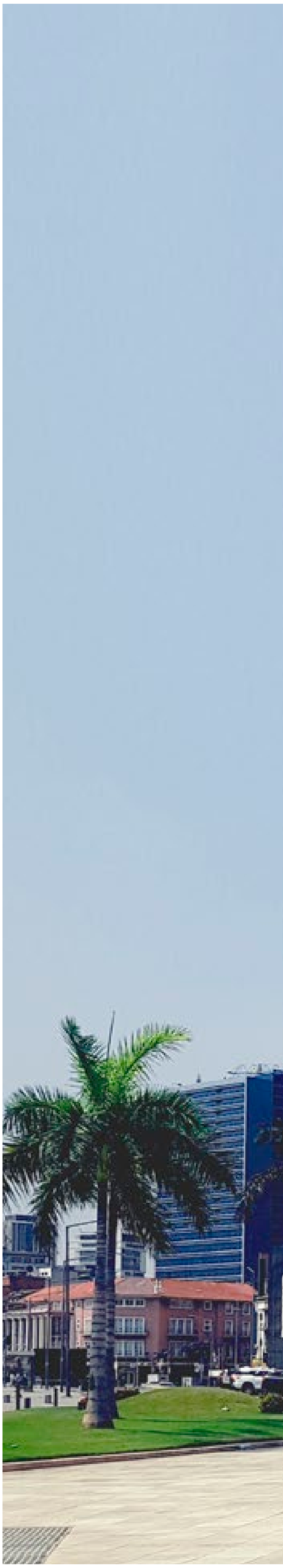
According to the IMF, the country's level of indebtedness is high risk. There are two reasons: The debt is above 75% of GDP, a general benchmark for emerging economies. Secondly, gross financing requirements are equivalent to 15,5% of GDP, slightly above the 15% ceiling for the same category of countries.

The signs of distress cannot be ignored. By the end of March 2019, Angola was US$4 billion in arrears on external debt repayments. Of this amount, US$2,1 billion was owed to commercial lenders and US$1,3 billion to suppliers. The balance, US$600 million, is a component of the debt that dates back to the nation's civil war.

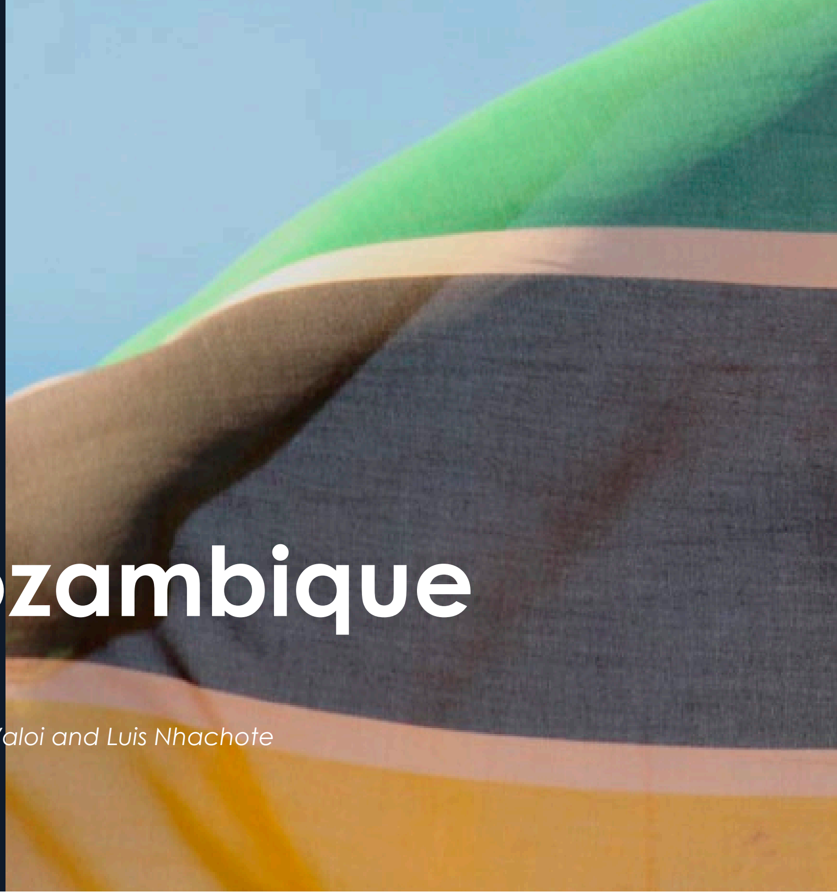
Angola is accessing financing from the IMF under a US$3,7 billion Extended Fund Facility, a programme designed for countries with slow growth and balance of payments problems.

This will entail budget consolidation; a reduction of subsidies and a raft of other spending cuts on one hand, as well as an increase in revenue streams on the other.

Analysts question whether the adoption of these measures, coupled with a tight monetary policy, will not aggravate the recession with devastating consequences for the population. The government says it will mitigate the economic hardships by implementing social safety nets.



Central Bank of Angola



Mozambique

By Estacio Valoi and Luis Nhachote

In recent years, Mozambique, a low-income country, has been rocked by a "hidden debt" scandal emanating from US$2,2 billion secret loans that were acquired by the executive without parliamentary approval. As the astonishing saga reveals, the state's financial levers were captured by a web of corrupt officials, with the connivance of private banks and fund managers in the international financial system.

Civil society organisations in Mozambique have been effective in raising awareness on the secret loan scandal. But is there justice for the taxpayer in a country where corruption-induced poverty has become a fact of life? Can the embezzled money be recovered? Will the complicit foreign banks be brought to justice? Our investigative team has uncovered the genesis of the debt crisis. We have followed the money to unearth the illicit financial flows and expose the leading characters in this scandal.

KEY FINDINGS

1. The country is commodity dependent
2. Weak natural resource management framework
3. Hidden debts increasing costs of borrowing
4. Lack of transparency in debt management
5. Weak public finance management framework
6. Disaster unpreparedness
7. Over-reliance on donor community for budgetary support

RECOMMENDATIONS

To government:

1. Enforce good public finance management in line with constitutional stipulations
2. Ensure transparency when contracting public and publicly guaranteed debt
3. Clamp down on public sector corruption and illicit financial flows
4. Develop a viable framework for natural resource management

To civil society:

1. Exercise eternal vigilance to enhance accountable governance
2. Empower citizens to demand good governance
3. Help capacitate parliament to exercise legislative oversight

To media:

1. Hold the three pillars of government accountable
2. Expose corruption without fear or favour
3. Shine the spotlight on how public funds are handled/managed

FACT FILE:

- Foreign Public Debt (total): US$11 billion (Dec 2017).
- Bilateral Debt: US$4,6 billion (43% of total debt).
- Multilateral Debt: US$4,2 billion (39% of total debt).
- Commercial (secret) debt: US$2,2 billion.
- Domestic Debt: US$1,68 billion.
- External Debt Repayments: 25% of revenue (2018).

Not so long ago, Mozambique was considered one of the "economic miracles" of Africa. In 2014, International Monetary Fund managing director Christine Lagarde said the country was destined to become "the Qatar of Africa". That same year, Maputo hosted an "Africa Rising" conference where the nation was feted as a shining beacon.

After decades of civil war, the southern African country appeared to defy the odds by enjoying remarkable success, registering an average economic growth rate of 8% from 2006 to 2012. A peace dividend had spawned an economic dividend, enabling Mozambique to make strides in socio-economic development.

That has been the dominant narrative in the past decade. Today, there appears to be a shift; analysts are more nuanced. They point out that, although the country has made progress, it has also suffered significant setbacks.

In June 2019, the country hit the international headlines after the announcement of plans by US energy firm Anadarko to invest US$25 billion in developing offshore gas reserves in northern Mozambique. The IMF says "Mozambique is poised to become a major exporter of liquefied natural gas (LNG), with significant impact on transforming its economy".

President Filipe Nyusi hailed the Anadarko deal as "the largest foreign investment in the history of our country".

In recent years, one of the setbacks that have rocked the republic to the core is the "secret debt" or "hidden debt" scandal.

The government's previously undisclosed debts totalled US$2,2 billion between 2013 and 2015, on the pretext of raising funding for a tuna-fishing fleet and a maritime surveillance project. The US$2,2 billion was equivalent to 18% of GDP at the time.

Titus Gwemende, head of Oxfam's extractives governance desk in southern Africa, says "Mozambique's borrowing template is problematic".

Debt levels are unsustainable. External debt stood at 104% of GDP in 2016. It declined to 85% by the end of 2017, largely due to the strengthening of the metical. The government's domestic debt has increased in line with budget financing needs.

Economy and Finance minister Adriano Maleiane says the country's foreign public debt, at US$10,6 billion as at December 2017, is the highest debt-to-GDP ratio in Africa.

The country has defaulted on the secret debt, amid fears that repayments could gobble up future earnings from recently discovered natural gas deposits.

In a landmark ruling on June 4 this year, Mozambique's constitutional court declared that US$850 million of the government's secret loans is illegitimate debt and therefore void.

The discovery in 2016 of the undisclosed borrowing has plunged the country into debt distress. Foreign donors and multilateral lenders such as the International Monetary Fund (IMF) cut off direct financial support in the wake of the scandal—although the IMF has since given Mozambique US$118 million in emergency assistance after cyclones Idai and Kenneth devastated the country.

The constitutional court declared that "no expenditure can be assumed, ordered or carried out without being duly registered in the budget of the approved state...which was not the case".

The controversial US$850 million Eurobond—which was supposed to fund a fishing fleet—was largely diverted to the defence budget under circumstances that can only be described as corrupt.

A civil society coalition, Budget Monitoring Forum, which filed the court case, described the ruling as "a huge victory". The organisation argues that the taxpayers of Mozambique must not be burdened with the repayment of an illegitimate debt.

Although President Nyusi said his government will respect the court ruling, he has not stated what will happen next.

“The government’s conviction has always been: it is a state that must not fail, it must exist...our concern is to make Mozambique a sustainable and credible country,” Nyusi said.

The secret-debt scandal surfaced when the country was already grappling with low commodity prices on the international market and a poor harvest caused by drought.

Analysts say although Mozambique is now trying to claw its way out of the downturn, there are strong headwinds ahead. The country is still in default on its debt repayments, but discussions are ongoing on the Eurobond saga.

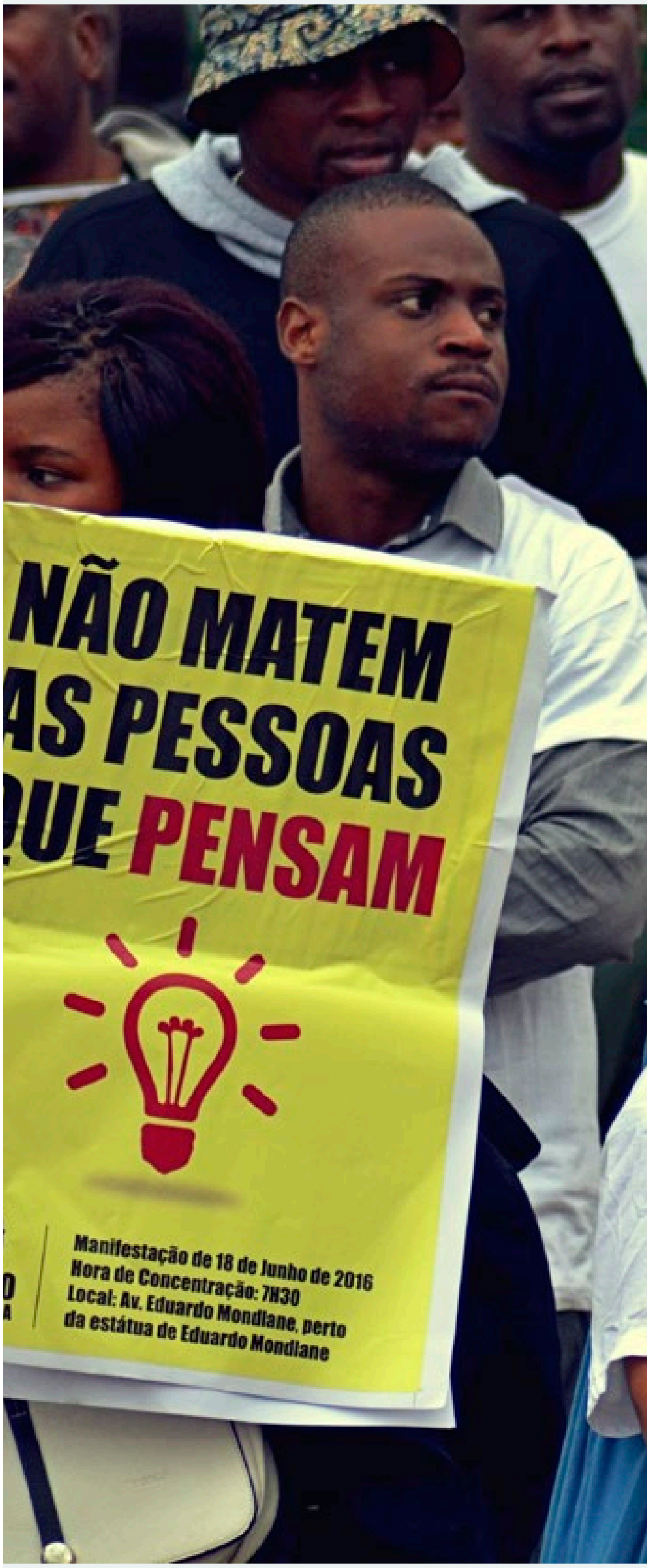
DONOR DEPENDENCY

On October 15 this year, Mozambique will hold its sixth multi-party general elections to choose new parliamentarians and a president for the next five years.

Or the past 5 years, the country has been experiencing an unprecedented financial crisis due to the hidden debts totalling US$2,2 billion. The country is highly dependent on foreign aid, which constitutes more than 60% of the national budget.
Income from newly discovered gas and oil deposits will only begin making a difference around 2023.

Before the secret-debt scandal surfaced, the national budget received funding from 19 countries and institutions, but the number was reduced to 14 after 5 donors withdrew in disapproval. The 14 donors have chipped in with US$467 million. Donor contribution to the budget has declined by 6,8% in 2019.

The 14 donor nations and institutions are Austria, the African Development Bank, the World Bank, Canada, Spain, Finland, France, Ireland, Italy, Portugal, United Kingdom, Sweden, Switzerland and the European Union.



Maputo demostrations against illegal debts

The Minister of Economy and Finance, Adriano Maleaine was recently quoted by the O´Pais daily newspaper as emphasising that donor support remains vital to the Mozambican state.

“Programmatic support, in particular the modality of general budget support, has contributed significantly to our governmental action for the continued achievement of the well-being of our population,” said the minister.

Poor deal-making skills by state officials and generous tax incentives which favour the interests of corporate entities have ensured that the tax benefits enjoyed by large companies make it difficult for the government to increase and diversify revenue streams. An old Tax Benefit Code has granted tax lopsided exemptions for long periods.

THE SECRET DEBT SCANDAL

In a 47-page indictment which the Southern African Debt Conundrum investigative team perused, US prosecutors say 3 state-owned firms—Mozambique Tuna Company (Ematum), ProIndicus, and Mozambique Asset Management—were used as a conduit to divert funds into private pockets. This has come to be known as the “hidden debt” scandal.
Former finance minister Manuel Chang has been in detention in South Africa since December 2018 at the request of the US justice system. He is accused of masterminding the corruption behind the undisclosed debt.

Three former Credit Suisse bankers, namely Andrew Pearse New Zealander), Surjan Singh (British) and Detelina Subeva (Bulgarian) as well as Jean Boustani (Lebanese), the lead salesman for Prinivest—an Abu Dhabi-based company which was Ematum’s sole contract—have also been detained in various countries.

The face value of the loan was US$850 million. Of this amount, US$90 million would go to the London-based branches of Credit Suisse and Russian lender VTB as a success fee for arranging the transaction. Minister

Pemba cabo delgado Boats linked to the illegal debts

Chang signed the government guarantee, ensuring that the Mozambican taxpayer would foot the bill in the event of Ematum's failure to pay. Chang had no legal authority to sign the guarantee without parliamentary approval.

After factoring in interest, the US$850 million debt would balloon to US$2,2 billion. Prosecutors say US$500 million of the money which was supposed to go to the tuna-fishing project was illegally diverted to a "defence" account and later squandered. The 24 fishing boats have never left the harbour in Maputo, contrary to claims that they would generate a US$220 million profit in the first year of operation. Chang is accused of pocketing US$7 million in bribes and kickbacks. Another US$36 million went to Mozambican officials and Surjan got US$4,49 million. The trail of illicit financial flows uncovered by US investigators is astonishing. Prosecutors are intent on recovering the money or forfeiting the assets of the accused.

In May 2019, Subeva (37), a former vice-president in Credit Suisse's global financing unit, became the first person to plead guilty in the US$2 billion fraud and money-laundering scam.

US prosecutors agreed to drop three other conspiracy charges against her. She is co-operating with the court.

Chang (63) is fighting his extradition in South Africa while Pearse and Singh are opposing extradition in Britain. Boustani was arrested in New York in January. The big question is: What is the culpability of international banks that facilitate such activities? Should the Mozambican taxpayer pay through the nose while the bank itself goes scot-free.

Swiss bank Credit Suisse's internal compliance rules were flouted by the trio but, civil society campaigners argue that the bank must take responsibility.

FOLLOW THE MONEY

After a high-stakes tussle resembling a game of tug-of-war, the South African government has decided to extradite former finance minister Chang to Mozambique, rather than to the US.

At the end of February, warrants were issued for the arrest of Ndambi Guebuza, son of former President Armando Guebuza, as well as Inês Moiane (former private secretary of ex-President Guebuza), Renato Matusse (former political advisor to Guebuza), Gregorio Leão (former director-general of Mozambique's Secret Service), Ângela Leão (wife of the former director-general of the Secret Service), António Carlos do Rosário (former board chairperson of companies Ematum, ProIndicus and MAM), and others. Currently, nine defendants are in custody, one in provisional release on bail, and the remainder are awaiting other court processes.

The Attorney-General's Office accuses the 20 defendants of committing various crimes, such as blackmail, falsification of documents, use of false documents, abuse of office or office, embezzlement, passive corruption for wrongdoing, breach of trust, money laundering and association to commit a crime.

THE PRESIDENT'S OTHER SON

Through two companies—namely Msumbiji Investiments (which uses account 44717836102 domiciled at Standard Chartered Bank in Hong Kong) and Timabes AG (registered in Liechtenstein where it holds account 10.359180_0.100.US$10,3 million at Valartis Bank)—ex-president Guebuza's other son Mussumbuluko Guebuza imported a considerable amount of weapons in a process involving the director-general of Mozambique's Secret Service, Gregorio Leão, as well as then Interior Minister Alberto Mondlane and former Defence Minister Filipe Jacinto Nyusi (who is now the President of Mozambique).

Through a source directly involved in the business, an investigation by Mozambique Channel and Verdade newspaper obtained several photographs showing meetings between Mussumbuluko Guebuza and the arms suppliers.

One of the major meetings was held in May 2014 at the premises of Israel Weapon Industries (hereinafter referred to as IWI). At that meeting, Mussumbuluko Guebuza was accompanied by a senior Secret Service official, identified by the sole name of Agy, who was appointed by Gregorio Leão to accompany the son of "the Chief" in the process. After a brief test of the weaponry, IWI issued a qualification certificate on behalf of Mussumbuluko Guebuza. The person who facilitated Mussumbuluko's interface with the Israelis is a citizen of Belarus, only identified by the name Alex, but who participated in the entire process.

IWI is an Israeli manufacturer of various types of weapons: pistols, shotguns, tanks. According to this investigation, IWI provided Mussumbuluko Guebuza with several models of weapons, with emphasis on TAVOR, X 95, ACE and GALIL assault weapons, including pistols known as the "Jericho" model.

The Mozambican state may try to justify the murky purchase of arms without floating a public tender by citing the sensitivities associated with security contracts.

Granted, the purchase of armaments without a public tender can be allowed under certain circumstances, via a process called direct adjustment, as recommended in Article 9 (3) (f) of the Procurement Law. But the Mozambican authorities will not be able to justify the use of arms acquisition companies belonging to ex-president Guebuza's son. There is clear corruption.

SOCIAL DELIVERY

The big challenge for Mozambique is to strengthen economic governance while building a diverse, robust and inclusive economy.

Economic commentators say the handling of the hidden debt investigation has not been transparent enough to shore up confidence in the state's commitment to prioritising accountable governance. The Economist Intelligence Unit currently classifies Mozambique as an "authoritarian regime".

Last year, Maputo agreed a preliminary repayment deal with 60% of the Eurobond holders. Under the agreement, the government would use 5% of tax revenues from natural gas to settle the debt from 2022 to 2033. Should such repayments materialise—which is contentious in the wake of the Constitutional Court ruling—it will deprive the state resources that would have otherwise been channelled to socio-economic development.

Economies in southern Africa generally have a common weakness: over-reliance on commodity prices. They are often left vulnerable to fluctuations in international prices. This, combined with the deficient deal-making skills of state officials who negotiate mineral-exploitation agreements with private investors that are usually represented by business-savvy lawyers and investment bankers, leaves the resource-dependent economies vulnerable to shocks.

Although Mozambique has natural resources such as coal which generate foreign currency, economic analyst Carlos Andrade says the country will take a long time to shake off donor dependence.

"The international market is going to dictate when and how the price of coal should be put on the international market hence the country cannot project its budget on the basis of natural resource revenues can put the whole issue of the national budget at risk, because there are cases of projects that cannot be executed because there will be no funds, " says Andrade.

The rating agency Moody's has noted that "gas production capacity, which is expected to start exporting in 2023" will also have a bearing on Mozambique's capacity to expand and diversify its economy.

In terms of possible resumption of IMF financial aid, Lucie Villa, a senior credit officer at Moody's, says the important thing is to look at the conditions the financial institution has set for the resumption of funding.

"First, macro-economic stability, and I think looking at it, has been moderately restored. Then the debt of public companies has to be audited, and the last is to restore debt sustainability, and it is this condition that is still pending, that is, it is uncertain what the IMF assessment will be," Villa has told Lusa news agency.

Low-hanging fruits in the quest for a more inclusive economy are the provision of better quality education and healthcare. Focus on social delivery would go a long way in reducing inequality, which is on the rise, even as poverty declined from 59% in 2008 to 48% in 2014.

Job creation is another pressing challenge. Mozambique's fertility rate—at 5,5 babies per woman, according to the World Bank—means the country's 31-million-strong population is growing at a rapid pace. Employment creation would enable the country to increase economic opportunities for young people.

An estimated 70% of Mozambicans live in rural areas. There is scope for higher-productivity farming, better water and sanitation facilities, improved shelter and resilient roads.

After the clandestine debt came to light in 2016, foreign grants fell from US$700 million in 2014 to US$200 million. Deteriorating social conditions in the wake of the cyclone-induced disasters were worsened by the fact that in 2018, the state reduced public funding to health and education by 5%.

THE RESOURCE CURSE

The discovery of natural gas a decade ago was celebrated as a game-changer, amid lofty expectations of overnight economic transformation.
The gas miracle has not happened. Finance minister Maleiane has in fact indicated that there can be no big payday from natural gas until perhaps the late 2020s.

Gwemende, who heads Oxfam's extractives desk, told a debt conference in March 2019 that in several African countries the debt crisis is directly linked to political leaders' unrealistic expectations following the discovery of potentially lucrative natural resources.

"Extractives are one of the reasons why many countries are in debt, and extractives could also be the solution to that problem. When you discover dia-

monds or oil before your institutions are strong, you are going to be worse off than you were before discovering the natural resources," explained Gwemende.

DISASTER UNPREPAREDNESS

Mozambique is a coastal country and is prone to natural disasters. This year alone it has been hit not only by drought but also two devastating cyclones, Cyclone Idai and Cyclone Kenneth. The World Bank says Mozambique needs US$3,2 billion for post-cyclone reconstruction. So far the IMF has given the country a grant of US$118 million for humanitarian needs in the aftermath of cyclones that killed more than 600 people in that country alone. Like many other African countries, the country does not have adequate resources to counter the effects of disasters or even prepare for them. Some policy analysts say the international community—particularly the industrially advanced nations of the Global North which are responsible for much of the climate change caused by pollution—have a moral responsibility to fund the developing countries that are bearing the brunt of disasters.

DEBT SUSTAINABILITY

To achieve debt sustainability, Mozambique has to roll out a comprehensive reform plan.

The starting point is in ensuring that a robust macro-economic framework is build, to infuse resilience into the economy and enable the country to withstand shocks arising from natural disasters and international commodity price fluctuations.

A governance deficit must be addressed. The "hidden debt" scandal exposed the shambolic state of public finance management. Sceptics say the government has not been convincing in charting a new path towards a better governance ethos. But reports last month of American energy firm Anadarko's significant US$25 billion new investment in Mozambique's natural gas sector have rekindled optimism of a swifter-than-expected economic turnaround in one of the poorest countries in the world. However, success will depend on accountable governance, improved public finance management, decisive steps against corruption, and a vigilant citizenry.

Zambia

By Charles Mafa and John Mukela

It sounds stranger than fiction now but, seven years ago, Zambia could borrow at lower interest rates than Spain on the international financial markets. Today, the southern African country is highly indebted and increasingly beholden to China. The central bank says the total public debt stands at US$19 billion (90% of GDP). Since early 2018 alone, the country has contracted US$1 billion in fresh loans. The official line is that Zambia, a lower middle-income country, is borrowing to finance vital infrastructure. But is this true? And just how much does Zambia owe China? The country is indeed getting the infrastructure, but is the costing of the construction projects structured fairly and competitively to the benefit of the tax-payer? This report answers these burning questions as we show how Zambia could plunge deeper into the abyss if no decisive interventions are made. More importantly, we reveal that Zambia is sitting on a massive hidden debt.

KEY FINDINGS

1. The country is over-reliant on copper
2. Chinese loans growing at a fast rate
3. Vast spending on infrastructure
4. Lack of transparency in debt management
5. Eurobonds proving a burden
6. Economy needs to diversify revenue streams to increase social spending

FACT FILE

Compiled from various documents and publications
Estimated External Debt (2012-2017)

- 2011: US$3,50 billion
- 2012: US$1,31 billion
- 2013: US$1,25 billion
- 2014: US$1,58 billion
- 2015: US$2,21 billion
- 2016: US$3,46 billion
- 2017: US$4,20 billion

Estimated Domestic Debt (2012-2017):

- US$6,84 billion

Additional New Debt (Under Negotiation)

- 2012-2017: US$8,50 billion

Potential Grand Debt:

- US$32,85 billion

INFRASTRUCTURE SPENDING

AWAKENING from its long slumber, Lusaka's quest for modernity is in full swing, its inner city single-lane roads giving way to modern dual carriageways, multi-storey office blocks springing up on every vacant corner, and shopping malls mushrooming in every suburb.

Even Great East Road, one of the city's main arteries, has not been spared the bulldozers. The new work is part of a bid by city planners to speed up the sprawling city's transport network. But there is a price to pay. Delays and traffic jams make the daily commute by workers a nightmare.

It is all part of the US$289 million Lusaka decongestion project, adding a further strain on the already indebted country. This loan—partly from the India Export-Import Bank and several other lenders including China, as well as other infrastructure development loans—are causing turbulence in the economy. (See graph below).

In all of this, Zambia perfectly illustrates the developing country conundrum. It is poor because it has a weak economy, and it has a weak economy because it is poor. Can one break this cycle through more debt, or taxes better spent, or by removing altogether the prop that debt provides to government? Or is the problem more to do with the lack of prudent accumulation and management of debt, exacerbated by poor policy leadership on debt management?

ENTER CHINA

At Lusaka's Kenneth Kaunda International Airport, a huge Bank of China billboard is positioned next to an equally imposing billboard inscribed "Welcome to Zambia". A gleaming new airport terminal, being built at a cost of US$360 million by China Jiangxi Corporation, is nearing completion.

China has become influential in Zambia, wielding economic and political clout.

In a research paper, Trevor Simumba of the Centre for Trade Policy and Development says 95% of all of Zambia's external debt from export and suppliers' credit sources comes from China.

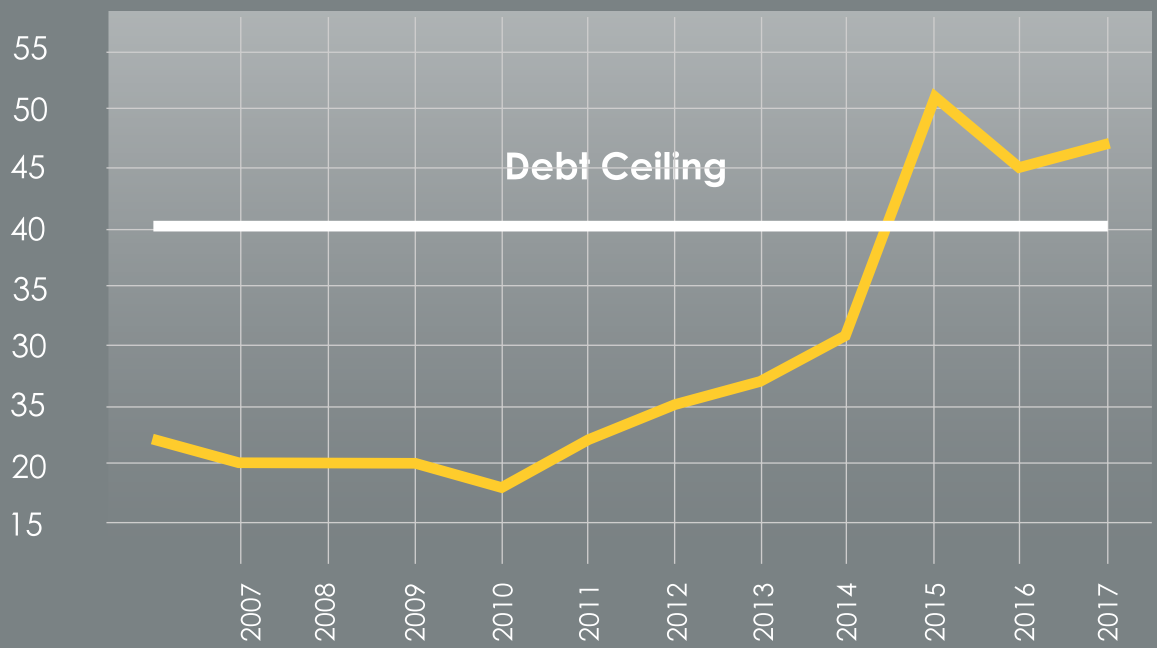
Simumba cites a statement issued by the Minister of Finance on 21 February 2018, which stated that China is a natural first creditor and accounts for 28% of Zambia's debt.

He identifies one of the major problems associated with Chinese funding.

"The overall level of borrowing from China is not clear. Indeed, the lack of clarity about exactly how much GRZ [Government of Zambia] owes to Chinese lenders is highly problematic and needs to be urgently addressed," notes Simumba.

By the end of May 2019, alarm bells were ringing amid the rising tide of Zambia's debt, sending signals of distress and prompting President Edgar Lungu to convene an emergency Cabinet meeting to map

Percentage of GDP



The graph shows the rise in Zambian public debt as a percentage of GDP
Source: Centre for Trade Policy and Development

out an effective strategy to stem the escalating crisis. But analysts say it may be too little, too late.
Just how significant is the Chinese factor in Zambia's debt crisis? Make no mistake, Chinese money is funding infrastructure development in a big way. However, the questions arising from this relationship are:

1. What are the terms of this borrowing?
2. How efficient is this infrastructure spending and what is the return on investment?
3. Is Zambia sitting on a hidden-debt time bomb?

CHINA CANNOT BE IGNORED

On June 24 2019, China's Foreign Minister Wang Yi made an important announcement, re-igniting debate on the economic relations between Zambia and China.

He said Beijing has cancelled a US$22 million debt owed by Zambia, and would give the southern African country a fresh US$30 million development grant.

"Today, we are signing this debt cancellation because we are keen to see Zambia grow from strength to strength and we shall do what we can to support Zambia's development agenda," said Wang.

The US$22 million interest-free loan, now being cancelled, was contracted by Zambia from China on July 2 2007 under an Agreement on Economic and Technical Co-operation. The debt was due for repayment by December 31 2018. The Chinese government has now cancelled the debt, providing momentary relief to the hard-pressed Zambian government—although some economic commentators say the amount involved is a drop in the ocean.

As the nation digested the implication of this gesture by the Chinese, the state-owned Zambia Daily Mail newspaper reported that the government has escalated talks which could see China taking over Konkola Copper Mines. The High Court had recently granted the government an order for the liquidation of the mines, following allegations by the authorities that the mining company had defaulted on taxes totalling US$3 billion.

GEOPOLITICAL CHESS

Although the economic and political manoeuvres of the United States, China and Russia in southern Africa are nowhere near the Cold War levels, the scramble for dominance in this region by the powerful nations is real.

In 2018, US national security adviser John Bolton alleged that China was about to take over the Zambian national power company ZESCO to recover a US$10 billion debt.

Bolton, in strong language, denounced what he described as the "predatory practices" of China and Russia in Africa.

"The predatory practices pursued by China and Russia stunt economic growth in Africa, threaten the financial independence of African nations, inhibit opportunities for US investment, interfere with US military operations, and pose a significant threat to US national security interests," said Bolton.

Amos Chanda, then President Edgar Lungu's spokesperson, responded robustly to Bolton's utterances.

"It is regrettable that such information can come from a high-ranking official. In fact, ZESCO is not within the scheme of Zambia's debt to China," said Chanda. He emphasised that Zambia valued its relations with both China and the US and would therefore not deal with either of them exclusively.
In June 2019, the US took its anti-China and anti-Russia stance a notch higher by launching a US$60 billion fund which Washington DC said would promote trade, investment and socio-economic development on the continent.

Interestingly, China has its own US$60 billion fund under the Belt and Road Initiative which it says is meeting Africa's economic development needs—especially in the area of rapid infrastructure expansion.

The Guardian, a British newspaper, recently reported that Moscow is making a post-Soviet foray into Africa by bolstering its presence in 13 countries.

There is clearly a scramble among the powerful nations for economic influence in Africa. But the question is: Are African countries benefitting from this heightened interest by structuring the best deals possible?

INEFFICIENT DEALS

When Zambian President Edgar Lungu wanted to "industrialise" the country and create 3 000 jobs, he turned to China for assistance. The Chinese responded by offering a US$200 million loan to set up 2 000 solar-powered milling plants across the country.

Xinhua, China's official state-run press agency, in its September 2018 articles, extolled the project as one "that is expected to help with the landlocked African country's industrialisation and job creation agenda".

Managed by the Zambia Co-operative Federation (ZCF), the project promised so much, including bringing the price of maize meal down, but it has delivered very little. In the absence of storage devices such as batteries, at night and during cloudy weather, the milling plants do not work. This makes the technology unreliable during the day when there is cloud cover.

The distinctive cardboard box-like structures (pictured) are hard to miss. There is general uniformity between all them that are scattered along many of Zambia's highways. They consist of a rectangular metal structure, blue in colour, next to an array of solar panels that collect the sun's energy to power them.

It is rare that you find long queues of people milling their produce, mostly maize, for their staple food, nshima (a type of thick porridge). This raises the question of whether the co-operatives, the recipients of the plants, can make enough money to pay back the loan.

"If there is no sunlight, we can't operate because it is a direct currency thing," said the operator, Bornface Ngoma, at Mkaka multi-purpose co-operative in Eastern Province, some 600 kilometres east of Lusaka, the capital. "Usually, we start at 08:00 am to 15:30 pm and during winter we start late and knock off early."

INFRASTRUCTURE GALORE

More money from China has come for other projects which have similarly been wasteful.

Since 2011, Zambia has been constructing roads at a blistering pace. Few have doubts over the need for better infrastructure. But the country has been overpaying on some of the projects.

A study by the World Bank in 2017 found that Zambia paid US$360 000 per kilometre, which is more than twice the African average.

Government's own institutions have equally raised alarm about corruption. The Financial Intelligence Centre (FIC) noted in its 2018 money laundering and terrorism financing report that procurement corruption has led to the crowding out of legitimate businesses and increased costs of public projects.

A case in point is the Lusaka-Ndola dual carriageway, which government announced would cost US$1,2 billion for a 321-kilometre stretch. After people raised concerns about the price, the project has been put on ice, pending a review and revised project cost estimate.

Zambia has been very welcoming of Chinese debt to help boost the country's infrastructure profile. The country's long-standing traditional ties with China commenced in the 1970s, with the construction of the Tanzania-Zambia Railway, linking landlocked Zambia to the Tanzanian coast. To date, the country remains one of the largest recipients of China's concessional lines of credit in Africa.

Further evidence of these close ties can be seen, for instance, in the opening, in 1997, of China's first financial institution in Africa, its subsidiary of the Bank of China, offering personal and corporate banking finance and loans. Zambia's central government ministries, such as the Citizenship and Immigration Department, has appointed the Bank of China as the preferred recipient of government payments for Zambian residence permits, for instance.

According to Finance minister Margaret Mwanakatwe, China is Zambia's natural first creditor, accounting for almost 30% of external debt. However, there is a growing fear that debt from China has not been fully captured in the computation of official statistics. The government denies this is the case, but analysts say the situation is so opaque that it is hard to know the true picture.

The government's debt figures do not to loans borrowed by state-owned enterprises (parastatals), analysts argue. Experts say, to the extent that these have been fully or partially guaranteed by the government, they represent a government liability and should be included in official public debt data.
The level of parastatal borrowing and the quantum of loans guaranteed by the government are difficult to estimate with any degree of confidence, although the World Bank believes they are substantial. It reported that the publicly guaranteed debt of ZESCO and Zamtel (the electricity and telecoms parastatals) amounted to over US$770 million in 2017, which was equivalent to 3,5% of Gross Domestic Product.

The speed at which such guarantees have multiplied is worrying as this has added another dimension to the financial risks. In recent years, the government has encouraged Chinese firms' involvement in the Zambian economy through incentives and offering exclusive bidding rights for infrastructure projects through single sourcing.

Much of this investment has been financed by borrowing from China on a project-by-project basis. The transparency around these deals is limited and, consequently, it is difficult to attach an accurate figure to their scale.

Uncertainty in the methods used to tabulate government debt using figures of actual disbursements and not the amounts signed for, are believed to translate into immediate liabilities of interest on loans. Some lenders begin to charge the recipient immediately upon signing, and not upon release of the funds to the borrower, making debt calculations further more difficult.

The money has been spent and now the worries begin. Debt servicing is taking a substantial portion of government spending. In terms of external debt servicing from March 2017 to February 2018, official sources say US$ 552,8 million was spent servicing external debt. During the same period the government spent another K6,13 billion (US$600 million) on interest payments on government securities.

HIGH DEBT SERVICING COSTS

Zambia, Africa's second biggest copper producer, has seen a rapid rise in its debt stock, a weakening of the value of its currency, the kwacha, and increased inequality and poverty prompted by its high debt servicing obligations and decreased spending on public sector projects, local government, healthcare and education.

Already struggling to fulfil demands for higher wages in the public sector and at state-owned enterprises, the government appears to be fighting a losing battle, with economic commentators predicting the worst is yet to come.

This gloomy outlook will not be helped by the power utility Zambia Electricity Supply Corporation

(ZESCO)'s decision to commence minimum four-hour power cuts beginning June 1 2019.

Undoubtedly, the ZESCO power shortages will further dampen economic outlook and recovery in the short to medium term as companies scale back production, including the possible loss of manufacturing jobs.

Centre for Trade Policy and Development executive director Isaac Mwaipopo warns that when Zambia should be making all efforts to find ways to resuscitate its ailing economy, "the biggest casualties of load shedding will be micro, small and medium enterprises whose businesses are highly dependent on a steady supply of electricity because they do not have adequate capacity to easily switch to other sources of energy, compared to larger businesses."

But ZESCO maintains Zambia's current power deficit of 237 megawatts, precipitated by low water levels at the drought-hit Kariba Dam and other major water reservoirs in the country, is unavoidable.

POLICY INCONSISTENCIES

Coupled with an escalating war of words against one of the biggest mining companies, Konkola Copper Mines (KCM), with President's Lungu's announcement in May of the government's intent to take over the mining giant, as well as the nation's unsustainable debt situation, Zambia's projected growth is seen slowing down from 3,7% in 2018 to 2,3% in 2019, lower than earlier envisaged due to the impact of the drought on agricultural production, according to International Monetary Fund estimates.

"Inflation is close to the Bank of Zambia's upper band and is projected to rise over the course of 2019. Reserves stood at 1,7 months of imports at end-March 2019," said the IMF's Mary Goodman when concluding a fact-finding mission to Lusaka in April.

Eighty percent owned by Indian commodity tycoon Anil Agarwal's Vedanta and the remainder by the government-controlled Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH), Konkola Copper Mines (KCM) is Zambia's single largest PAYE provider, with a 13 000-strong workforce at its mines at Nchanga and Konkola.

It has invested more than US$3 billion into these facilities since its acquisition of a majority share after Anglo American's withdrawal from the project in 2002, including sinking a deep shaft in the Chililabombwe ore body in 2006, commissioning a new smelter in 2008 and opening three new concentrators between 2010 and 2012.

In explaining the liquidation application, Lungu cited breaches of KCM's operating licence and its financial position. But analysts believe there may be more sinister motives related to Zambia's precarious debt situation, amid talk that the copper mines could be handed over to the Chinese in exchange for debt relief.

NON-CONCESSIONAL BORROWING

Zambia's development strategy targeting a rapid scaling up in infrastructure spending has resulted in large fiscal deficits, financed by non-concessional debt.

With the recent increase in yields on government paper and higher interest costs on foreign debt due to the depreciation of the kwacha, from K5,16 to the US dollar in December 2011 to the current low of K14 to the US dollar, government spending in other areas is being squeezed, including on social programmes and transfers to local governments.

The significant build-up in domestic expenditure arrears is weighing on households and businesses and presents a risk for the financial sector.

Despite all the warnings for the government to reign in debt distress, the perception is that the government is lackadaisical about the seriousness of the crisis.

For example, nearly a year ago on June 15 2018, Finance Minister Margaret Mwanakatwe announced the following: "We have cancelled some existing loans, banned issuance of letters of credit and guarantees to state-owned enterprises, terminated financing of development projects that are below 80% completion and cut down on ministerial travels with immediate effect."

A year later on May 28 2019, she was repeating what she had promised a year before: "We will definitely postpone the contraction of all new non-concessional loans in the intervening period, cancel some signed but undisbursed loans. Cabinet also directed that no ministry, province or spending agency should contract goods and services without availability of funds even if it is budgeted for, to stop the accumulation of arrears. To this effect, the Treasury was directed to issue strict guidelines on the matter."

These inconsistencies and lack of progress have emboldened the country's opposition political parties, who maintain that Lungu's government is blissfully incapable of steering the country out of these self-inflicted economic troubles, charging that "Lungu and his ministers are clueless."

For example, Situmbeko Musokotwane, a former Finance Minister and current shadow finance minister in the main United Party for National Development (UPND), believes that the 2019 budget presented to Parliament by Mwanakatwe was unrealistically short on detail and "true only on paper."

Commenting on its capacity to meet government expenditure on time, Musokotwane notes that the authorities are pinning their hopes on securing further financing and loans to plug the budget shortfalls. But he believes the IMF, World Bank, African Development Bank and others "are unlikely to disburse such money in the absence of a credible plan on how Zambia intends to deal with its debt crisis."

FISCAL SQUEEZE

In short, Zambia does not have enough money to meet the important expenditure categories of running government, development projects, debt servicing and public salaries. In the past few years, the government has sought to tackle the problem of cash shortage by suspending some development projects and scaling back on important social services as mentioned above already. Since that has not been enough to resolve the problem, the cash conserving measures have now been extended to delaying salaries.

But how did Zambia get here? After all, with one of the world's fastest growing economies for the 10 years up to 2014, real GDP growth averaged roughly 6,7% per annum, though growth slowed during the period 2015 to 2017, due to falling copper prices, reduced power generation, and depreciation of the kwacha.

Generous analyses pin the decline on Zambia's lack of economic diversification and dependence on copper as its sole major export, making it vulnerable to fluctuations in international commodity markets, and to prices which turned downward in 2015, due to declining demand from China. Added to that, although the GDP growth picked up in 2017 as mineral prices rose, Zambia was overtaken by neighbouring Democratic Republic of Congo as Africa's largest copper producer.

OVER-RELIANCE ON COPPER

Decreased copper production was blamed on the lack of policy consistency in Zambia's management of copper production variables, such as the flip-flopping tax policies that characterise much of the Zambian treasury's management of copper mining incentives and frequent changes in the tax regime as it relates to the mines.

Having substantially benefitted from massive debt relief as a result of the Highly Indebted Poor Countries (HIPC) initiative, in its initial and enhanced versions, as well as the Multilateral Debt Relief Initiative (MDRI), Zambia's debt stock was wiped out to manageable negligible levels under the leadership of

President Levy Mwanawasa, with sustained prudent economic management continuing through much of President Rupiah Banda's governance.

Then came 2011, and the ascent of the Patriotic Front (PF) to power, with President Michael Sata at the helm. Soon after assuming office, the government commenced on a massive borrowing spree, raising US$7 billion from international investors by issuing separate sovereign bonds in 2012, 2014, and 2015. Concurrently, it issued over US$4 billion in domestic debt and agreed to Chinese-financed infrastructure projects, significantly increasing the country's public debt burden to more than 60% of GDP.

Since 2012, observers have warned the government against its insatiable appetite for borrowing. Local economists, opposition parties, the international media and international organisations including the IMF and the World Bank have all counselled caution. The advice fell on deaf ears.

The current government inherited a foreign debt of just over US$2 billion when it assumed power in 2011. Zambia's current publicly acknowledged foreign debt is now US$10,12 billion, says Finance Minister Mwanakatwe, up from US$10,05 billion at the end of 2018.

This is in addition to a further US$2,6 billion in new external loans last year, according to the Finance Ministry, but which Mwanakatwe says will not be disbursed as part of her new austerity measures.

But independent analysts dispute the government's official data, arguing that the true debt figure, together with unaccounted Chinese loans and domestic debt, could be in the US$20 billion range. (See accompanying Fact File).

In uncharacteristically frank remarks, former Finance Minister Alexander Chikwanda, who led the treasury in the new Patriotic Front government from 2011 to 2016, has tacitly acknowledged the mess in which the government now finds itself—ironically, which he partly contributed towards.

Agency	Rating	Outlook	Date
Moody’s	**Caa2**	negative	May 23 2019
S&P	**B-**	negative	Feb 22 2019
Fitch	**B-**	negative	Oct 11 2018
S&P	**B-**	stable	Aug 24 2018
Moody’s	**Caa1**	stable	Jul 27 2018
Moody’s	**B3**	stable	Jan 26 2018
S&P	**B**	stable	Aug 25 2017
Moody’s	**B3**	negative	Apr 19 2016
S&P	**B**	negative	Mar 18 2016
Fitch	**B**	negative	Feb 24 2016
Moody’s	**B2**	stable	Sep 25 2015
S&P	**B**	stable	Jul 01 2015
Moody’s	**B1**	negative	May 29 2015
Fitch	**B**	stable	Mar 13 2015

In a televised interview on state-controlled Zambia National Broadcasting Corporation (ZNBC) television, he said Zambia's external debt may grow by more than 40% to US$13 billion next year as the cost of planned projects is added to the total, and debt-servicing charges could double.

The government could face debt-servicing costs of US$1 billion next year, from US$500 million to US$600 million this year, due to new loans, Chikwanda added.

"If we are to be honest, there are also pipeline items. So by the time we go into next year, our external debt would rise to as much as US$13 billion, at which point debt servicing will become quite critical," he warned.

CREDIT RATING DOWNGRADES

A few days before President Lungu's May 27 emergency Cabinet meeting, the international rating agency Moody's issued its bombshell credit rating downgrade from Caa1 to Caa2, from stable to negative, effectively pushing Zambia into junk status.

The downgrade reflects increasing external and liquidity pressures which, by impairing the government's ability to service its debt over the medium term, raise the probability of default in the near term, including a distressed debt exchange, beyond what is captured in a Caa1 rating, said the agency in a statement.

"The rising probability of default also reflects increasingly stark credit challenges stemming from rising debt levels, which further reduce the likelihood that the external and liquidity stress will be resolved rapidly," Moody's concluded.

THE TAXPAYER'S BURDEN

If the government does not get a firm grip on the public finances soon, the consequences for the economy are likely to be dire, all indications show.

Experts say the real price will be paid by ordinary Zambians, who will see their living standards fall and the public services they rely on deteriorate. In a paper titled How to Avoid Zambia's Public Debt Toppling the Economy into Crisis, economists Oliver Saasa and Tony Dolphin say there would be a reduction in public spending on vital social services such as education and health.

In addition, they say, levels of social protection would be cut. Prices of food and other essential goods would be going up faster than wages. "Poverty would increase markedly in both rural and urban regions."

Public services are already noticeably deteriorating, including the erosion of education and social protection safety nets, and less money for health. Government has gone for months without paying suppliers of blood reagents. Blood reagents are used to identify properties of human blood, including blood type, and are critical to ensure, among other things, that patients receive safe blood transfusions.

Zambians continue to ask questions about how the money from the debt has been utilised. At a recent BBC Media Action-organised debate on the economy, the issue of debt popped up. A representative from the Jesuit Centre for Theological Reflection (JCTR), a local faith-based charity, asked: "Where did all the money go?

"Zambia borrowed over US$3 billion from the open market through the Eurobond, I think the first billion went to ZESCO," said Geoffrey Chongo. "We haven't seen much within ZESCO, in terms of improvement. Can you imagine if we had invested that into solar, but we took this money into hydro where we are having challenges. So, we have to borrow again to take money to solar."

"We have borrowed over US$7 billion in the last seven years, but where has that money gone? Are the roads we have invested in adding value?" Chongo asked.

The debt has had little or no impact on poverty eradication. The Central Statistical Office figures for 2018 show alarming levels of rising inequality in Zambia, worsened by high cost of living nationwide, with Western Province registering a whopping 82% poverty rate, closely followed by Luapula and Northern provinces at 81% and 79,9% respectively. Furthermore, of the national 54,4% poor, 40,8% are classified as "extremely poor."

In urban areas, figures by JCTR show that a family of five will require a monthly minimum of K5 500 just to meet basic necessities. With majority of urban workers falling in the K3 000-K5 000 monthly wage band, their earnings are barely enough to cover their needs.

There are positives, though, as noted by an economic thinktank, the Economic Association of Zambia. Its vice-president, Austin Mwange, thinks some of the money has gone to improving the country's economy.

"When you are debating Zambia's debt, you should focus on where the debt has gone. When you go to that question, in certain areas you will see that Zambia has done very well," he claimed.

Paying back these debts is putting huge pressure on Zambia's finances. The biggest item in the national budget used to be education. Today it is debt servicing, with K23,6 billion (US$1,7 million) in the 2019 budget set aside for debt obligations, of which K14,2 billion (US$1 million) is towards interest payments and the balance of K9,4 billion (US$718 000) for principal loan repayments. That amount is more than the budget for education and health put together.

ACHIEVING DEBT SUSTAINABILITY

Going forward, what is the government's likely move to stem the tide of rising debt stress? Given its options, it cannot afford to default on any of its annual debt obligations. Its only escape is to further scale back on social spending to honour its debt obligations, which could potentially escalate the risk of civil unrest and political discontent. Alternatively, the government could opt for easy short-term disaster-prone measures—such as the printing of money to pay for its domestic obligations, raising the spectre of higher inflation, a further fall in the value of the kwacha, and deepening economic crisis. The debt crisis requires the following decisive action:

1. Our investigation found that it is vital to enhance transparency in Zambia's dealings with creditors, including China whose influence is growing
2. Parliament, the embodiment of representative democracy, must play its oversight role by closely monitoring the contraction of debt by the executive and by parastatals
3. The Public Finance Management Act, enacted in 2018, is yet to become part of the governance culture and must now be enforced in line with the dictates of the law.

Zimbabwe

By Brezhnev Malaba

Through this investigation, we reveal that Zimbabwe, classified as a low income country by the World Bank on July 1 2019, is in debt distress. While the government says the public and publicly guaranteed debt stood at US$17,69 billion as at November 2018, our probe estimates that a more realistic tally is around US$35 billion.

The undeclared debt emanates from, among other sources, farm compensation, Chinese loans, Afreximbank borrowings and the growing burden of crumbling parastatals.

The matter of undisclosed loans, particularly from China and former eastern bloc countries, has been consistently raised in the International Monetary Fund's Article IV consultations with Zimbabwe.

Compensation to dispossessed white farmers will cost no less than US$10 billion, we can reveal. Reckless fiscal policies—particularly the unrestrained printing of money and issuance of Treasury Bills—have also played a central role in Zimbabwe's debt distress. Under a controversial arrangement, the government says the taxpayer has now inherited toxic debts arising from non-performing loans—totalling US$1,13 billion—of individuals and companies, but the authorities are refusing to name them. Who are the beneficiaries of this billion-dollar largesse and why are public officials unwilling to name them? **The Southern Africa's Debt Conundrum** investigation is revealing some beneficiaries.

The report also traces the role of corruption and mismanagement in a debt crisis that is spiralling out of control.

KEY FINDINGS

1. The country has a debt crisis. Current debt figures are grossly understated. Official debt data must be consolidated.
2. Zimbabwe's debt crisis is partly a product of illegalities by the executive arm of government, for example the violation of the RBZ Act (overdraft), lack of recourse to Parliament, and violation of the Public Debt Management Act.

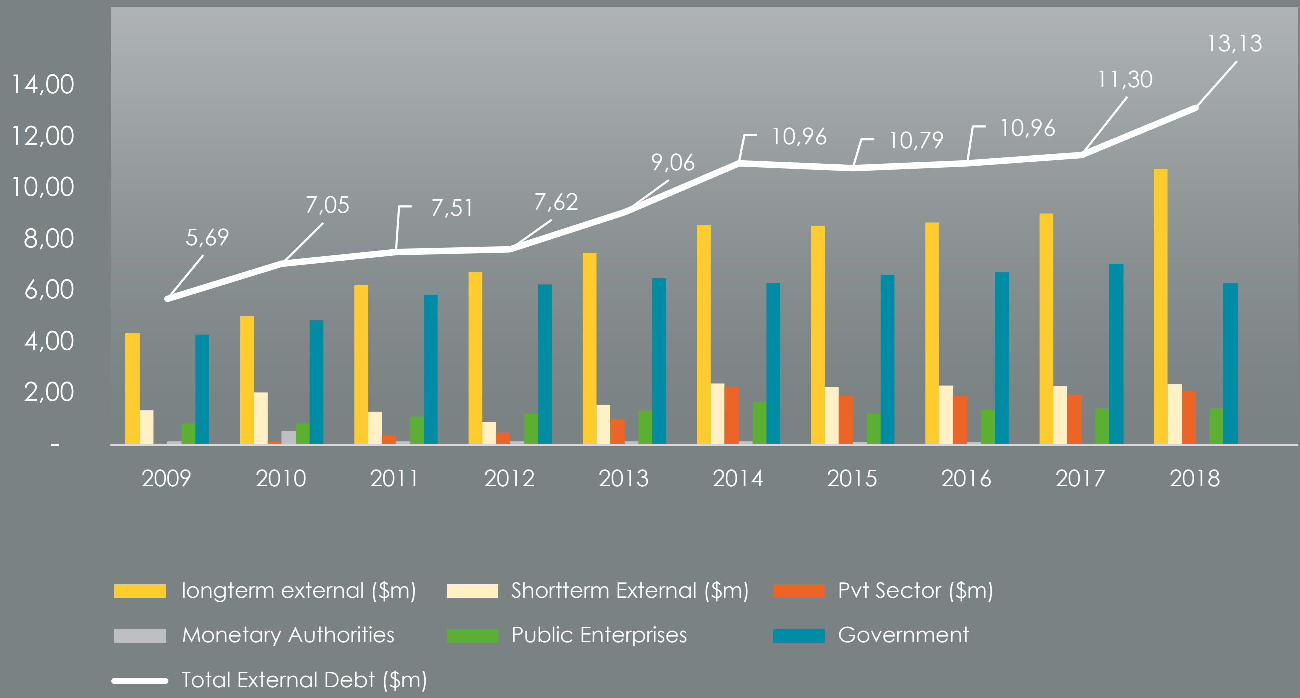
   The debt crisis is an affront to democracy, for instance the US$700m Rhodesian debt (It would have ballooned to US$2 billion in 39 years).
3. A huge chunk of the debt is a result of high-level corruption and bad governance, ie the offloading of elitist debts onto the shoulders of taxpayers. The government adopted the Reserve Bank of Zimbabwe debt of US$1,35 billion in August 2015 through the Reserve Bank Debt Assumption Bill. This worsened the debt burden on the taxpayer.
4. The Resource Curse: governments should be cautious when borrowing on the basis of unrealistic mineral projections as they do not control international commodity prices.

FACT FILE

Zimbabwe's official public and publicly guaranteed debt rose from US$7,01 billion in 2010 to US$12,38 billion in 2015 then US$17,69 billion as of August 2018 as reported in the 2019 National Budget Statement which was announced in November 2018. However, the quantum of the debt is in dispute. The Parliamentary Portfolio Committee on Public Accounts, chaired by former Finance Minister Tendai Biti, has written to current Finance Minister Mthuli Ncube directing him to disclose the true extent of the debt. The committee cited several examples of external debts which were improperly classified as domestic debts, for instance China Nanchang Engineering, China International Water and Electricity, Reserve Bank of Zimbabwe (Ziscosteel/Dutch), MotaEngil, Hwange Colliery Company Limited Creditors, and the Trade and Development Bank (formerly PTA Bank) debts.

- Total Official Debt: US$17,69 billion (November 2018)
- Official External Debt: US$8 billion
- Official Domestic Debt: US$9,69 billion
- Undeclared Land Debt: US$10 billion
- Estimated External Debt: US$13 billion (see graph below)
- Estimated Chinese Debt: US$1,49 billion
- Estimated Afreximbank Debt: US$1,25 billion
- Estimated Total Debt: US$35 billion.

External Debt (US$bn)



The graph shows the rise in Zimbabwe's debt stock.

GROSSLY UNDERSTATED DEBT

The Southern Africa's debt Conundrum investigation can exclusively reveal that Zimbabwe's official national debt—which had reached US$17,69 billion as of August 2018—is grossly understated to the extent that it does not factor in the billions of dollars owed to thousands of commercial farmers whose land was expropriated by the government in a fast-track agrarian programme at the turn of the millennium.

A fierce stand-off with Western governments has seen the sovereign debt ballooning to unsustainable levels. Robert Mugabe's government simply stopped honouring the country's obligations to international financiers, denouncing what he viewed as imperialist machinations aimed at reversing Zimbabwe's agrarian revolution.

Zimbabwe's government has emphasised it will pay compensation only for "improvements" made on the farms and not on the acquired land. However, the matter is still shrouded in controversy, not least because President Emmerson Mnangagwa on April 14 2019 announced that his government will compensate only "old white farmers" and not "those who are fit". The controversy did not end there. Mnangagwa, in an assertion replete with echoes of Mugabe's fiery anti-imperialist rhetoric, said Harare wants the British government to help out in mobilising the money for compensation.

The country's Constitution—adopted in 2013 after years of tough bargaining between the governing Zanu-PF and the opposition MDC—codified the farmers' right to compensation, but only for improvements made on the land.

In the 2019 national budget announced in December 2018, the government said it had allocated US$53 million for compensation. But on April 13 2019, the government, through a joint statement by the ministries of Finance and Agriculture, altered the compensation purse's currency to the local Real-Time Gross Settlement dollars. This effectively eroded the quantum from the initial US$53 million to US$11,7 million based on the prevailing parallel-market exchange rate of US$1 toRTGS$4,50.

A joint committee comprising former commercial farmers and government officials—which would not comment on the record owing to the sensitivity of the undertaking—has been computing the value of improvements made on the farms.

After much probing, our investigative team located two officials privy to the farm evaluation process, who shared exclusive insights.

The Commercial Farmers' Union (CFU), the main representative body of dispossessed white farmers, has put the number of farmers who are entitled to compensation at 3 500, although the government says by May 20, 2019 only 935 ex-farmers had registered. These farmers are still holding on to 5 000 title deeds for tracts of land of various sizes, scattered all over the country, ranging from what used to be large-scale cattle ranches to highly mechanised export farms.

Our investigation reveals that, contrary to President Mnangagwa's assertion that US$3 billion is needed to compensate the farmers for improvements, the amount is much higher, with CFU director Ben Gilpin putting it in the region of "at least US$10 billion". Independent assessors have said this amount is accurate. In addition to the US$5,6 billion for improvements, the farmers argue that they are also entitled to a further US$3,5 billion for the land itself. They want an additional US$900 million for "intangibles" such as trauma.

A source privy to the valuation committee explained: "The US$5,6 billion is for improvements. Land itself is US$3,5 billion. Intangibles such as trauma amount to US$900 million. The total is about US$10 billion. The government will not accept the US$3,5 billion for land; they will likely prefer a much watered down amount for improvements only."

The highly reliable source added: "But the US$5,6 billion excludes interest. That interest is now above this principal and so the indications so far are that the farmers will not claim the overdue interest. If they claim the interest, it could be around 5% per annum, which is close to IMF concessional lending rates."

A major headache has complicated the government's attempt to play hard ball with the dispossessed farmers in the valuation discussions. Zimbabwe's fast-track land redistribution programme was chaotic and often violent. This means the authorities do not have reliable records on land allocation and farm infrastructure—posing serious complications for ill-equipped bureaucrats who have found it difficult to rebut the robust arguments of well-informed farmers' representatives in meetings.

"Government does not have the capacity to do a proper evaluation of farm improvements as the authorities are trying to do the valuation, over a decade after the farms were forcibly acquired. The government officials will have to work with a valuation consortium contracted by white farmers. The consortium has an impressive database for over 90% of the farmers, tracking changes on each and every acquired farm since 2000. The white farmers clearly have an upper hand in the discussions."

Taking into account the implications of the constitutionally-stipulated compensation to white farmers, there is no doubt that Zimbabwe's national debt is grossly understated. In that connection, the national debt has effectively ballooned by a further US$10 billion, at the barest minimum.

Finance Minister Mthuli Ncube says some of the farmers have since consented to the "interim payment scheme". In 2019, a total of ZW$68 million (about US$3 million, as at November 20, 2019) was paid out to the farmers. Treasury has budgeted a further ZW$380 million (about US$17 million) for interim compensation in 2020. But according to the ex-farmers' representatives who spoke to our investigators, these amounts are just a drop in the ocean, although they do send an important message symbolically, namely that the Zimbabwean government now somewhat appears willing to acknowledge that property rights are vital.

Janet Zhou, executive director of the Zimbabwe Coalition on Debt and Development (ZIMCODD), an economic and social justice coalition, told our investigative team at a debt conference in Harare that civil society has agonised over whether to take into account the farm compensation issue whenever computing the national debt.

A BRIEF HISTORY

A country that inherited a US$700 million debt from the Rhodesian settler regime at independence in 1980 is now reeling under severe debt distress, which has become a massive impediment to economic development and social progress.

Towards the end of the 1970s, as the minority government faced the prospect of losing a protracted civil war, it resorted to heavy borrowing to fund the military. Defence spending rose from 20% of the national budget in 1975/76 to almost 50% in 1978/79.

At the turn of the millennium, 20 years after the country's independence, a similar trend emerged when President Robert Mugabe—cornered by economic turmoil amid a rising tide of opposition to his controversial rule—resorted to unworkable fiscal policy characterised by the printing of money and other unsustainable methods of deficit financing.Fiscal indiscipline is a major problem in Zimbabwe and is at the core of the unravelling debt overhang. Auditor-General Mildred Chiri, in the 2018 audit reports for government departments and parastatals released on June 28 2019, reveals that the government last year overspent by more than US$2 billion without seeking parliamentary approval.

WHAT IS THE PROBLEM?

On a sunny winter's day in Harare's leafy Belgravia suburb on June 6 2019, Patrick Amir Imam, the International Monetary Fund's resident representative in Zimbabwe, participated in a lively public discussion on the country's efforts to salvage a shattered economy.

The former Credit Suisse investment banker, who holds a PhD in economics from Cambridge University, presented a paper explaining how Zimbabwe—which he described as the most spectacular collapse of an economy outside a war zone until Venezuela inherited the mantle recently—now had an opportunity to chart a path to recovery. A newly launched IMF Staff-Monitored Programme, he said, would dovetail with the government's Transitional Stabilisation Programme to help propel much-needed economic reforms.

His technocratic appraisal of the Zimbabwe crisis sounded overly optimistic, prompting the other discussants—University of Zimbabwe economics Professor Tony Hawkins and the director of a left-leaning economic policy think-tank Dr Godfrey Kanyenze—to fall short of dismissing him as rather naive.

Soon enough, the IMF official conceded: "You're absolutely right; the fundamental problem in Zimbabwe is political and not economic. The economy reflects the underlying problems."

He said it is vital to ensure that both economic and political reforms "have to go simultaneously and not sequentially".

"Hopefully, sometime next year, the debt of Zimbabwe will be restructured. Then the IMF can give a lot of money to Zimbabwe, as can all the international institutions like the World Bank or the African Development Bank. But as long as the [US$2,6 billion] arrears situation is not cleared, we're all blocked. And if the country is blocked by international financial institutions, it also makes it very hard for the private sector to invest (in Zimbabwe)."
Imam emphasised that the key to unlocking the economic situation in Zimbabwe is to ensure that the country's US$2,6 billion arrears to the World Bank (US$1,3 billion), African Development Bank (US$680 million) and European Investment Bank (US$308 million) are cleared by next year. However, there is no miracle cure.

The IMF official warned: "We must make it very clear that the economy is not going to grow in the next two years; the economy is going to stabilise in the next two years."

Imam singled out fiscal indiscipline as a major source of economic turbulence and the ballooning of the national debt.

"From 2015 onwards, the government started running bigger and bigger deficits, and those deficits were financed by printing money. This is the genesis of the problems we're facing now. It all came to a head in 2018," said Imam.

Looking back at Zimbabwe's independence in 1980, Imam observes: "When

Sectorial Contribution to Debt: %

Source: Reserve Bank of Zimbabwe

The graph above shows the sectoral contribution to Zimbabwe's debt stock. The government is the biggest contributor, the result of unsustainable deficits.

we got our independence in 1980, we were a middle-income country with low debt. Nowadays, we're a low-income country with high debt."

The IMF resident representative traced the history of the economic collapse.

"Since 2001, we've become a pariah state in the eyes of financiers. We've been in arrears since 2001 and you should not underestimate what it means for the financial standing of Zimbabwe. What it means is that, since 2001, multilateral financial institutions such as the IMF, the World Bank and the African Development Bank have had big problems giving money to Zimbabwe. The same applies to bilateral donors. Since 2001, very little money has flowed into the country," said Imam.

Former Finance Minister Tendai Biti described the IMF's optimistic appraisal of Zimbabwe's economic recovery efforts as "an attempt to put lipstick on a crocodile". He was making an oblique reference to President Emmerson Mnangagwa, nickname, "the crocodile".

Martha Mugweni, a senior official on the Ministry of Finance's debt management desk, has explained why Zimbabwe cannot avoid talking to the IMF.

"The structure of the Zimbabwean debt is such that when you're talking of the multilaterals and the Paris Club, we're forced to work with the IMF. We have no choice, unless we can get our own resources. But using our own resources is a challenge. Though we have talked of mineral resources, they're underground, we still need somebody to dig out those resources, give us cash and pay them, which we have not managed to do because of our other fiscal challenges."

In November 2016, Zimbabwe controversially used an allocation of Special Drawing Rights (SDR) from the IMF to clear arrears amounting to US$107,9 million to the same Bretton Woods institution.

"We had to use the SDR, because in terms of international best practice the IMF is called a preferred creditor and if you have arrears with the IMF you can talk with nobody because the major countries are the shareholders in those institutions. That is why we ended up using our SDR because it was also affecting technical assistance, which allows the ministry (of Finance) to work properly," said Mugweni.

"We're also a member (of the IMF), there are rules and regulations we have to comply with. We ended up taking the SDR which we had been allocated by the IMF, and the debt we cleared is now allowing us to re-engage with the IMF. They (international financial institutions) work as a team; we still have to talk to the World Bank Group, the African Development Bank and other multilaterals and bilaterals."

FISCAL INDISCIPLINE

Although the finance minister claims that the government is enjoying a fiscal surplus, facts on the ground show that the surplus is a result of increased taxes and an accounting standard that is not reflective of the real situation. There was a sharp rise in both loans to government as well as Treasury Bill issuances from November 2017 which coincided with the time the new government got into office.

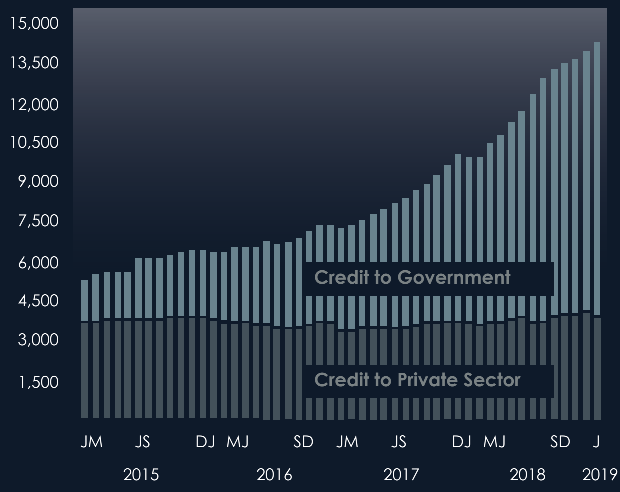
THE DEBT CRISIS BREEDS DESPERATION

Our investigation obtained confidential minutes of the third Zimbabwe-South Africa Bi-National Commission meetings which began on March 11, 2019.

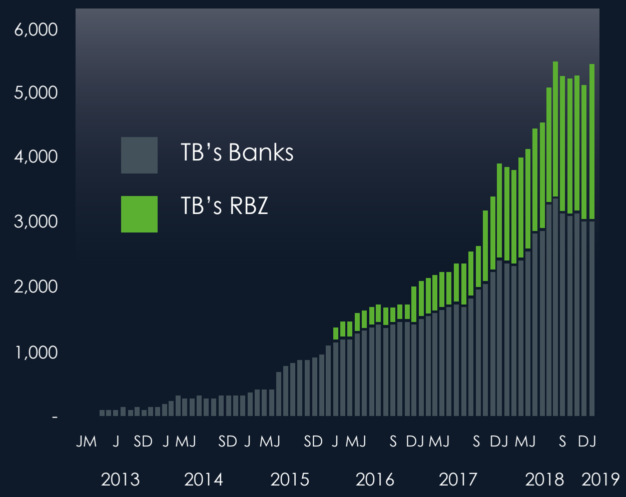
In his opening remarks, President Mnangagwa thanked President Cyril Ramaphosa for creating time in a busy election schedule to visit Harare.

Mnangagwa then lamented the imposition of Western sanctions on Zimbabwe, saying the environment in which the country is operating "is poisoned by the existence of the economic and financial sanctions that have been imposed and are in force against our country and its people. The impact extends beyond our borders".

Credit to Government & Private Sector ($m)



TB's Held by Banks & RBZ ($m)



Source: Reserve Bank of Zimbabwe

The graphs above show, (left), the level of credit to the government, compared to the quantum of credit to the private sector. Clearly, government crowds out the private sector. The graph on the right shows the dominance of the government's borrowing from commercial banks (stock of Treasury Bills held) relative to recourse to the overdraft facility at the RBZ.

What Mnangagwa did not mention is that in 1999—way before the United States and European Union slapped economic and financial restrictions on Zimbabwe—the country was already in default of World Bank and International Monetary Fund loan repayments.

The confidential documents reveal that, in an unprecedented move, the Zimbabwean government has agreed to allow South Africa to sit in official Ministry of Finance (Treasury) meetings to oversee Harare's debt clearance strategy.

For a country that has previously accused South Africa—the regional economic powerhouse—of exercising unfair dominance over the less developed nations of southern Africa, Harare's agreement is astonishing insofar as it portrays a broke government desperate enough to subject itself to Pretoria's economic tutelage and hand-holding.

A Zimbabwean government insider explains how the authorities were cornered into inadvertently compromising the country's economic sovereignty.

"In the bi-national commission meetings, the Zimbabweans asked the South Africans to assist the country in accessing support from international financial institutions. They said Western sanctions were making it tough to get credit facilities. In response, the South Africans said they could only help if they had a clear picture of what is happening in Zimbabwe's economy. Without access to the latest information on Zimbabwe's economy, South Africa would find it extremely difficult to mobilise international support for the country, the South Africans explained," said the insider.

The Zimbabwean government, which has asked for a US$1,2 billion economic bailout package from South Africa, would have found it tricky to turn down Pretoria's request to attend Harare's Treasury meetings.

According to the confidential documents, South Africa will "participate in stakeholders' meetings which Zimbabwe's Finance Minister holds on a regular basis, during which feedback is provided on the state of the economy and policy measures by government".

Officials who spoke to our investigators said the regular meetings, in the initially envisaged format, are not being held. In the meantime, South Africa's Foreign Minister Naledi Pandor spoke out strongly in November 2019 against the economic turmoil in Zimbabwe. Her remarks, although not an obvious departure from the usual quiet diplomacy between the two countries, revealed Pretoria's shift in attitude towards Harare's multi-faceted crisis.

THE CASE FOR A DEBT AUDIT

Deprose Muchena, Amnesty International's regional director for southern Africa, describes the debt crisis as "debt alcoholism".

"We must audit our national debts before we talk of payment of debts," he argues.

Brian Kagoro, executive director of governance and development consulting firm UHAI Africa Group, calls it "debt on steroids".

"The problem of debt is a problem of elite fraud... Much of the debt which the country is accumulating, if it is not meant to keep the politics running, it is meant to keep cronies fat," he notes.

One of the major questions this investigation has had to tackle is: How accurate and reliable are the official data on the public and publicly guaranteed debt?

Although the economists we spoke to did not provide direct evidence of deliberate manipulation of official statistics, doubts abound that the official numbers are not sufficiently comprehensive, hence inaccurate.

For instance, official figures of Zimbabwe's debt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to the African Development Bank vary between US$650 million and US$680 million. The amount owed to the European Investment Bank is variously stated in official communication as US$308 million or US$450 million.

A comprehensive audit would enable the country to compute the correct size of the debt, establish how the loans were contracted in the first place, what the money was spent on, and assist in the formulation of a sustainable debt clearance strategy.

When our investigators asked the University of Zimbabwe economics Professor Tony Hawkins—who has previously served as a Reserve Bank of Zimbabwe board member and World Bank consultant—whether the official debt statistics were accurate and reliable, he responded: "I don't think they're accurate. There is a debt sustainability analysis to be done in the second half of this year by the World Bank and the International Monetary Fund and that will definitely give us more clarity. But I think there's an awful lot of borrowing indirectly—we've heard reports of mining companies borrowing on behalf of government and things like that, so until all that is sorted out we don't know how serious the debt problem is."

Nick Dearden, the director of Jubilee Debt Campaign, whose organisation conducted a detailed study into Zimbabwe's debt crisis, emphasised the link between economic governance and democracy.

"A debt audit is an essential step towards democracy. Democracy includes citizens taking control of their country's wealth and resources and using them to fight poverty and inequality in their country. A debt audit forms a step in that process of taking control."

GOVERNMENT'S DEBT CLEARANCE ROADMAP

Zimbabwe's previous Finance Minister Patrick Chinamasa steered through an arrears and debt clearance plan known as the Lima Arrears Clearance and Debt Resolution Framework in 2016. His predecessor at Treasury, Tendai Biti, had piloted an IMF Staff-Monitored Programme. Chinamasa's Lima plan failed due to the government's failure to fulfil its own economic reform roadmap. This inhibited the country from accessing new lines of credit and also hampered the private sector from getting offshore funding.

The Lima plan was intended to lay out the framework for Zimbabwe's payment of US$1,8 billion owed to the World Bank and the African Development Bank—the so-called preferred creditors. But the Lima plan came unstuck, and analysts cited the government's own shortcomings and failure to implement a sustainable economic stabilisation and recovery strategy, usurious interest rates, costly mortgaging of mineral resources, and the lack of political will to embrace far-reaching structural reforms.

The incumbent Finance Minister Mthuli Ncube, who holds a PhD in mathematical finance from Cambridge, describes it as a 4-step process:

1. Produce a credible economic and political reform agenda, the Transitional Stabilisation Programme, which runs from October 2018 to December 2020. This plan was accepted in Bali, Indonesia, at an IMF and World Bank meeting.
2. Get onto the IMF Staff-Monitored Programme (SMP) May 15, 2019 to March 15, 2020.
3. Get a US$1,2 billion bridging loan (concessionary funding), to be obtained via the Group of 7 (G7) countries, to enable Zimbabwe to clear arrears to the World Bank and the African Development Bank, and unlock critical capital for the financial services sector.
4. Focus on Zimbabwe's US$2,7 billion debt to the Paris Club and non-Paris Club creditors (US$700 million). Ncube says he has managed to convince 2 "credit partners" in the Paris Club to champion Zimbabwe's debt-clearance roadmap, but for this to happen the country must first deliver on the IMF's SMP debt clearance targets.

COMMERCIALISED MILITARY

Zimbabwe's military is a very powerful entity and its influence can also be felt in the economy. The army operates a web of secret companies that are into mining, agriculture, state tenders and various other sectors. When the financial deals perform well, the taxpayer rarely notices; it is only when the military's overreach into economic activities backfires that the taxpayer is then forced to pick up the tab. Evidence of this abounds in the mining sector, for instance, where the taxpayer has had to pay for the excesses of the military. This contributes to the national debt.

Defence Forces Holdings (Pvt) Ltd, a shadowy entity whose name you will not find in the Companies Registry of Zimbabwe, enjoys significant shareholding in many commercial ventures.

Nowhere in the Defence Act is the military empowered to mine gold, platinum and diamonds. But the Defence Forces Holdings, controlled by a clique of generals and connected politicians, does exactly that. Opaque deals in the mining sector are a vital component of the country's Resource Curse, itself a noteworthy piece in the public-debt jigsaw puzzle.

Peter Chimboza, chairperson of the board of the state-run Zimbabwe Mining Development Corporation, in November 2018 made a telling submission to lawmakers when he appeared in Parliament for an oral hearing. His statements largely went unreported.

Our investigation can reveal that he told Parliament that the army has a 30% stake in Great Dyke Investments (GDI) Limited, through Old Stone, one of the military's special purpose vehicles. GDI has been trying to mine platinum in Zimbabwe since 2008, with just about nothing to show for its efforts. Afromet, a Russian outfit, owns 50% of GDI, despite the indigenisation law which—until this year— prohibited foreign entities from owning more than a 49% stake in local firms.

Old Stone, the army's special purpose vehicle, has directors including the permanent secretary in the Ministry of Defence and top generals. The company has won many tenders—even in situations where it is unclear how the entity plans to finance those tenders.

In eastern Zimbabwe's Marange area—where former president Mugabe revealed that diamonds worth US$15 billion were looted—the military through its wholly owned subsidiary Matt Bronze enjoyed up to 40% shareholding in Anjin, a joint venture with Anhui Foreign Economic Construction Group (Afecc), a vital cog in the Chinese government's state-driven capitalism. Another leading diamond company during that time, Mbada Diamonds, had many army officers in its fold. The military also had an interest in Jinan Diamond Mining Company, an entity which hit the headlines after being investigated for externalising over US$585 million from Zimbabwe. Despite the efforts of journalists who uncovered astonishing detail of illicit financial flows, the investigation fizzled out—and Zimbabweans attribute this to the military connection.

Another mining firm which was kicked out of Zimbabwe's highly militarised diamond fields in February 2016, Diamond Mining Company (DMC)—a 50-50 joint venture between Dubai-based Pure Diam and the state-run Zimbabwe Mining Development Corporation—has successfully sued the government in the High Court in a bid to recover US$14,5 million for lost business. DMC said it was mining 45 000 carats per month before Mugabe's government abruptly evicted all the 7 diamond companies in eastern Zimbabwe. DMC says its expensive mining and sorting equipment was stolen. After accusing the government of disregarding the court order, DMC's lawyers have since filed another application for the seizure of diamonds worth US$14,5 million belonging to the state-run Zimbabwe Consolidated Diamond Company.

Ultimately, this liability will become the responsibility of taxpayers, adding to the national debt.

Under sustained pressure from the Chinese government which is unhappy over the eviction of Anjin from the Marange diamond fields and facing a lawsuit estimated at US$200 million, the Zimbabwean government has now allowed the Chinese company to resume mining. But the Chinese government says the Zimbabwean government is liable for all the losses, which means Harare must eventually compensate Anjin. Not only that, Mbada Diamonds, the biggest of the 7 mining companies that were evicted, has won court orders against the government. The South African-based and Mauritian-registered shareholders are demanding compensation, potentially in excess of US$1 billion.

Army special purpose vehicles and other shadowy companies linked to the military have been used for political agendas. Some were used to facilitate the importation of ruling party campaign T-shirts and other regalia during the 2013 national elections.

These examples highlight the manifestation of military commercialisation in Zimbabwe. Most of it happens behind a thick veil of secrecy. That means there is little transparency or accountability. Analysts say where there is opacity, anything can happen.

Secondly, this commercialisation is highly elitist. It involves the military top brass, senior politicians and their cronies. Even then, it seems only a few big guys are in there. The money from these opaque deals does not flow to the rank and file and there is no evidence of institutional gain. There is also a growing realisation that since the military now owns commercial vehicles which are not subjected to Parliament's oversight and scrutiny, they can secretly acquire debt, burdening the taxpayer.

THE CONGO (MIS) ADVENTURE

In 2002, the United Nations released a detailed account revealing the involvement of the Zimbabwean military in the murky exploitation of lucrative mineral resources during the civil war in the Democratic Republic of Congo (DRC). The DRC war, in which 9 African countries and around 25 armed groups participated, was one of the major early factors behind the ballooning of Zimbabwe's debt.

Ex-Finance Minister Simba Makoni, a former executive secretary of the Southern African Development Community, said the country had spent more than US$200 million in its DRC adventure by early 2000.

"Since joining the war in August 1998, Zimbabwe spent ZW$260 million (US$5,2 million) in its first five months, ZW$3,9 billion (US$78 million) in 1999, and ZW$6 billion (US$120 million) in the first six months of this year (2000)," Makoni said. "This brings a total so far this year of a little over ZW$10 billion (US$200 million) on this operation," he added.

Official sources told our investigators that the Zimbabwean government has been demanding compensation totalling US$1 billion from the DRC authorities for expenses emanating from the Great Lakes war between 1998 and 2002. Following the exit from office of President Joseph Kabila—whose father Laurent was dramatically rescued from marauding militia groups by the Zimbabwean, Namibian and Angolan militaries—Kinshasa is now unlikely to pay.

BANKING SECTOR ROT

Political elites in Zimbabwe get their funding from banks and then manipulate these financial institutions to place the repayment burden on the shoulders of taxpayers.

When Zanu-PF benefactor Roger Boka's United Merchant Bank collapsed in the 1990s, the government took over its debt. Boka attributed the bank's catastrophic failure to government agencies and senior politicians who borrowed from his bank but never paid back. The direct sources, compounded by the ensuing contagion which left other banks and companies exposed, was estimated at R1 billion in 1999.

In recent years, when it became clear that banks were imprudent in managing risks and faced rising non-performing loans, the government introduced the publicly funded Zimbabwe Asset Management Company (ZAMCO), a vehicle to cleanse the balance sheets of banks and other troubled companies in July 2014. A total of US$1,13 billion was added to public debt.

There is a growing tendency in the banking sector for some wayward investors to establish a bank and throw the corporate governance book out through the window. Zimbabwe has a history of banks collapsing due to corruption while fat-cat executives walk away cash-rich without ever being prosecuted.

In 2003, the government created the Deposit Protection Corporation (DPC) whose aim was to ensure that depositors were hedged against the unscrupulous activities involving investors licensed by the Reserve Bank of Zimbabwe (RBZ) under the Banking Act (Chapter 24:20). This followed a glum trend where financial institutions were collapsing as depositors lost their hard-earned cash.

There was David Chapfika's Universal Merchant Bank, which was also licensed in 1995, but struggled due to the negative perceptions generated by the adverse effects of the closure of Boka's bank. Chapfika's bank was eventually taken over by CFX which, in turn, ended up being adopted by a group of corporate executives and was renamed Interfin in 1999. Interfin was closed in June 2012 due to a massive hole in its books due to insider loans. Interfin creditors are owed US$155 million. The DPC instituted a probe into the banking fraud, but nobody knows what really transpired and no meaningful action was taken against the directors and banking executives.

The establishment of the DPC raised hopes that government was committed to dealing with financial services offenders decisively and in the interests of depositors. These individuals are laughing all the way to the bank and have not stopped enjoying the benefits of their pillage. They are now buying properties around the world to protect their "investments" yet those who had their money looted — the depositors—are still smarting from the grand theft they suffered. It is common knowledge that financial services collapsed in Zimbabwe due to executives, directors, managers and well-connected politicians taking depositors' funds as insider loans, but never bothered to pay back. This is a typical case of the greedy robbing the poor and doing it with impunity.

In November 2016, the former chief executive officer of the DPC, John Chikura, said they were suing former directors of Interfin for US$136 million. However, no court case has been opened.

Enter ZAMCO. The government said it was bailing out commercial banks by taking over their non-performing loans through ZAMCO, but sceptics said this was just a scam to allow political elites to avoid repaying loans.

This contributed to the spike in government debt. ZAMCO absorbed US$1,13 billion of banks' non-performing loans, the equivalent of 5% of Gross Domestic Product, just to shore up the ailing financial sector.

Martha Mugweni, a director in the Public Debt Management Office of the Ministry of Finance, explained ZAMCO's operations.

"ZAMCO went to the financial sector, took over private debt and they're restructuring the private debt to make it payable and to make it sustainable. They're paying that from the restructured formula they came up with together with the client. So this one (ZAMCO), we are discounting it from our public and publicly guaranteed debt. We are still discussing, so when we remove that, our total debt as at end of December 31 2018 will be US$16,6 billion, not the one we reported in August 2018." At the time of our investigation into Zimbabwe's debt crisis, ZAMCO's US$1,13 billion was still part of the public debt.

Tinashe Kaduwo, an economist with vast experience in the banking sector, told our investigators that it is wrong for the government to continue burdening taxpayers with the failings of the financial services sector.

"There is a legal, moral, ethical and philosophical issue arising from all this. Why should ordinary citizens pay the costs—in terms of higher taxes—for the failings of the financial sector?" asked Kaduwo.

Public officials have refused to reveal the beneficiaries of this billion-dollar largesse, despite Parliament's demand, in March this year, for this information in the public interest. The Southern Africa Debt Conundrum investigation sought to uncover the beneficiaries and here are some of our findings:

1. Cottco Holdings Limited US$56 million
2. Star Africa Corporation Limited US$32 million
3. RioZim Limited US$30,2 million
4. Cairns Foods
5. Border Timbers
6. Cold Storage Company
7. Radar Holdings Limited
8. Windmill Limited
9. Africom
10. The Wattle Company
11. Turnall Holdings Limited
12. Willowvale Motor Industries
13. David Whitehead Limited

Other Debt Assumption Schemes:

1. Zimbabwe Iron and Steel Company US$500 million
2. Air Zimbabwe US$387 million
3. TelOne US$383 million
4. Hwange Colliery Company Limited US$170 million


PLEASE GIVE US THE NECESARY EQUIPMENT (TOOLS) TO ENABLE US TO DO OUR JOB !!!
We want to Operate
PLEASE GIVE US GLOVES

COMMAND AGRICULTURE

Command Agriculture began as a special programme to boost maize production. Traditionally, Zimbabwe was known as the breadbasket of Africa, in recognition of its prowess in farming.

But since the turn of the millennium, the agricultural production has been undermined by, among other factors, poor funding and discredited policies.

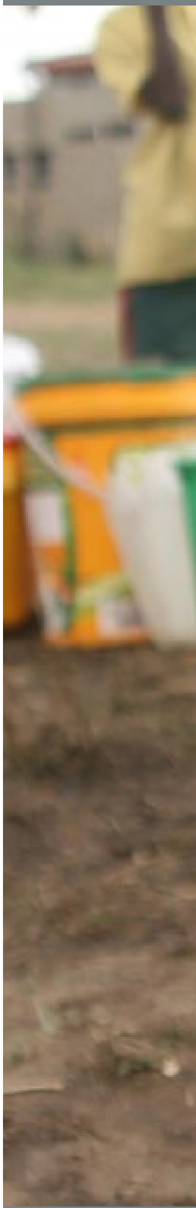
Command Agriculture is a maize production scheme meant to achieve import substitution.

The farmers the government was looking at are those with 200 or more hectares with good water sources. The farmer should be willing to commit 5 tonnes per hectare of maize towards the repayment of loans advanced. Any surplus above 1 000 tonnes harvested is for the farmers' personal use as they see it fit. Concessionary rates that cover the period from land preparation to harvest are being offered. Payment of the loans is from the off-taker. The stakeholders provide their products and services and only get paid after harvesting and delivery to the off-taker. In terms of value chains, input manufacturers, including irrigation equipment, fertiliser, fuel, chemicals, electricity and water are also part of the financing model.

On May 29 2019, Finance Minister Mthuli Ncube said the government has recovered US$50,2 million from Command Agriculture beneficiaries, out of the US$520 million loaned out in the past 3 years.

Subsequently, officials from the Ministry of Agriculture would tell the National Assembly's Public Accounts Committee that they had no idea how US$2,9 billion disbursed for Command Agriculture was utilised. Nobody had been prosecuted for abusing public funds by the time our investigative report was written, despite claims by the Zimbabwe Anti-Corruption Commission that an official probe had been opened into the matter.

Economic analyst Brett Chulu told our investigative team that Command Agriculture, the state-funded programme under which farmers are allocated farming inputs on credit, has contributed to Zimbabwe's debt burden. Despite distributing agricultural inputs worth millions of dollars last year, the country has been hit by a serious food deficit, with the United Nations warning that 5 million people face starvation.



government assumes farmers' debts. Discarding market allocation mechanisms to farmers has created a moral hazard, hence inefficient farmers are given loans guaranteed by the government—creating yet another source of government domestic debt," noted Chulu.

The 2020 Pre-Budget Strategy Paper of September 2019 shows that while government spending on agriculture had declined from US$196 million in 2014 to US$40 million in 2015, it increased sharply to US$619 million in 2016, US$1.326 billion in 2017 and US$1.098 billion in 2018 (a total of US$3.043 billion during the period 2016-2018). However, despite such levels of intervention meant to boast agricultural production, productivity in the sector remains low with a national average of less than 1 ton per hectare for maize compared to Zambia's 2.5 tons/ha and South Africa's which is above 6 tons/ha (see 2020 Pre-Budget Strategy Paper, page 33). As the Strategy Paper notes, "This low level of productivity is common across all other crops and even livestock production," (paragraph 72, page 33).

In the 2020 Pre-Budget Strategy Paper, government admits that: "Financing for agriculture activities has been a challenge with the burden falling mainly on Government which, to a greater extent, has been contributing to budget deficits. Government financing for commercial agriculture was characterised by abuses by beneficiaries resulting in low recovery rate worsening public finance position," (paragraphs 67-68, page 31). In the 2020 National Budget announced on November 14, 2019, Finance Minister Ncube conceded that the Command Agriculture model was unsustainable. He said the government is abandoning this arrangement and switching over to a private sector financing model, dubbed Smart Agriculture.

CHINESE LOANS

A Chinese diplomat in Harare says Zimbabwean cabinet ministers should be dispatched to boot camp in Beijing to teach them how to draft bankable projects. He laments the fact that, out of the US$60 billion China has earmarked to fund projects proposed by African governments, Zimbabwe is failing to get a meaningful chunk of that money.

Political analyst Ibbo Mandaza says there is a "competence deficit" in the Zimbabwean government.

"From a competence perspective, this is the worst government in Zimbabwe's history," Mandaza emphasises.

China has become the single largest source of foreign direct investment for Zimbabwe. However, efforts by President EmmersonMnangagwa's government to seek a fully-fledged economic rescue package from the Chinese government have been rebuffed by Beijing. Diplomats say Zimbabwe has a terrible repayment record.

In rare public criticism recently, China's then acting ambassador to Zimbabwe, Zhao Baogang, spoke out against the country's chaotic investment rules. Without naming Anjin—a Chinese company which was evicted by the government from a lucrative diamond mining area—Zhao said when the Zimbabwean government "sees a Chinese company making money, it kicks it out".

Chinese debt (US$2,49 billion)

1. US$520 million for Kariba South Power Station extension
2. US$1,2 billion for Hwange Power Station upgrading
3. US$250 million owed to Huawei for TelOne's fibre optic
4. US$200 million for NetOne's mobile network base stations
5. US$70 million for City of Harare water project
6. US$100 million for building the Defence College
7. US$100 million for health sector
8. US$200 million for agriculture
9. US$55 million tractors for Farmer's World

Tendai Biti, who was Finance Minister during a power-sharing government from 2009 to 2013 and is currently chairperson of Parliament's Public Accounts Committee, says Zimbabwe owes China more than US$2 billion in loans that have not been factored into the official debt statistics.

"There is a malignant cancer that is spreading in the spine of the Zimbabwean economy, and that cancer is hidden debt and grey debt."

Some of the Chinese loans were contracted illegally because parliamentary approval was never sought, he argues. He recalls an incident involving a US$55 million debt owed to China. The money was for the purchase of tractors, which were handed over to a private company, Farmer's World, for distribution to "new farmers". The Reserve Bank of Zimbabwe provided the guarantee. Biti says he refused to service the loan, arguing that it was contracted illegally.

However, most of the loans have not been repaid.

RBZ DEBT ASSUMPTION

In 2015, the Reserve Bank of Zimbabwe (RBZ) Debt Assumption Act was promulgated. Under the controversial law, the government forced taxpayers to inherit a US$1,35 billion debt.

The then Minister of Finance, Patrick Chinamasa, told Parliament on July 30 2015 that the central bank debt assumption arrangement alone would increase Zimbabwe's debt service burden by US$300 million per year.

The US$1,35 billion was owed by beneficiaries of a corruption-tainted farm mechanisation programme, many of them senior officials of the ruling Zanu-PF.

Civil society groups complained that the central bank had no business dabbling in quasi-fiscal activities—including a discredited scheme for the supply of highly subsidised basic groceries amid the accelerated printing of money—which ballooned the national debt and plunged the country into a hyperinflation spiral. Instead of enforcing payment for the equipment, the government passed a law that saw the taxpayer inheriting the massive debt.

Economist Godfrey Kanyenze, who was a member of the RBZ board until 2013, says it was wrong for the government to burden taxpayers with a clearly odious debt that could have been paid by beneficiaries of the farm mechanisation scheme, who are all known.

"They (elites) couldn't make themselves pay because of the culture of entitlement. When I was on the board of the central bank, we were given the guarantees by Gideon Gono (the then RBZ governor) that they had a list of everyone who benefitted," Kanyenze told our investigators.

Did the state-funded tractors, farm inputs and diesel go to political elites for free?

"Yes, basically that's why you saw that they (the central bank) could not even follow-up because it was them and that's why they couldn't even deal with corruption," remarked Kanyenze.

Now that the government is talking of placing more debts on the shoulders of taxpayers, Kanyenze says this is problematic.

"That's a mess. You're not coming up with justice. What happened in all these parastatals? People looted, but no-one has been brought to book. Mildred Chiri, the Auditor-General, has brought out all these things every year in forensic audits but no-one implements."

Prof Hawkins, who was also a board member at the RBZ until 2013, said the board was misled by the central bank's management that beneficiaries of farm equipment would be made to repay.

"I was with the RBZ at the time and I can tell you that we were given all these assurances that an audit was being done and that people would be pursued. But then, of course, because of the politics, it just couldn't happen," said Hawkins. During the tenure of the Inclusive Government, Parliament had refused to pass the Debt Assumption Bill.

Martha Mugweni, a senior official on the Ministry of Finance's debt management desk, has defended the RBZ Debt Assumption Act, saying: "As government, we are given law by parliament. So those laws we only took them from parliament and we are implementing them, so whatever we're doing, we're doing in terms of the Acts approved by parliament. Our mandate as a ministry is just to implement laws given by parliament."

The US$1,35 billion is not the only odious debt the Zimbabwean taxpayer has been forced to inherit by the government.

Deficit financing has been a major source of debt for Harare. From January 2018 to August 2018, the government issued Treasury Bills totalling US$2,5 billion. The government's overdraft facility at the RBZ stood at US$1,4 billion by the end of August 2018, illustrating gross fiscal indiscipline and blatant violation of the Reserve Bank of Zimbabwe Act which stipulates that government borrowing must not exceed 20% of the previous year's revenues.

In terms of the same Act, public debt must not exceed 70% of gross domestic product (GDP). GDP stood at US$20,5 billion, meaning the debt, at 87% of GDP at that material time, was above the statutory limit. GDP was later re-based to US$25 billion.

"We agree that the continuous accumulation of arrears is not sustainable. In terms of moving forward, we need to remove that in our books, and the challenge in Zimbabwe, as we speak, is that almost 100% of our debt is in arrears. When we say 'arrears', we mean the debt has to be paid today, hence the need to come up with an arrears clearance strategy," said Mugweni.

PARLIAMENT'S ROLE

When Zimbabwe had a robust parliament during the era of the power-sharing Government of National Unity (GNU) from 2009 to 2013, the legislature played its oversight role effectively.

In 2013, public and publicly guaranteed domestic debt stood at US$295 million. Analysts say that since 2013, under a Zanu-PF parliamentary majority where checks and balances are weak or virtually inexistent, the official domestic debt shot up to US$4 billion as at 31 December 2016, to US$7.1 billion as at end of December 2017 to the official level of US$9.5 billion as at August 2018.

On paper, the national Constitution, which came into effect in 2013, empowers parliament to play a vital oversight role in the management of public debt.

Chapter 17, section 300 4(a)(b) of the Constitution stipulates that the minister of finance must, at least twice a year, report to Parliament on the performance of: (1) Loans raised by the state, and (2) Loans guaranteed by the state. This is not being done.

This function—enabling the legislature to limit state borrowings, state guarantees and public debt—is supposed to be exercised through parliament's Public Accounts Committee, which derives its powers from section 300 of the Constitution.

In reality, though, Zimbabwe's parliament is not only a rubber-stamping mechanism but is not consulted by the executive arm of government on matters of public debt management.

Zanu-PF member of parliament Felix Mhona, who chairs the committee on Budget, Finance and Economic Development, admits that the "whipping system" has eroded the legislature's oversight role.

"We (MPs) come from different political parties. At the end of the day the question is: Am I serving my master? We have to feed our families," Mhona concedes.

Economic analyst Brett Chulu says fiscal indiscipline "is the main driver of the government's domestic debt".

"Government domestic debt was virtually zero at the close of the Government of National Unity in 2013. Budget deficits, from 2013, post-GNU, were financed through Treasury Bills and bonds."

Nigel Chanakira, a prominent banker and former chairperson of the Zimbabwe Investment Authority, says parliament must play a key role in ensuring the proper management of public funds.

"Pensions and savings have lost value. We cannot continue accruing arrears, we cannot continue accruing loans. We have a nation that is carrying a huge debt. Parliamentarians have got to step up to the plate and come up with sustainable solutions," adds Chanakira.

THE CURIOUS CASE OF AFREXIMBANK

The Zimbabwean government has been very secretive in its dealings with the Cairo-based African Export-Import Bank (Afreximbank).

In violation of the national Constitution, the government has continued contracting foreign debts without the authorisation of Parliament.

Section 327 (3) of the Constitution forbids the government from entering into agreements which impose fiscal obligations on the country without Parliament's express authorisation.

Our investigation reveals that Afreximbank has extended loans totalling US$1,25 billion to Harare in the last year alone.

The Ministry of Finance has ensured that the finer details of these loan deals are kept a closely guarded secret.

Our probe reveals that these financial deals are in the form of structured loans. The opaque external loans are collateralised by mineral exports and tobacco exports.

Gene Leon, who led an IMF mission to Zimbabwe from April 1-5 2019, warns that these controversial loans could complicate the country's future efforts at attaining debt sustainability.

Former Finance minister Tendai Biti says it is puzzling how a bank with a US$2 billion balance sheet can lend US$1,2 billion to a single country within a year.

It emerges that last year the government borrowed US$641 million from Afreximbank. Parliamentary approval was not sought. Last year alone, Harare borrowed US$985 million in total from African regional banks. These loans were not approved by lawmakers. In May this year, the government borrowed an additional US$500 million from Afreximbank through yet another structured loan. Again, parliamentary approval was not sought.

The government says the US$500 million loan is meant to help stabilise the currency market. Sources say Afreximbank agreed to the structured loan after Harare offered platinum production as collateral.

Constitutional law experts have described the debts owed to Afreximbank as odious, illegitimate and invalid.

But Finance Minister Ncube says there is nothing wrong with the Afreximbank loans.

"Our job as a borrower is to borrow and we can be turned down or accepted. I am happy to say, on this occasion, they (Afreximbank) have accepted our request to lend us and we are very pleased that they were able to do so. This will go a long way in assisting Zimbabwe," argues Ncube.

Prof Hawkins says it is not a good idea for the gov-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ernment to contract loans from Afreximbank without parliamentary approval.

"It isn't a good idea, that's the first point. The second point is that one wonders about Afreximbank taking on so much debt from one particular borrower. That's their problem, not ours."

SCOURGE OF CORRUPTION

Every year, Zimbabwe's Auditor-General, Mildred Chiri, releases a report revealing the poor corporate governance, corruption and mismanagement of state-owned enterprises. Although these reports are in the public record, action has rarely been taken against those implicated in the malfeasance—which has engendered a sense of impunity among the senior managers and board members who run parastatals.

Resultantly, parastatal losses have more than doubled and most of the entities—70% of all state-owned enterprises—are technically insolvent. In the 1980s and 1990s before corruption became endemic, these companies and agencies used to play a pivotal role in economic development, accounting for up to 40% of Gross Domestic Product, but their strategic contribution has been whittled down to less than 10%.

The Auditor-General announced in the 2017 report that 23 out of 92 state-owned enterprises were teetering on the verge of collapse due primarily to corruption, cronyism, political meddling and mismanagement.

The viability of parastatals is a constitutional stipulation in Zimbabwe. Section 195 of the Constitution requires state-controlled commercial entities to conduct their operations so as to maintain commercial viability and to abide by generally accepted standards of good corporate governance.

The Zimbabwe National Roads Administration—a state agency responsible for constructing and maintaining road infrastructure—is a fascinating case study.

Investigations show that more than US$300 million was looted from the parastatal through the corrupt hiring of road maintenance contractors over a 2-year period to 2017. An unregistered company—Bermipools—was paid US$590 000 through dodgy contracts.

In one of the most brazen cases of corruption, senior managers pocketed US$60 000 in "hairstyle allowances". They were each paid US$4 000 to buy personal gym equipment, but went on to receive gym membership allowances. Other benefits included grocery hampers as well as generous allowances for fuel, clothing and entertainment.

Millions of dollars in a total of 59 bank accounts operated by ZINARA have been misappropriated by top officials.

Zimbabwean prosecutors have since frozen the personal assets—valued at US$20 million—of ZINARA's former CEO, Frank Chitukutuku. In line with Asset Forfeiture regulations, they want him to explain in a court of law how he got to amass a vast portfolio of real estate and other assets on an US$8 500 monthly salary.

RESOLVING ZIMBABWE'S DEBT CRISIS

In the 2020 National Budget statement, Finance Minister Ncube conceded: "Total public and publicly guaranteed debt remains unsustainably high, due to the continuous accumulation of arrears, as well as expansion in domestic debt."

On the domestic debt, the government acknowledges that over the years Treasury has been relying on the domestic markets to meet its budget financing needs. Resultantly, the domestic debt has ballooned.

Public and publicly guaranteed debt can be tamed through the following measures:

Domestic Debt

1. Government must stop funding itself through the Reserve Bank, particularly the overdraft facility.
2. No more additional Treasury Bills must be issued for the Zimbabwe Asset Management Company (ZAMCO).
3. The long due restructuring of public enterprises must be speeded up and the Public Finance Management Act must be amended to give Treasury greater control of public spending as well as tightening leakages in revenue losses.

External Debt

The government resumed token repayments to international financial institutions (IFIs) in

April 2019. Treasury says these payments will be continued in 2020. External arrears prevent the country from accessing new funding from IFIs, bilateral financiers and commercial creditors.

Measures needed to tame the external debt:

1. All new external loans should only be contracted through the authorisation of Parliament.
2. A ceiling should be set on the contracting of external debt guaranteed by the government.
3. Targets of the IMF Staff-Monitored Programme, which are meant to assist the government in implementing key reforms as outlined in the government's Transitional Stabilisation Programme, must be met.

Ultimately, the resolution of Zimbabwe's debt crisis will depend on the government's willingness to implement genuine, far-reaching economic and political reforms. Many strategy documents, blueprints and roadmaps have been written. The big problem—as ever—is the disease dubbed "implementisis", the failure to implement agreed plans.

About The Authors

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In his role as an investigative journalist with 20 years' experience, he has previously written extensively on the dramatic discovery and extensive looting of alluvial diamonds worth billions of dollars in the Marange gem fields of eastern Zimbabwe. The detailed investigations—some of them solo probes and others as part of a team of journalists—uncovered a sordid web of illicit financial flows, concocted invoices, brazen gem heists, massive plunder and grand corruption whose sheer magnitude stunned Zimbabweans. The articles have been published in the Zimbabwe Independent and the African Independent, and online platforms among other publications.

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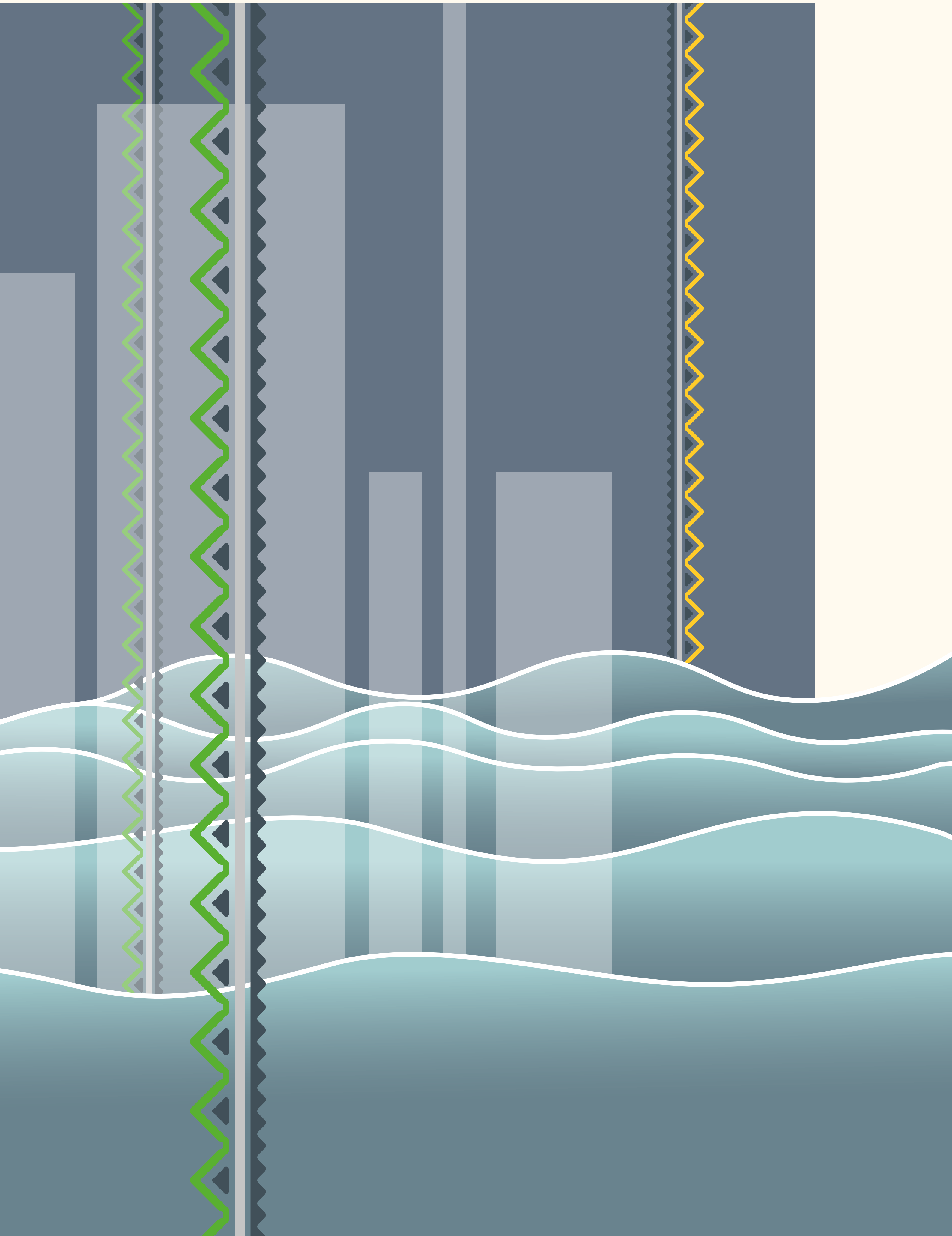

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