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Development Finance, Private and Public Sectors in Zimbabwe: Sustainability or Odious Debt?

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Abstract

This paper reviews the political economy of development finance in Zimbabwe from the late 1980s to the present day, to see where the current sovereign debt arose from. It disaggregates initial private sector development interventions by type, provider, sector and at the firm level, to see how development finance was extended and spent during the structural adjustment era and after. It notes a number of design flaws and problems in development-financed projects and programmes over the period which undermined their later profitability as productive assets and contributed to debt build-up. The paper also notes the effects of poor domestic governance on the productivity of ventures supported. However, the macroeconomic policies within the structural adjustment programme were also a central trigger to the future unsustainability of debt. Also, in the post-2000 period, the deterioration of the debt position has been exacerbated by the Reserve Bank of Zimbabwe, by means of its extensive foreign exchange denominated loans to parastatal corporations, and by its quasi-fiscal activities. Zimbabwe's public sovereign debt can be reduced, and future private sector development policy enhanced, if recourse to expensive and unproductive fiscal interventions, either by international financial institutions or by the Reserve Bank, are avoided.

Keywords: Zimbabwe, Debt, Private sector development, Aid effectiveness, Governance

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1. Introduction

> *'While the people of Zimbabwe have an obligation to pay for debts accrued for infrastructural developments such as roads and hospitals, they should not pay for debts accrued to sustain dictators…'*
>
> Zimonline, 14 February 2008

> *'Mugabe has over the past eight years secured loans from Libya, China and Malaysia as well as from Equatorial Guinea, raising fears that the Zimbabwean leader was mortgaging the country to foreigners…'*
>
> Zimonline, 14 February 2008

The economic and political crisis of the decade of 1998 to 2008 in Zimbabwe is the latest chapter in a post-independence history characterised by processes of extensive and multiple processes of internationalisation within the political economy. Prior to the crisis, a wholesale programme of structural adjustment was carried out. In 1995, Zimbabwe won the accolade of a successful adjuster from the World Bank and International Monetary Fund (IMF), following a five year programme, under which development institutions made many investments in the private sector of the Zimbabwean economy, and provided extensive policy conditionality in regard to the overall market environment.

Many strategic investments in the private sector in Zimbabwe were made in the mid to late 1980s and through the first half of the 1990s by transnational development banks and bilateral development finance institutions, such as the UK-based Commonwealth Development Corporation (CDC), the International Finance Corporation (IFC), the African Development Bank (AfDB) and the European Investment Bank (EIB). Much of the debt now owed by Zimbabwe to multilateral development banks and the Paris Club countries was originally borrowed under the auspices of the Economic Structural Adjustment Programme (ESAP) programme. In this sense, it is pertinent to review the results of these interventions, in so far as economic indicators can be attributed, and in so far as the institutional legacy at the level of the firm can be traced.

This review will be made cognisant of three major issues and processes. First, that this is an historical moment where the issue of the debt burden of Zimbabwe, which largely arises from these historical investments and some other vehicles of budget and balance of payments support made during the ESAP programme, is being renegotiated with the

IFIs in the light of how Zimbabwe is reliquidated internationally. This process is, of course, dependent on the outcome of the current political crisis, but there are numerous indications that since the March 2008 elections, discussions between donors and figures in Zimbabwe are being held. The outcome of this discussion will be of enormous import for the people of Zimbabwe: the result of how much, how soon and to whom debt is to be repaid will affect the wellbeing and international wealth of this and the next generations. To reflect on how much of this debt burden is odious, and on how far it can be seen to have been developmental in the first instance, is thus an objective of this paper, in order to be of use in that discussion.

Second, the vicious circle of increasing international pressures and poor domestic governance, is not one peculiar to Zimbabwe, but has been witnessed by degree in comparative neighbouring countries, such as Zambia and Tanzania. The initial literature on structural adjustment programmmes (SAPs) in sub-Saharan African was predominantly negative, due to the perceived absence of significant new foreign investment flows—despite liberalisation—and because of widespread de-industrialisation attributable to import competition. Local manufacturing industry in structurally adjusting African economies was severely compromised by import liberalisation (see Mwanza, 1992; various essays in Onimode, 1989; on Zimbabwe, Chipika *et al*, 2000; Sachikonye, 1999; Beckman and Sachikonye, 2001). While there are some positive views of the long-run effects of structural adjustment in creating space for private sector entrepreneurs which is less dependent on the political elite for services and favours, perhaps most evinced in the case of Ghana, the more wholesale growth in economies failed to materialise. The minerals-related growth boom of the 2000s can be attributable more to commodity price rises, than to structural features of economies.

The case of Zimbabwe’s debt is more salient now, however, than these other cases, as a consequence of its international isolation in the period since 1997, which has meant its exclusion from most debt reduction initiatives and its consequently more odious debt trap. For example, by February 2007, the UK had cancelled 100 percent of all bilateral debts for HIPCs (highly indebted poor countries) that qualified for debt relief under the Multilateral Debt Relief Initiative (MDRI) (House of Commons, 2007): including its outstanding sovereign claims for Cameroon, Ethiopia, Ghana, Madagascar, Malawi, Niger, Senegal, Sierra Leone and Zambia. The Democratic Republic of Congo, Republic of Congo and Cote d’Ivoire had received ‘full debt flow relief’ and were waiting for ‘full stock cancellation’ once they reach HIPC completion point (HC, 2007: 25). But Burma and Zimbabwe were excluded because they ‘have not been making debt payments’ (HC, 2007: 25). The picture is similar in terms of multilateral debt reduction initiatives.

Third, is that current debates in international development, and private sector development (PSD) in particular, have become busier and more vocal on the efficacy or otherwise of different intervention instruments, and means to affect developing country markets. However, many of these analyses are crude, and reflect only on the efficacy of expenditures in terms of magnitude, or on the type of product 'bought'. For example, a current debate in the African Development Bank over private sector development in relation to infrastructural investments is largely one of magnitude, relative to other means of expenditure, such as in raising capital instruments. Debate more widely also focuses on the 'developmental' value of relative expenditures on hard infrastructure, such as dams and bridges, versus soft money for improving market environments, such as customs and policy (House of Commons, 2008). This case study review will contribute to this ongoing debate about private sector development.

We begin by providing a brief profile of Zimbabwe's debt situation in the post-independence period, and how Zimbabwe sank into a debt trap. We then break this down historically by sector, and review how the initial money was spent, which firms and industries benefited, and what has been the long-run sustainability or otherwise of the assets and equity created. The objective is to assess the efficacy of the lending instruments initially used, and the choice of beneficiaries made, to understand how the debt was arrived at, and with what benefit, or otherwise, in terms of productivity and asset accumulation. We then return to our initial context, arguing that the obligation and moral case for repayment of most of the outstanding debt is weak, and cannot be made in relation to gains made in the long-run in private sector development, for various reasons outlined below.

2. The macroeconomic context and the debt situation

By November 2008, Zimbabwe's economy had undergone a serious decline, with more than 40 percent of GDP wiped off since 2000. Accompanying the contraction was unprecedented hyper-inflation of over 237 million percent by November 2008. Unemployment was over 80 percent, while the formal sector experienced high levels of underutilisation. There was a chronic shortage of foreign exchange, while the debt situation became unsustainable. Development assistance plummeted between 1998 and 2008.The causes and consequences of the economic crisis have been explored elsewhere in greater detail (Bond and Manyanya, 2002; Davies, 2005; and UNDP, 2008).

It is useful to outline how the country's external debt accumulated during the post-independence period. In 1980, the Mugabe government inherited a colonial debt amounting to about US$700 million. This consisted of US$ 594 million of private sector debt, US$98 million of bilateral debt and US$5 million of multilateral debt (Bond and Manyanya, 2002). This debt required about US$65 million in debt servicing annually when the post-independence government entered office. By 1987, debt servicing had spiralled to an estimated 35 percent of export earnings. At the end of Zimbabwe's first decade of independence, external debt had climbed to US$3.24 billion. While the government accounted for 76 percent of this debt, public enterprises owed 18 percent and the private sector some 6 percent, respectively. Significantly, the major lenders were the WB, IMF and AfDB, who were owed 53 percent; commercial finance institutions and bilateral creditors owed 31 percent and 16 percent respectively (Bond and Manyanya, 2002).

However, it was the economic structural adjustment programme (ESAP) that wrought significant quantitative and qualitative change in Zimbabwe's debt situation. There was a scramble for new loans in the new era of economic liberalisation from 1990 to 1995. Beginning with a large US$484 million loan, following the signing of a stand-by arrangement with the IMF in 1991 (Naiman and Watkins, 1999), ESAP absorbed US$3.5 billion in new loans over three years. The new loans proved costlier. It was observed that in the 1992-93 fiscal year interest payments soared 15 percent more than projected, due to exorbitant interest rates and exchange rate movements (Bond and Manyanya, 2002).

Centre for Economic Policy Research data suggest that the structural adjustment programme was a disaster, to the effect that between 1991 and 1996, manufacturing output contracted by 14 percent; GDP per capita declined by 5.8 percent; and total private investment declined by 9 percent in real terms (Naiman and Watkins, 1999). Overall, the effect of ESAP was to increase external indebtedness dramatically, from around 175 percent pre-ESAP to nearly 250 percent of debt stock to exports post-ESAP (IMF 1997, Statistical Charts and Tables; cited in Naiman and Watkins, 1999). Indeed, Naiman and Watkins summarise that in Zimbabwe, 'economic crisis actually followed rather than preceded the implementation of structural adjustment' (1999).

This contractionary result was not unlike the negative effects recorded in comparative countries in sub-Saharan Africa, by the IMF itself, in its 'internal review' of 1997 (IMF, 1997), and more systematically by the team which conducted an 'external review' of IMF programmes in 1998 (Botchwey et al, 1998; both cited in Naiman and Watkins, 1999).

The debt trap

In Zimbabwe, as elsewhere, the conditions for accessing for loans under ESAP related to implementation of neo-liberal economic reforms. At the meetings of Paris Club donors in 1992 and 1993, US$1.4 billion was pledged to Zimbabwe. But the disbursement was often erratic. When the IMF suspended a loan of US$120 million in 1995 because the government had sustained a large deficit, the EU and other donors had followed suit. Several standby arrangements were negotiated with the IMF in the late 1990s, as the country's foreign reserves became dangerously low. In 1998, a standby arrangement of US$53 million was held back, due to the government's price control policy, land reform and its intervention in the Democratic Republic of the Congo (see Bond, 2007: 9). Another standby arrangement of US$193 million in 1999 was allowed only in conditional disbursements, including reference to fiscal consolidation, and orderly return to the donor agreed land reform programme, further privatisation and the removal of price controls (IMF, 1999). According to Bond, a further condition was that tariffs on luxury goods should be removed, as well as price controls on staple foods, effectively removing some small concessions of redistributive policy won from the government domestically (2007: 9). However, just a month later, in September the IMF withdrew this standby credit and relations between the IFIs and Zimbabwe, which had been uneasy through the late 1990s, effectively broke down. But not before an untenable level of debt had been raised: Zimbabwe spent 38 percent of its export earnings on servicing foreign loans in 1998. This was a proportion exceeded in the world only by Brazil and Burundi (Bond, 1997: 9).

The International Development Association followed the IMF lead in October 1999, by suspending all structural adjustment loans, credits and guarantees, and in May 2000 by a suspension of all new lending, and finally in September 2000 by suspending disbursements of loans to ongoing and previously agreed projects (Government of United States of America, 2001: 115STAT 963). The dilemma became sharper in 2001, when the IMF decided that no new loans would be forthcoming for Zimbabwe until certain conditions were met. Zimbabwe was declared ineligible to have access to the general resources of the IMF, due both to its US$53 million arrears and economic policies, while its *de facto* default since 1998 was met by the withdrawal of aid by most other donors (Government of United States of America, 2001: 115STAT 963). For its part, the US government passed the Zimbabwe Democracy and Economic Recovery Act (ZIDERA), which instructed its representatives at international financial institutions (IFIs) such as IMF to oppose extension of loans or cancellation of any debt. By May 2003, Zimbabwe's arrears totalled US$233 million, amounting to about 47 percent of its membership quota at the IMF. This was the immediate context in which the IMF suspended Zimbabwe's membership rights.

Factors which exacerbated the debt situation

Although there are variations in some estimates, Zimbabwe's external debt had increased sharply by 2007-08. The government's calculation in 2007 was that the external debt consisted of US$4.1 billion, out of which US$2.7 billion were arrears (Zimbabwe Government, 2007). However, another estimate put the size of debt at US$4.9 billion, including cumulative arrears in 2007 (USAID, 2007). Yet another study calculated that external debt was about US$5 billion (constituting 69 percent of GDP) at the end of 2005 (UNDP, 2008). Out of this amount, some US$2 billion was owed to multilateral creditors. Arrears constituted up to 38 percent of the GDP (UNDP, 2008). It was further observed that, under the assumptions of a baseline scenario, the total amount of outstanding debt (both public and private) would amount to US$7 billion (or 103 percent of GDP) by 2011. Very high debt ratios suggested that better policies alone were unlikely to make Zimbabwe's external debt sustainable, implying that debt relief from both multilateral and bilateral creditors would be imperative.

A number of factors have also contributed to the exacerbation of the debt situation. The first relates to extensive subsidies in forex, both to public and private sectors, during the post-2000 period. The Reserve Bank of Zimbabwe (RBZ) has played a pivotal role in providing forex to parastatals, particularly to import fuel, grain and electricity on behalf of government. However, these represent a direct loss to the RBZ. The RBZ also subsidises private sector exporters and producers, such as tobacco and mineral producers, to compensate for an overvalued exchange rate (IMF, 2007a). In addition, the RBZ has created a subsidised lending programme to support priority sectors like agriculture, through the Productive Sector Facility (PSF) and the Agricultural Sector Enhancement Facility (ASPEF). Lines were made available through the commercial banking system at a heavily subsidised rate of 20 percent. The central bank also subsidised the Parastatals and Local Authority Reorientation Programme (PLARP) to direct subsidised loans to public enterprises at relatively low interest rates. The RBZ excludes realised exchange losses from its profit and loss accounts and accumulates them in a separate asset account, overstating net annual profits and capital (IMF, 2007a).

The second factor relates to what have been termed 'quasi-fiscal activities' of the RBZ. Reflecting mainly forex subsidies to public enterprises and government, price supports to exporters and interest payments, quasi-fiscal losses reported by the RBZ have increased sharply since 2004 (IMF, 2007b). These losses now dwarf the government deficit. Indeed, the adjusted overall deficit, including government and central bank interest payments, is estimated to have amounted to 80 percent of GDP in 2006 (IMF, 2007b). These large deficits have been partly financed through money creation, which partly explains the hyper-inflationary conditions. An announcement was made in 2006 by the Finance Minister that the quasi-fiscal activities and losses would henceforth be transferred to the Budget with the RBZ no longer undertaking new quasi-fiscal activities. However, this announcement was not acted upon.

Finally, other sets of contributory factors to the ballooning of the external debt included military intervention in the Congo (1998 to 2002), patronage and corruption. The full cost of the Congo intervention has not been made public, despite its huge expense. It reportedly cost US$1 million a day at its height. Similarly, leakages in the form of patronage to ruling party office-holders and supporters in both the public and private sectors were considerable, but difficult to estimate. These leakages included access to subsidised forex, its peddling in the parallel market, and investment of windfall profits in more forex trading! Corruption has been fuelled under these conditions.

Debt situation and key sectors

The preceding section has illustrated how much of the debt build-up can be attributed to: 1) a failed IFI policy of adjustment in the early to mid-990s; 2) a subsequent period of isolation internationally from 1997, where expensive debt has stayed on the books without the benefit of programmes of refinancing offered to other countries (such as HIPC); and 3) a period, post-2000 offiscal ineptitude and irregularities domestically, which have again served to inflate debt levels. In this section, we move from the aggregate level to examine other potential sources of debt, including individual lending to projects and sectors. This allows us to review the experience of lending to the private sector as part of both the ESAP and subsequent periods. Let us examine key players in lending and borrowing in some of the major sectors of the economy. The sectors include:

- Agro-industry,
- Manufacturing,
- Infrastructure and Energy,
- Financial services, and
- Housing.

Most of the material on these sources is drawn from company annual reports, press archives and, in a few instances, interviews.

Agro-industry

Until about 2000, this was a major growth and export-earning sector, that included agriculture and agro-processing. The major investors included local capital, which included about 4 500 white farmers and several plantations, as well as foreign capital such as Anglo-American, Lonrho, and Tongaat Hulett. The Commonwealth Development Corporation (CDC) was a major investor in the tea growing industry, through its significant shareholding in Southdown Estates as well as in a joint venture with a state corporation in the Rusitu Development Company. The partner state institution was the Agricultural Rural Development Authority (ARDA). However, the joint venture which engaged in coffee and dairy production was not a commercial success. (Information on its losses and debt was being sought from ARDA at the time of writing.)

However, an agro-industrial company, Ariston Holdings, in which CDC invested in the 1990s, proved resilient and successful in the post-2000 period. Ariston is a diversified corporation, with interests in tea and macadamia production, horticulture, fruit, potato and poultry production and processing. By 2008, most of the directors of the corporation were indigenous. It had become largely locally owned and managed. Nevertheless, since 2005, some of the shareholding in Ariston belongs to Delta Corporation, a local conglomerate that is partly owned by South African Breweries while some belongs to

Barato Holdings, based in Dubai. It would therefore be more accurate to state that while CDC interest has been significantly reduced, local and South African shareholding has increased substantially (Ariston, 2008; Delta Corporation, 2008).

Other notable investments were made in the beef industry through the Cold Storage Commission (CSC), and more recently in the tobacco industry. However, the internally generated investments in CSC have had a chequered outcome. Largely state-owned, its fortunes were tied into a beef export quota to the European Union (EU). Following an outbreak of a foot and mouth disease in 2002, the quota of 9 000 tonnes of beef per annum was lost. The fortunes of the parastatal have not yet recovered from that decision. In 2006, its debts climbed to about US$33.5 million. Compounding its dire financial position was the government's drawing on the CSC foreign currency resources of US$40 million to settle its own fuel imports' bill. It operated at 20 percent of its capacity, while in 2007 the CSC failed to make an export consignment of 15 tonnes of beef to Hong Kong (*Zimbabwe Independent*, 13 April 2007).

Exports of beef to Asian countries have been small. However, there have appeared reports of Chinese leasing of land from the state to raise livestock and the setting up of abattoirs to slaughter for export (*The Zimbabwean*, 9 December 2005). These reports of Chinese acquisition of land and investment in beef production have, however, not been confirmed officially by the Zimbabwe government. Nevertheless, it would not be surprising if land and beef were part of the barter trade between a cash-strapped government and China. Finally, a Chinese company called Tina Ze Tobacco has been involved in tobacco production since 2004. It has subcontracted 150 local farmers in Zimbabwe to carry out the production for sale to the company, which then repatriates the commodity to China.

Clearly, the land reform programme executed between 2000 and 2003 substantially affected the fortunes of local and foreign capital in this sector. The immediate effect was felt by 4 000 white producers, who were expropriated of their holdings. Estates and plantations have not been affected to the same scale, although some plantation land in the Eastern Highlands and the South Eastern Lowveld was also affected in the expropriation process. Some divestment by corporations such as CDC was perhaps inevitable, given the continued volatility in this sector.

Manufacturing

Manufacturing had mixed fortunes under the ESAP adjustment programme in the 1990s (Gibbon, 1995; Sachikonye, 1999). Decline became marked during the period 2000 to 2008. Capacity utilisation in the sector reached as low as 30 percent in 2008. For the purposes of this chapter, we confine our attention to the cement and benzol and tar sectors. The companies that are engaged in these industries are, respectively, Lafarge

Cement, owned by a French company, and Zimchem Refiners, whose founding shareholders were Ziscosteel, Wankie Colliery Company, CDC and the Zimbabwe Development Bank (ZDB). Before its purchase by a French company, the cement firm was previously known as Circle Cement. CDC was one of the lenders to Circle Cement, one of the major cement producers in the country. The largest shareholder was Associated International Cement (AIC), which had 76 percent ownership in 1993. CDC extended a loan of GB£1.4 million. This was paid back in 1998.

Lafarge is bedevilled by a number of difficulties, which have adversely affected production. They include:

- frequent power cuts,
- shortage of spares, fuel and other inputs,
- controlled price of cement,
- hyper-inflationary conditions, and
- shortage of foreign exchange and volatile exchange rates (Lafarge Cement, 2008).

As a consequence, capacity utilisation at the company declined significantly in 2007. Demand for cement cannot be met and this adversely affects the construction industry. It reported losses in 2007 and 2008 (Lafarge Cement, 2008). Lafarge remains exposed to volatile exchange rate movements as they relate to offshore loans and other foreign liabilities. CDC is not exposed to any of this risk, because it was paid back in 1998.

Founded in 1990, Zimchem Refiners was designed to process crude benzol and tar from Ziscosteel and Wankie Colliery coke works. Designed to handle 12 000 tonnes of crude benzol and 49 000 tonnes of crude tar per annum, it produces a range of by-products, such as road tars, benzene and coal tar fuel (*The Herald*, 11 December 2003). Despite stiff competition from South African imports, and a burden of debt, Zimchem has expanded and become profitable. In 2003, it exported 35 percent of its production. CDC invested in Zimchem. However, like most other companies, it experiences capacity underutilisation of between 40 and 50 percent. The fortunes of Lafarge and Zimchem show that investment in Zimbabwe's manufacturing remains a risk, although this varies from sub-sector to sub-sector. Risk is higher where export opportunities are low and where domestic price controls are enforced. This has been the case with Lafarge Cement.

Infrastructure and energy

Infrastructure and energy development have attracted considerable investment during the period under review. These are sectors that traditionally require heavy outlay of capital. It is scarcely surprising that it is the major development institutions such as the

World Bank that have provided much of this investment in developing countries. One report stated that the main energy parastatal, Zimbabwe Electricity Supply Authority (ZESA), owes US$334 million to the World Bank (*The Herald*, 13 October 2006[1]). This amount was borrowed to upgrade ZESA, as well as buy a 25 percent stake in the Cahora Bassa electricity project in Mozambique.

Other key investors in infrastructure and energy include CDC, which extended a loan of GB£0 million to the Wankie Colliery company in the 1980s for its extension of capacity to expand electricity generation. ZESA and Wankie Colliery had diminished capacity in the 1990s. Electricity shortages became more frequent from 2000 onwards. There was little new investment, with the exception of a US$40 million loan for the rehabilitation of the Wankie thermal power station by the Namibia Power Corporation in 2006. This generated 100 megawatts to the grid, but much of it is exported to Namibia despite power shortages in Zimbabwe itself.

The country now depends for almost half of its power on imports from Mozambique, Democratic Republic of the Congo and South Africa. While ZESA generates about 1 050 MW a day, the country needs about 1 950 MW daily. ZESA is often in debt to power suppliers in these countries. For instance, ZESA had a debt of US$417 million to the Mozambican supplier, Hidro-electrica Cahora Bassa, in mid-2008. On top of this significant debt, a plethora of problems have adversely affected the operations of ZESA. These include:

- net losses of US$270 million in 2003, US$428 million in 2004 and US$418 million in 2005 (*The Herald*, 17 May 2007),
- vandalisation and theft of equipment such as transformers and cables,
- shortage of spares,
- controlled pricing of domestic electricity, and
- an exodus of trained and experienced staff to neighbouring and overseas countries.

By 2008, frequent power shortages crippled industry and domestic use. There has been significant under-utilisation of capacity in manufacturing, mining and agriculture as a consequence of power shortages. Significant investment would be imperative for the power sector. Priorities would include the setting up of additional power generating plants at Gokwe and Sengwa (where coal has been discovered), and the rehabilitation of thermal power stations at Hwange. Furthermore, it would be necessary to prepare a comprehensive energy policy.

[1] Full titles for *The Herald* articles dated 13 October 2006; 9 and 17 May 2007; 28 September 2007 and 17 April 2008, and *The Sunday Mail,* 6 December 1998, were not available at the time of publication, due to the temporary closure of both the Herald library and Zimbabwe National archives.

Table 1: Factors contributing to poor performance of public enterprises like ZESA

- Viability deficiencies due to a high-interest regime and hyper-inflation,
- Under-capitalisation,
- Inappropriate operating and financial structures,
- Leakage and abuse of resources, owing to poor and ineffective management,
- Huge debt overhang in a high-interest environment,
- Serious deterioration of infrastructure,
- Shortage of foreign exchange, and
- Limited access to external lines of credit.

Source: State Enterprises Restructuring Agency (SERA), 2008

Attempts by ZESA to set up joint power projects with China and Russia have not materialised. However, the Chinese have continued to display considerable interest in the potential of thermal power stations at Hwange.

Finally, the founding of the Infrastructure Development Bank of Zimbabwe in 2004 was a major development, signifying renewed state interest in the rehabilitation and expansion of infrastructure. The Government Budget statement for 2008 provided some resources amounting to ZW$1.9 trillion to support infrastructure development, agricultural mechanisation programme, housing development, resuscitation of the textile industry, as well as an import substitution project in the mining sector. However, state resources are so limited that external lines of credit and grants would be indispensable for rehabilitation and expansion of infrastructure.

The IDBZ merged with the Zimbabwe Development Bank, initially founded in the 1980s. When the ZDB was formed, the CDC was amongst a number of investors in the state corporation. In 2005, the government had a shareholding of 67 percent, while the Reserve Bank of Zimbabwe had 10 percent. There is small foreign holding, in the form of shares held by the African Development Bank (AfDB) and the European Investment Bank (EIB). The IDBZ displays a tendency towards an over-stretch. In addition to investing in the above-mentioned areas, it has invested in irrigation projects as well as in youth employment creation projects (*The Herald*, 9 May 2007). There is considerable Chinese interest in the IDBZ; the China Development Bank has explored the possibility of taking a stake. Other foreign institutions that are exploring similar possibilities are the Asian Development Bank and the Development Bank of Southern Africa (*The Herald*, 17 April 2008).

Financial services sector

To what extent has investment in domestic financial firms that lend to development projects and small enterprises been viable during the period under review? The main vehicles for this purpose were the Venture Capital Company of Zimbabwe (VCCZ) and the above-mentioned Zimbabwe Development Bank (ZDB). Amongst the investors into these companies was CDC, with 10 percent in shareholding (in VCCZ) and 28 percent (in ZDB). Other notable investors were International Finance Corporation (IFC), Swissco, and Lonrho**.** VCCZ lent to small and medium enterprises, and to the Small Enterprises Development Corporation (SEDCO), which did some on-lending. It provided high risk loans to enterprises that did not have sufficient collateral (*The Herald*, 28 September 2007). Most funded enterprises were in manufacturing, agro-industry and horticulture.

VCCZ was wound down in 2007. About 10 percent of project proposals submitted were funded while the remainder was rejected. (The loans contracted by VCCZ were paid back.) Its role was partly taken over by a new company called Climax Investments. This company is a debt recovery wholly owned by the Reserve Bank of Zimbabwe (RBZ). There was some criticism voiced that Climax Investments stripped VCCZ of its assets without the latter's shareholders' concurrence (*The Herald*, 28 September 2007).

We have above already referred to the role and ownership structure of ZDB. Its financial services division, ZDB Financial Services, used to be a subsidiary of ZDB. It was the last division to be absorbed into the IDBZ.

Housing sector

Housing has received the attention of international development finance agencies. There were ambitious goals set for housing expansion in the 1980s including 'Housing for all' by 2000. Amongst some of the principal lenders for urban housing were the World Bank and USAID. The World Bank supported the Urban 1 programme with a loan of US$50 million in 1980. At its completion in 1994, Urban 1 had made available 18 000 residential plots and community facilities in four cities (Ramsamy, 2006). Urban 11 was a relatively large project, totalling US$580 million, to which the World Bank contributed US$80 million. It was implemented country-wide, covering 21 cities and towns. The Bank's report on Urban 11 stated that 30 000 stands for low- and middle-income housing were built by the time the project was completed in 1999 (Ramsamy, 2006). USAID was also involved as one of the funding agencies of urban housing programme. Its scheme for 25 000 beneficiaries in 24 urban local authorities drew from a ZW$760 million local scheme for servicing stands and developing low-cost housing infrastructure.

However, there has been a critique of the housing programmes funded by development finance agencies. First, it was pointed out that there was an unnecessary use of foreign finance for locally-produced basic needs commodities such as housing (Bond, 1998). For instance, it was estimated that the total proportion of import cost of low-income housing was just 7.6 percent. Second, the external loans for housing were unnecessary because Zimbabwe's financial system was experiencing unparallelled liquidity from the mid-1980s (Bond, 1998).

Another critique maintains that Urban 1 and Urban 11 did not reach the poorest segments of the urban population (Ramsamy, 2006). Most of the urban poor had been unable to meet the eligibility criteria for building society loans. It was argued that while the World Bank's programmes might have increased access for a few low-income residents, they only had a marginal effect on the overall housing shortage (Ramsamy, 2006). The shortage was primarily due to insufficient availability of finance for housing development. Finally, it has been observed that the housing crisis was compounded by the development finance agencies' policies of fiscal management and austerity, but also by imprudent choices of the domestic elite in Zimbabwe (Ramsamy, 2006). There was corruption in the administration of the VIP Housing Scheme and the Low Cost Government Housing Scheme (*Sunday Mail*, 6 December 1998). Meanwhile the housing shortage crisis has grown.

3. Conclusion: Sustainable or odious debt?

This paper has observed that Zimbabwe's external debt is a relatively massive one. There is little disagreement that it amounts to about US$5 billion, of which arrears are a significant amount of US$2.7 billion. In other words, arrears and interest constitute above 50 percent of the debt. If the debt is not addressed and reduced in a consistent and systematic fashion, it could balloon to US$7 billion by 2011 according to some projections (UNDP, 2008). As we point out below, there is a general consensus that it will be imperative to provide debt relief to alleviate the burden (IMF, 2007b; USAID 2007; UNDP, 2008; Zimbabwe Institute, 2007). As poverty has deepened during this decade, moral and political issues arise, particularly given that the government has not accounted for the 'huge overhang of external debt' (ZIMCODD, 2007). Some of the expenditure has been directed to military intervention and internal repression, while some has entered circuits of patronage in the state and ruling party.

It will be necessary and useful to assess the purposes for which the debt was contracted and the actual uses to which the borrowed monies were put. Some of it was for developmental purposes, as most loans directed at the private sector were. On balance, it would appear that borrowed funds were put to effective use in agro-industry, manufacturing and infrastructure. The returns to such agencies as CDC and IFC were reasonably good. However, the bulk of the loans were made in support of ESAP, which encountered disbursement problems, high interest rates and structural implementation problems. Most arrears consist of overdue payments to the three principal lenders to ESAP: the World Bank, IMF and the African Development Bank. Most critique has identified the inherent flaws and outcome of ESAP, and part of the responsibility for these should be borne by the development finance agencies (Gibbon, 1995; ZCTU, 1996; Sachikonye, 1999; Bond and Manyanya, 2002). While the Zimbabwe government should not be exonerated from the design flaws and outcomes, the latter cannot shirk their responsibility.

The paper made some observations on lending to the housing sector by the World Bank and USAID. The critique of their housing loans centres on the fact that they left out the urban poor and favoured the burgeoning urban middle class. Moreover, the foreign exchange content of the schemes was higher than strictly necessary.

The intentions to upgrade infrastructure, especially the energy sector, was laudable. However, design and planning of the energy schemes was flawed in a number of areas. Agencies such as the World Bank bore part of the responsibility of the shortcomings of rehabilitation and expansion projects at Hwange and Kariba (Bond and Manyanya, 2002). From 2000 onwards, the decline in the state of infrastructure (electricity, water, roads and railways) has been alarming. The seeds of the collapse of the infrastructure were partly laid in the 1990s, in the policies and lending designed and pursued by the state and the development agencies, respectively. In general, lending to parastatals has been problematic. As the paper showed, the returns from loans to CSC, ZESA and ZDB have been below par. This was partly the consequence of a combination of weak corporate governance, poor management, state interference and patronage practices.

There have been several ‘grey areas’ in the form of external spending incurred through military operations in the DRC in 1998-2002, and in the increased ‘barter trade’ between Zimbabwe and China during the period 2000-2008. No official figures were released on the cost of the intervention in the Congo, although it was believed to be considerable. The foreign exchange component of the expenditure would have been considerable and debt would have been contracted as a consequence. The extent to which exploitation of Congo’s natural resources, such as minerals, and payments from the DRC state might have alleviated the debt is unclear in the absence of official information. Nor is there publicly accessible documentation about how much debt Zimbabwe has contracted from importing extensively from China. Imports of agricultural equipment and inputs, amongst others, have made China the second biggest trading partner of Zimbabwe after South Africa. Some of the debt is paid back in the form of commodities, such as tobacco, beef and minerals, as well as agricultural land, but there is no official information of the volumes and values of these transactions. Fears have been expressed in some quarters over the possibility that parts of the economy and natural resources have been ‘mortgaged’ to external forces as payment for debt. The moral and political dimensions of such mortgaging should be explored in future studies on Zimbabwean debt.

Finally, what options have been presented to address the Zimbabwe external debt burden? First, there should be significant debt relief of the order of US$2.4 billion during the first five years following a political settlement (Zimbabwe Institute, 2007). Second, there should be raised an additional figure of US$1.8 billion in the following five years (year six to ten) to smooth out debt relief. This could be an outright cancellation or a rescheduling on extended terms, which would have the effect of reducing the net present value of external debt by a commensurate amount with frontloading (Zimbabwe Institute, 2007).

Third, the very high debt ratios in the baseline scenario suggest that better policies alone were unlikely to make Zimbabwe's external debt sustainable, meaning that debt relief from both multilateral and bilateral creditors would have to be part of the recovery package (UNDP, 2008). Fourth, Zimbabwe would have a strong case to be classified as an IDA-only country, that is a country deemed poor enough to access only the most concessionary of funds from the International Development Association (IDA) arm of the bank, which is a World Bank pre-condition for access to highly indebted poor country initiative (HIPC) debt relief (UNDP, 2008). This would allow it to have access to the Bank's long-term interest-free loans and grants. If the necessary political support was forthcoming, a credible technical case could be developed to make Zimbabwe eligible for HIPC.

Finally, in view of the centrality of the debt question to Zimbabwe's recovery, it would not be surprising if a movement emerged to champion debt cancellation altogether. Such a movement could draw on the experiences and perspectives of organisations such as the Zimbabwe Coalition on Debt and Development (ZIMCODD), and the Zimbabwe Congress of Trade Unions (ZCTU), in their campaigns around the link between debt and social issues. It would have some resonance against the background of the deep levels of poverty, deterioration in key social sectors like health and education, and collapse of infrastructure. These should take precedence in financing to ensure a sustainable recovery over payment of interest and arrears to development finance agencies, some of whose lending decisions and objectives were questionable in the first instance.

Given these conclusions, we can briefly return to the two contextual issues of the introduction. In terms of the current crisis and its possible dénouement, we can only ask that the renegotiation of Zimbabwe's debt should be carried out with reference to these aspects of the moral economy of past borrowing. Private banks, particularly in respect of the current world recession, are quite used to taking retrospective responsibility for lending decisions which prove irresponsible or flawed, in the writing down or writing off of bad debts. Development banks should be equally as responsive, and in this instance there are a powerful set of reasons why the largest proportion of Zimbabwe's historic public debt should be written off immediately a legally constituted regime is constructed—that is, a democratically elected regime with whom it is proper for international actors to contract over sovereign liabilities and assets. Of course, for many, but not necessarily bankers, the immediate social and moral case for providing an economic basis for democratic renewal is equally compelling in terms of debt write-off, but the argument here has been in the realm of the efficacy of development finance. In sum, this review of the results of historical interventions in the political economy of Zimbabwe, which are mixed and not particularly lucrative or wealth-enhancing, suggests that much more democratic and local control is required of future 'private sector development' expenditures and programmes, if they are to be more successful.

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