Uncovering Zimbabwe's debt

The case for a democratic solution to the unjust debt burden

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Jubilee Debt Campaign

Jubilee Debt Campaign works to eradicate the poverty and injustice that result from global debt, and campaigns for new structures to prevent the next debt crisis in developing countries.

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Acronyms

CDC	Commonwealth Development Corporation
DfID	UK Department for International Development
ECGD	Export Credits Guarantee Department
ESAP	Economic and Structural Adjustment Programme
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
MDC	Movement for Democratic Change
MDRI	Multilateral Debt Relief Initiative
ZIMCODD	The Zimbabwe Coaltion on Debt and Development

Foreword

Zimbabwe's recent history has been characterised by political oppression, economic chaos and social division. This story is well known in the UK. However, it is rarely the case that a reign of terror springs from nowhere. What is much less well known is the long-term role that foreign governments, international institutions and private companies have played in laying the foundations for Zimbabwe's catastrophe.

This report attempts to document the particular role of economic injustice, through the indebtedness of Zimbabwe and the disastrous economic policies which this debt allowed foreign lenders like the International Monetary Fund and World Bank to inflict on the country.

In Zimbabwe, as in the recent history of so many other countries of the global South, the rich world, whether through incompetence or strategy, has used lending and debt to serve its own interests, not those of Zimbabwe's people. In Zimbabwe's case, this backfired drastically, and the people of Zimbabwe have suffered the consequences.

None of this excuses the responsibility of the regime for what has taken place in Zimbabwe. The government is responsible for the disaster which has befallen the country and it is the people of Zimbabwe, with solidarity from their supporters throughout the world, who will hold the regime to account for its actions.

But the people of Zimbabwe also need to hold the rich world to account for the role it has played in Zimbabwe's economic decline. Unless they do this, any new government in Zimbabwe will be expected to take responsibility for their country's old debts. The country may be offered a form of debt relief, but it will be on the terms of the rich world, it will involve new lending and it will hand the rich world the power to again dictate economic policies in Zimbabwe.

There are alternatives. One of them is a 'debt audit' in which people conduct a full public examination of their debt which allows them to understand where their debts came from, whether they were useful for the country's development and whether and on what terms repayment should be made.

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.

Groups in Zimbabwe are starting on that process. The Zimbabwe Coalition on Debt and Development are already starting to build support for an audit because rich country governments and institutions are already discussing the economic future of Zimbabwe.

This report is our contribution towards Zimbabwe's debt audit process. We hope it can contribute to a future for Zimbabwe based on true independence and democracy, in which the people of that country can use their resources to fight poverty, inequality and injustice.

Nick Dearden
Director, Jubilee Debt Campaign

Executive summary and introduction

For the last decade the Zimbabwean government has been in default on most of its debt owed to the rest of the world, currently estimated to be around US$7 billion. This debt dates primarily from loans made in the 1980s and 1990s by private lenders such as banks; foreign governments such as France, Germany and the UK; and multilateral institutions like the World Bank, African Development Bank and International Monetary Fund (IMF).

Discussions both within Zimbabwe and amongst creditors have begun on what should happen with this debt. The Zimbabwean government has created an Aid and Debt Management Office which is due to start reconciling debt figures with creditors.

In this report we argue that in order to move towards a just and positive resolution to this crisis the origin of Zimbabwe's debt must be investigated. The legitimacy of the debt needs to be established by examining whether these loans genuinely benefited the Zimbabwean people. In doing so, lessons can be learned about the appropriate role of foreign borrowing in Zimbabwe's future, and the transparency and accountability of the country's financial management can be increased.

This report is a contribution to the process of working out the impact of loans and debt on the Zimbabwean people.

Uncovering Zimbabwe's debt

The origin and impact of Zimbabwe's debt

At independence in 1980, Zimbabwe inherited US$700 million of debt from the Rhodesian government; the result of UN sanction-busting loans to the white regime to buy arms during the civil war. This inherited, unjust debt was short-term and high interest; imposing a large repayment burden in the early 1980s just as drought struck. In the absence of significant grant aid to deal with the drought and fund post-civil war reconstruction, Zimbabwe relied on loans to buy imports. The country's large debt burden was created.

Throughout the 1980s Zimbabwe borrowed from foreign governments and international lenders such as the World Bank, supposedly to invest in productive activities. Many of these projects were of dubious benefit, such as World Bank loans to plant trees in areas where local people already had enough wood for their energy needs.

Loans from foreign governments, including many counted as 'aid', tended to be tied to using that country's companies. The most expensive project in the 1980s was the development of Hwange power station, funded by lenders including the World Bank, European Investment Bank and UK government; again, tied to the use of British companies. Devaluation of the Zimbabwean dollar meant the power station was far too expensive to ever generate the resources to repay the debt the loans had created.

Through the 1980s poverty fell. But by the end of the decade debt repayments equalled 25 per cent of Zimbabwe's exports, and 25 per cent of government revenue. Despite this, the World Bank stated Zimbabwe had avoided a *"damaging build-up of external debt"*.

In reality, the only way Zimbabwe could keep paying was to receive new loans to pay old debts. With private banks less willing to lend to the country, they were effectively bailed-out by new loans from international institutions, particularly the World Bank, African Development Bank and IMF. These 'structural adjustment' loans were not for investment in any particular project, but used to repay old debts.

The structural adjustment loans were linked to Zimbabwe bringing in policies such as cuts in government spending, trade liberalisation, deregulation of prices, devaluation of the exchange rate and removal of labour laws. Such policies certainly had support within the government, and were presented as homegrown, but they were also a requirement of the lending needed to pay old debts. In 1991 and 1992 Zimbabwe was also hit by another major drought. Poverty, inequality and debt all rapidly increased.

Structural adjustment was meant to increase economic growth, make the balance of payments more positive and reduce unemployment. In reality, economic growth fell from averaging 4.5 per cent in the 1980s to 2.9 per cent between 1991 and 1997. Imports grew faster than exports, changing an annual trade surplus between 1985 and 1990 to a trade deficit. Unemployment increased from around 22-30 per cent to 35-50 per cent. Furthermore, the proportion of people living below the poverty line increased from 40 per cent in 1990 to 75 per cent by 1999.

Through the 1990s the World Bank praised Zimbabwe for its *"highly satisfactory"* structural adjustment programme which was implemented with *"determination and persistence"*. However, a 2004 evaluation by the World Bank found that *"In the 1990s, efforts to accelerate growth through better fiscal management and market liberalization largely failed. Social progress slowed, per capita incomes declined and poverty increased."* We estimate US$750 million of Zimbabwe's debt comes directly from structural adjustment loans by the World Bank, African Development Bank and IMF.

Foreign governments continued giving loans so that Zimbabwe could keep on buying exports from their companies. Governments tend to be secretive about what money was lent for and where debts come from, but by using UK Freedom of Information laws we have discovered that around US$30 million of debt owed to the UK originates from loans to the Zimbabwean police to buy British-made Land Rovers. The UK government, driven by corporate interest, made no social impact analysis before supporting this loan; giving no consideration as to whether it was a productive project that would benefit people and generate the resources with which to repay it.

In the face of increasing protest in Zimbabwe at the worsening situation, in 1997 the ZANU-PF government sought to maintain itself in power through unbudgeted spending increases for war veterans, and joining the war in the Democratic Republic of Congo. In November 1997, there was a huge devaluation of the Zimbabwean dollar as foreign speculative private money fled the country.

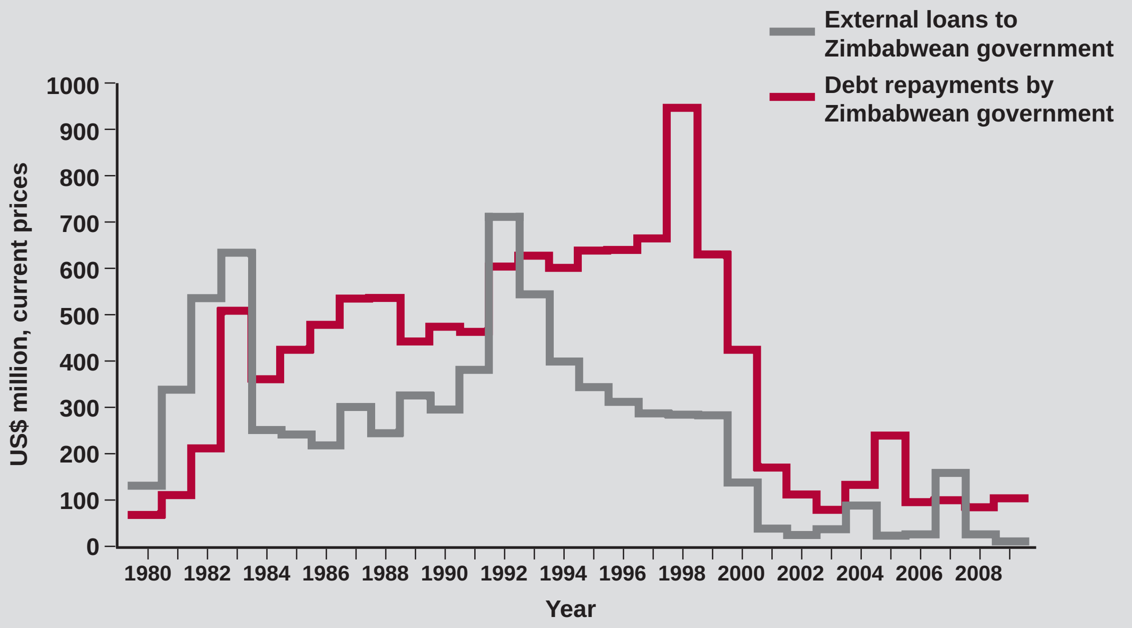
The unbudgeted spending increases and devaluation started a cycle of inflation and crisis. From the end of the 1990s, dissatisfied war veterans and poor rural households suffering from increasing poverty and inequality began occupying white owned farms, sometimes forcefully. The government came to back the occupations as another means to maintain power.

In 2000, the rapidly increasing size of Zimbabwe's debt led the government to default. The hyperinflation caused by continued unbudgeted spending and printing of money destabilised the economy, which shrank through the decade. By July 2008 monthly inflation had reached 231 million per cent. Since 2009 and the complete replacement of Zimbabwe's currency with the US dollar and South African Rand, the economy has been recovering.

The one remaining source of foreign loans is the Chinese government. For example, in 2011 an agreement was signed on a loan in Chinese Yuan worth around US$100 million for Zimbabwe to build a defence college. Such loans replicate much of previous bad lending and borrowing; given for unproductive projects tied to the purchase of that country's exports.

Since 1980 Zimbabwe has been lent US$7.7 billion but repaid US$11.4 billion. Yet the Southern African country is still said today to have a debt in excess of US$7 billion (see Graph 1. below).[1]

Graph 1. **Foreign loans disbursed to Zimbabwe government and debt repayments, 1980-2009 (US$ million, current prices)[2]**



Options for dealing with the debt

The Zimbabwean government says it has a 'hybrid' strategy for dealing with the debt; to seek to take part in the 'best bits' of the IMF and World Bank run Heavily Indebted Poor Countries (HIPC) process whilst using proceeds from minerals – particularly diamonds – to repay other debts.

The HIPC process takes several years, offering to cancel some or all of the debts owed to institutions such as the IMF and World Bank, and governments such as the UK, France and Germany. To qualify for HIPC a country has to meet economic policy and other conditions set by the IMF and World Bank. A country also has to meet some debt repayments, and in a case like Zimbabwe where the government has been in default for several years, does not get anywhere near 100 per cent debt cancellation. We roughly estimate completing HIPC would reduce Zimbabwe's debt by half, but actually lead to the country spending considerably more in debt repayments than it is at the moment. The financial benefit to complete HIPC is so that the country would be eligible for loans from the Western world again.

An alternative option would be for the Zimbabwean parliament to set up a debt audit commission, to investigate where the debt has come from, and how loans did and did not benefit the Zimbabwean people. Doing so would allow any future discussions of debt cancellation to be informed by the legitimacy of the original loans. Furthermore, rather than rushing into a debt relief process which will just lead to Zimbabwe getting into debt again, a debt audit would allow lessons from past loans to be learned first.

We support the Zimbabwe Coalition on Debt and Development in their work calling for the Zimbabwean parliament to:

1. Establish a Public Debt Commission to conduct an official debt audit.
2. Legislate for a loan contraction process to ensure transparency, accountability and inclusiveness in the contraction of loans.

Recommendations to Zimbabwe's creditors

Any movement on the debt issue is clearly tied to the political challenges facing Zimbabwe. However, creditors could support debt justice in Zimbabwe by:

1. Releasing all loan documents, information and evaluations.
2. Signalling they would be willing to support an official audit of Zimbabwe's debt if one were held.
3. Change lending practices so that debt does not impoverish Zimbabwe in the future. For example, only giving loans if a) citizens, through their elected representatives in Parliament, participate in the loan contraction process, b) there are environmental and social impact assessments of the loan, with any directly affected communities having to give their prior, informed, consent c) the lender and borrower set out what productive investment the loan will be used for, showing in full how this will generate the funds to repay it, and this is independently evaluated, d) the project is independently evaluated during and at completion, e) repayments can be cancelled if there are any failures on the lender's part.
4. Only once lenders have recognised their past mistakes and changed their lending practices should they make themselves eligible to lend to Zimbabwe again by cancelling debt.

General recommendations

The Zimbabwean story highlights many dangers of basing economic development on the use of foreign loans. We support calls for poverty and inequality to be reduced primarily through mobilizing domestic resources and reducing the outflow of resources through illicit flows, tax avoidance and multinational company profits, as well as debt repayments.

The story of Zimbabwe leads to specific recommendations for creditors and donors in their actions across the world:

Lesson 1: Zimbabwe's debt was too high for much of the 1980s and 1990s, and continued repayment of that debt contributed to economic and social crisis. Austerity only increased the extent of the crisis. A permanent mechanism is needed for cancelling debts before a crisis is created, which could also help to deter reckless lending.
Recommendation: An international debt court should be created to adjudicate on debt restructuring for countries in debt crisis. A court, independent of creditors and debtors, would cancel any debts contracted illegitimately, and then reduce the size of all debts (multilateral, bilateral and private) to ensure governments can meet the costs of public services and basic needs. This in turn will remove the moral hazard that lenders know they will be repaid, and thus make lenders less reckless in their behaviour.

Lesson 2: Too many loans were given to projects in Zimbabwe with little if any thought into how they would generate the return to repay them.
Recommendation: Loans should only be given for projects where lender and borrower can set out how it will generate the funds to repay it.

Lesson 3: Debts created during droughts in the 1980s and 1990s have burdened Zimbabwe for many years.
Recommendation: Grants rather than loans should always be given in response to shocks such as drought or changes in commodity prices.

Lesson 4: Loans have been – and continue to be – given with little transparency and accountability, driven by the interests of lenders and the political elite rather than needs of the Zimbabwean people.
Recommendation: All project lending should be independently evaluated prior, during and at completion, and this should include the active involvement of civil society and affected groups as well as parliament. All project documents and evaluation should be made publicly available.

Lesson 5: Lenders have not had to bear any responsibility for their poor lending, such as badly designed projects, or failed structural adjustment programmes.
Recommendation: Loan repayments should be cancelled if independent evaluations find failures on the lender's part.

Lesson 6: Zimbabwe had no choice but to implement structural adjustment in order to access new loans to pay old debts. The impact of structural adjustment was disastrous.
Recommendation: Lenders should never attach economic policy conditions such as agricultural and trade liberalisation to grants, loans or debt relief.

Lesson 7: Zimbabwe's foreign debt continually increased due to devaluation.
Recommendation: The exchange rate risk of foreign loans should be removed by decreasing repayments of principle and interest in line with changes in the exchange rate.

Lesson 8: Through the 1980s and 1990s Zimbabwe never met predictions for economic growth set by the IMF and World Bank, especially in terms of US dollars
Recommendation: There should be moratoriums on the repayment of principle and interest if baseline economic growth rates are not met. If this is defined in terms of the currency in which the loan is given, it can also deal with the exchange rate lesson above as well.

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1. 1970s: The creation of unjust debt

Zimbabwe's current unsustainable debt dates back to the white regime of Ian Smith. The current country of Zimbabwe was colonised by the British and named Southern Rhodesia in the late 1800s. In 1953 the British combined Southern and Northern Rhodesia (now Zambia) along with Nyasaland (now Malawi) into a joint federation, against the opposition of Africans. In 1963 the Federation was disbanded, and Zambia and Malawi quickly became independent.

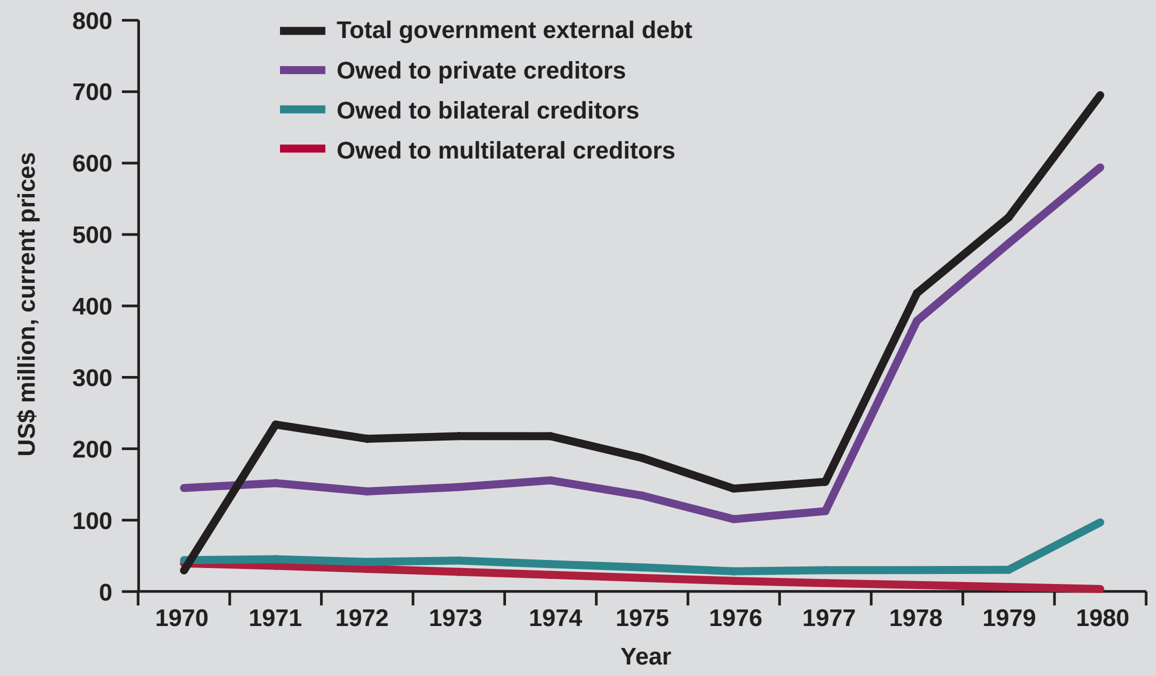
However, in newly declared Rhodesia the white minority government led by Ian Smith made a Unilateral Declaration of Independence to prevent the creation of an independent, multi-racial democracy. A 15-year civil war ensued between Ian Smith's regime, and Joshua Nkomo's ZAPU and Robert Mugabe's ZANU.

Towards the end of the 1970s, as Ian Smith faced the prospect of losing the civil war, the white government resorted to heavy borrowing to fund the military. As a percentage of the national budget, military spending rose from 20 per cent in 1975/76 to almost 50 per cent in 1978/79.[3] The Rhodesian government's financial debt to the rest of the world shot up rapidly to US$700 million by 1980.

The foreign private lenders providing this money knew it was being used to fund the military in a desperate attempt to maintain the Ian Smith government in power. Loans were given despite the fact the UN Security Council had comprehensive mandatory economic sanctions against Rhodesia since 1968, including prohibiting any form of *"financial or other economic aid"*.[4] Swiss and German banks are thought to have been involved in giving loans, breaking the sanctions.[5]

The Rhodesian government's increasing financial crisis helped to force Ian Smith's government to the negotiating table. But when Zimbabwe formerly gained its independence in 1980, the new government was left with a US$700 million debt.[7] Refusing to pay this debt was questioned by some of the new government's advisors, but the option was rejected.[8] Zimbabwe was hindered by unjust debt from birth.

Graph 2. Rhodesia debt (US$ million, current prices)[i 6]



i. Current prices means the prices in the given year, ie, at the time.

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2. 1980s: Development, drought and debt

2.1 The economy in the 1980s

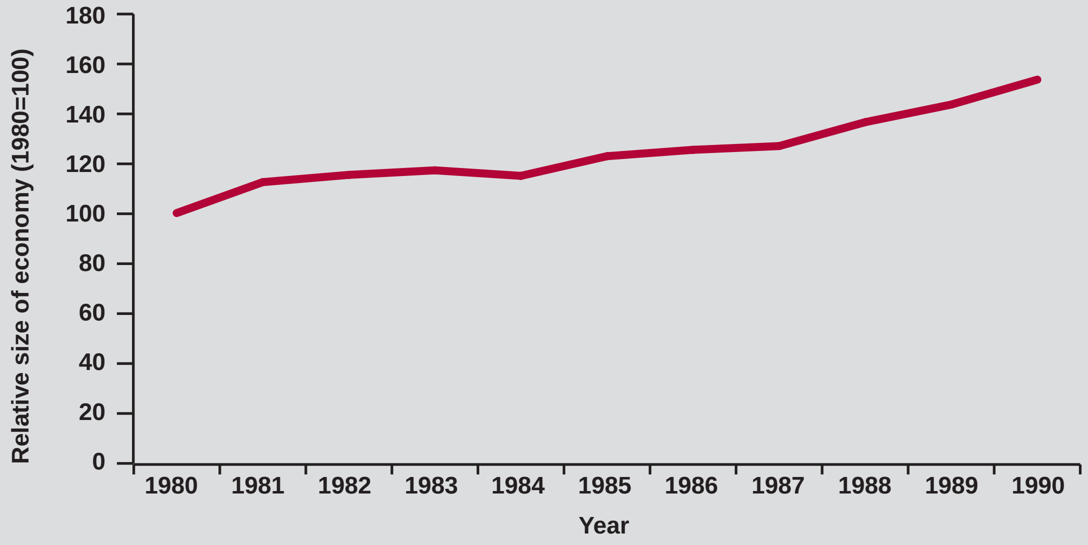
On independence Zimbabwe was one of the most economically developed countries in Africa. It was classed as a 'middle income' country by the World Bank (as opposed to low income) and was relatively industrialised and diversified with a manufacturing sector as well as mining and agriculture. However, national income per person was only just over US$1,000.[9] Furthermore, the country was highly unequal, with very high levels of poverty.

The Zimbabwean economy had a relatively high degree of state control. The new government maintained much of this intervention – such as restricting the use of foreign currencies – whilst increasing taxation and government spending to reduce poverty and inequality. A national minimum wage was introduced, and limits were set on the hiring of migrant foreign workers. The main productive sectors such as commercial agriculture, mines and manufacturing largely remained privately owned.

The external government debt left by the Ian Smith regime was around 15 per cent of national income. Whilst this was relatively low compared to levels reached later in Zimbabwe's history, it was high-interest short-term debt owed to private creditors, requiring repayment over the six years 1981 to 1987. It therefore left a considerable burden on the country as it sought to rebuild following the war. At independence the World Bank estimated that debt repayments would use up 7 and 15 per cent of export income in 1981 and 1982.[10] In the absence of grants and debt cancellation, this in turn increased the need for Zimbabwe to take on significant external borrowing to fund reconstruction and help pay for the inherited loans.

Throughout the 1980s Zimbabwe was destabilised by apartheid South Africa, with restrictions on trade. Zimbabwe's access to the sea is through Mozambique. Repeated attacks closed the railway line to Maputo and the oil pipeline to the port of Beira. At one point Zimbabwe had 12,500 troops in Mozambique.

Graph 3. Relative size of Zimbabwe's economy, 1980-1990[11]



The UN's Economic Commission for Africa estimates that in the 1980s the extra costs on Zimbabwe totalled £2.4 billion ($3.8 billion at end 1980s exchange rates), more than Zimbabwe's debt at the end of the decade. South African apartheid effectively cost Zimbabwe hundreds of millions of dollars, increasing the need to take out foreign exchange loans. In 1998 NGOs Action for Southern Africa and the World Development Movement argued that a substantial amount of Zimbabwe's debt is apartheid debt; the result of the actions of apartheid South Africa.[12]

In 1980 and 1981 Zimbabwe's economy experienced rapid economic growth with the end of the liberation war. However, between 1982 and 1984 Zimbabwe was hit by drought, reducing agricultural production.

The prices of export commodities also began to fall, reducing the amount Zimbabwe received for its exports. Combined with the global recession, these external shocks forced the economy to stagnate.

Following the drought growth resumed, particularly towards the end of the decade. However, national income per person fell steadily from 1974 through the 1980s.[13] Despite international criticism of state intervention in the economy, economic growth was higher in Zimbabwe than elsewhere in Africa during the 1980s, averaging 4.5 per cent.[14] However, devaluation meant that in US dollar terms the Zimbabwean economy actually shrank by 20 per cent between 1981 and 1990. This left the country with relatively fewer resources with which to pay foreign debts.

2.2 Drought loans and adjustment

When the early 1980s recession hit, there was a fall in government income, a fall in export earnings and an increased need for imports to cope with the drought. Furthermore, a donors conference in March 1981 had promised US$2.2 billion for Zimbabwe's reconstruction and development, but by the end of 1984 only a fifth of the amount had been disbursed. The government borrowed from foreign private banks to meet some of the shortfall.[15]

The fall in export revenues and increase in imports caused by the drought meant the country was short of foreign currency. The government resorted to plugging this gap by borrowing; primarily from foreign private banks, but also the IMF. Private banks disbursed US$1 billion between 1982 and 1984.[16] With these loans bearing high interest rates they became increasingly difficult to repay. In the mid-1980s, Standard Bank and Barclays Banks were among the private lenders which gave new loans to meet payments on older debts.[17]

The IMF disbursed US$300 million between 1981 and 1983.[18] Conditions of the IMF programme included devaluation, restrictions on government spending – including investment in infrastructure – and a freeze in wages.[19] Government spending was most drastically cut for the land resettlement programme, falling by 80 per cent.[20] While health spending doubled in the two years immediately following independence it was stalled from 1982 to 1985.[21]

Initially Zimbabwe closely followed the official conditions set down by the IMF to respond to the drought and global economic crisis. Devaluation, removal of subsidies for basic foods and freezing of wages all meant a decline in living standards. Average real earnings fell by close to 20 per cent.[22] Whilst painful, these policies were meant to reduce the debt burden and increase growth. However with debt increasing, living standards suffering and the economy stagnating, in 1984 Zimbabwe departed from IMF prescribed policies, temporarily preventing companies from diverting profits out of the country.[23] Whilst the Zimbabwean economy started to recover, departure from the IMF programme led the IMF to suspend the giving of new loans.

Through the 1980s, Zimbabwe repaid the IMF US$500 million; two-thirds more than it was originally lent. By 1991 Zimbabwe had fully paid off the IMF for the early 1980s loans, just in time for the giving of new loans with the early 1990s drought and Economic Structural Adjustment Programme (ESAP).[24]

2.3 Foreign loans and development

Loans are the theoretical basis of capitalist development. According to this theory, the resources given through a loan can be invested, producing more goods and service. This increased production therefore allows interest and ultimately the loan to be repaid.

When loans in foreign currencies are given a further step in the theory is required. A loan in US dollars can only be repaid by earning US dollars. A country has to export more in order to earn the US dollars to repay the loan. Thus with foreign currency loans, it is not enough just to increase production generally, it is production of exports which have to increase (or products which replace imports, freeing up more export earnings to repay debt).

Furthermore, foreign loans from other governments or institutions such as the IMF and World Bank are usually to be repaid by the recipient country government. But any increased production from the loan may fall to private actors elsewhere in the economy. Repayment of loans may not be made by the beneficiary, but out of government funds, removing resources from key services such as education and healthcare.

Loans in response to a sudden shock like a drought hold no prospect of creating the revenue to repay them. The loans helped Zimbabwe pay for immediate needs such as importing food; they were not given to be invested in an activity which would produce a return to repay the loan. The impact of the early 1980s drought was to leave Zimbabwe with loans to be repaid, but no means with which to repay them.

However, Zimbabwe's loans in the 1980s were not just to deal with the impacts of the drought. Multilateral and bilateral lenders, such as the World Bank and African Development Bank, and UK and German governments, gave loans supposedly to be invested in productive activities.

2.3.1 Bilateral loans in the 1980s

Foreign governments tend not to provide information on what they have lent money for and how such loans have been used, though much of this was geared around the interests of home companies. Below are a few cases where we have managed to find out more information on loans to Zimbabwe.

Documents obtained under the UK Freedom of Information Act reveal that the UK Thatcher government agreed at least 8 loans totalling around £60 million (US$140 million at then exchange rates) from the publicly-backed Commonwealth Development Corporation (CDC) and the Overseas Development Ministry (the forerunner of today's Department for International Development, DfID) which were 'tied' to the use of British companies. This practice of tying 'aid' loans to be spent on British companies has been illegal in the UK since 2002.

For example, a £10 million loan (US$25 million) was agreed in 1981 for Zimbabwe to *"make direct payments for goods and services, mutually determined by our Governments [Zimbabwe and UK], which are wholly produced in and supplied from the United Kingdom."*[25] Effectively, money was passing from one bank account in London to another, with Zimbabwe as a conduit. Interest rates on the loans varied from around 2 per cent for the development ministry loans to 10 per cent for the CDC loans. Beneficiaries of another 1981 development ministry loan included General Electric Company, then the third largest British company by share value, and Westinghouse Signals.[26]

Since 1987 Zimbabwe has repaid the UK government £43 million on these loans. Most of these repayments were made prior to Zimbabwe's default in 2000, though the Zimbabwean government made one-off payments of £700,000 (US$1 million) in 2005. The UK government says £18 million of principle is still owed on these loans,[27] with presumably a few million more owed in interest arrears.

The UK was not the only country supporting its companies in Zimbabwe during the 1980s. The German government says Zimbabwe owes €384 million, making the central European country Zimbabwe's second largest bilateral creditor. Little information about these loans is available[28] and the German export credit agency Euler Hermes, to whom much of the debt is owed, has refused to disclose information on the projects which led to the debt being created and which German companies were involved.[29]

One completely unproductive and damaging export is arms. The Spanish government lent Zimbabwe the equivalent of €11 million to buy Spanish military aeroplanes and other military vehicles in the late 1980s and early 1990s. Spain claims Zimbabwe still owes €10 million from these loans.[30] Further loans of the equivalent of €6 million were given by the Spanish government for Zimbabwe to buy Spanish 'vehicles' in 1998. Total debt outstanding on these loans has now risen to €9 million.[31]

2.3.2 Multilateral loans

"In the 1980s, the [World] *Bank engaged in substantial investment lending which, however, was largely not oriented to reducing inequality."*[32]

World Bank Operations Evaluation Department on Zimbabwe, 2004

During the 1980s the World Bank agreed loans for projects in Zimbabwe of more than US$500 million. Interest rates on some of these projects were in excess of 10 per cent, requiring a high productive return simply to meet repayments. For most of the 1980s and well into the 1990s Zimbabwe was still classed as a middle income country by the Bank, and so tended to be lent money from the higher interest International Bank for Reconstruction and Development (IBRD) part of the institution, rather than the lower interest International Development Association (IDA) which lends to the most impoverished countries.[i]

Whilst the World Bank does tend to internally evaluate the outcome of its loans, and even make these public (something bilateral donors rarely if ever do), these evaluations rarely consider whether the project created the resources to easily repay the loan and interest. For instance US$23 million of loans were disbursed for a railway development project starting in 1983. The World Bank's own 1992 project evaluation stated that preparation of the project was inadequate, and no cost-benefit analysis of the project was done.[33] Despite this criticism, the evaluation itself still fails to assess whether the railway investments were productive.[34]

Some evaluations show grave deficiencies in World Bank projects. In 1983 a US$7 million loan was given for a tree planting project. The Bank justified the project on the basis that if households burnt wood rather than coal it would generate an economic return of 14 per cent – even though the Bank also stated that targeted households did not use coal![35] The internal evaluation found that farmers got their wood from indigenous woodlands so there was no demand for wood from the newly planted trees anyway. The evaluation stated that:

> There remains a tendency in both Bank and Government approaches to rural forestry strategies to underestimate the extent to which local communities and small farmers are already aware of the need for protection of indigenous woodlands and are spontaneously taking up tree planting … farmers did not clearly share the perspective expressed during appraisal that there were serious wood fuel shortages.[36]

Andrew Ashton / Flickr

Trees in Hurungwe, Mashonaland West, 2011. Mashonaland was the area in which most World Bank loan funded tree planting took place.

i. The World Bank has several constituent parts. The International Development Association is the part of the Bank which lends money to governments at lower interest rates, subsidised by grants from donors. It tends to lend to low income countries. The International Bank for Reconstruction and Development lends to government's at interest rates closer to market rates, so does not require any subsidy. It tends to lend to middle income countries.

Despite the fact the World Bank lent money for trees which were not needed because it had not asked farmers if they were short of wood, the cost of repaying the loan still falls entirely on the shoulders of the Zimbabwean government. In 1992 the Zimbabwean government itself said the Bank's spurious evaluation of an economic return had led it to agree to a loan when it should have asked for a grant.[37] But by then it was too late; the Bank insists repayments have to be made.

Another 1980s project was a jointly funded plan with UK CDC to subsidise private building societies to give loans for low cost housing in urban areas, followed by a second similar project in the 1990s. In total around US$110 million was borrowed from the World Bank.

The World Bank evaluation of the project says it successfully replaced public provision of housing with private, whilst giving no consideration as to where the revenues to repay foreign loans would come from.[45] The use of loans in foreign rather than domestic currency for locally produced housing seems unnecessary. For instance, it has been estimated that the total proportion of imports within the cost of the low income housing was 7.6 per cent.[46] Academic Dumiso Moyo argues the project failed because it didn't reach the poorest households who could not afford mortgages, whilst also leading to cuts in the provision of public sector housing.[47]

Box 1. Hwange coal power station

The largest World Bank loan in the 1980s was US$105 million disbursed between 1982 and 1991 to develop the Hwange Coal Power Station. A further US$250 million worth of loans was provided by the European Investment Bank, the UK government's CDC, private loans from British and Italian companies who would supply parts for the plant, a loan from the shadowy 'Eurodollar' private markets and Zimbabwean government general borrowing, including loans from private foreign banks.[38]

On completion the power plant produced less electricity than expected; 37 per cent below the World Bank prediction in 1987, and 25 per cent below in 1990.[39] The World Bank says that reasons for Hwange's underperformance included cost saving short cuts, the power station being unduly complicated, and the fact loans were tied to the use of British and Italian companies meant that scope for amending designs and competitive bidding were low.[40] Companies which worked on the power station included Babcock (UK), General Electric Company (UK), Ansaldo (Italy) and Mother & Platt (UK).[41]

During the construction of the power plant, the Zimbabwean dollar heavily devalued against the US dollar. This meant in Zimbabwean dollar terms the power plant cost 65 per cent more than estimated.[42] Because the loans were given in US dollars, this did not immediately impact on the project going ahead, but it had a huge impact on debt repayments. In terms of the Zimbabwean economy, the cost of the parts of the project paid for by foreign loans increased by 65 per cent.

The interest rates charged on the World Bank and UK CDC loans were 11.5 per cent. The World Bank on completion claimed that the economic return of the project was 13 per cent.[43] If true, this meant the impact of the power station on the Zimbabwean economy may have been just enough to meet interest payments. What the World Bank failed to take into account was that the devaluation meant that in terms of the Zimbabwean economy, the debt was 65 per cent higher than originally estimated, meaning the return on the project needed to be at least 25 per cent to meet debt repayments. The debt burden created by Hwange power station was far greater than any economic benefit.

Furthermore, a major condition of the World Bank loan was to increase electricity prices so that the Zimbabwean public electricity company would be able to use bills to pay 30 per cent of debt repayments. In fact, electricity prices ended up 7 per cent higher than demanded. However, because of the devaluation, and despite electricity price increases, electricity bills were only generating 18 per cent of the revenue needed to repay foreign loans by 1989;[44] the remainder had to come from central government. The World Bank's appraisal of the project regarded this as a political failure to raise bills – even though they had increased more than originally demanded – but paid no regard to the real problem; the excessively high debt created by building the power station.

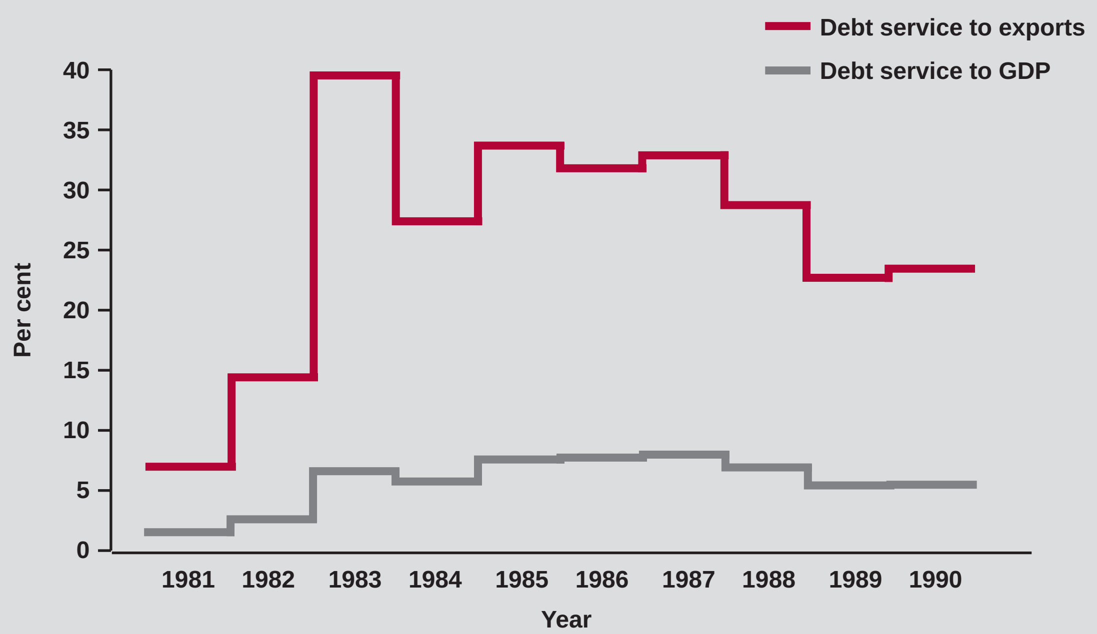
Other World Bank projects in the 1980s included loans with the German public development bank KfW for investments by small farmers. However, if farmers struggled to repay, all the costs fell on the Zimbabwean government. Similarly of US$10 million of loans given by the Bank to support small scale entrepreneurs, US$3.4 million plus interest was not repaid and so had to be funded by the Zimbabwean government, not the World Bank.[48]

In the mid-1980s the World Bank began to move into social spending, giving loans for a Family Health Project to improve the health of mothers and children. Effectively acknowledging that such social projects did not have a direct route to creating the return to repay a loan, the World Bank said repayments could be made because it projected the Zimbabwe economy would continue to grow by 4 per cent a year, and so the Ministry of Health would have the money in the future to meet repayments.[49] In reality under ESAP in the 1990s, the Zimbabwean growth rate fell. And whilst the economy was growing in the 1980s, devaluation meant that in US dollar terms – the key criteria for whether Zimbabwe could pay its foreign debts – the economy was shrinking by 3 per cent a year.[50] Devaluation itself was driven by the fall in prices of commodity exports, and the increasing burden of debt repayments.

The World Bank loans for all the projects above were disbursed in the 1980s and 1990s. The standard repayment terms for projects were 20 years, meaning repayments were due to continue well beyond 2000, when Zimbabwe defaulted on its debts to the World Bank. Our estimates of how much is still owed for each project is in the Appendix.

2.4 The impact of debt in the 1980s

Graph 4. **Debt service, 1981-1990 (per cent of exports and per cent of GDP)**[51]

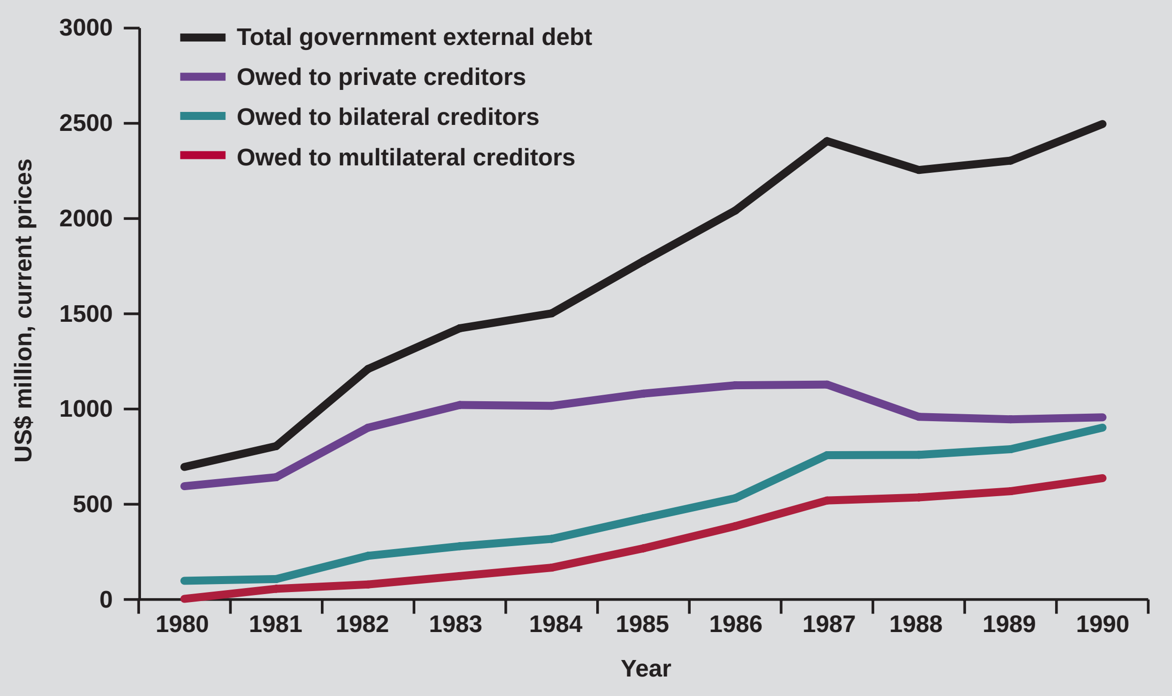


Payments on Zimbabwe's debt started to undermine the country's development. Initially payments increased in 1981 and 1982 as repayments of Ian Smith's war debt became due. But as total debt increased drastically in the early 1980s drought and as US interest rates shot up, so did repayments. In 1983 debt repayments topped US$500 million and remained above US$400 million for the rest of the decade. The huge debt repayment burden contributed to the recovery following the recession being slow.

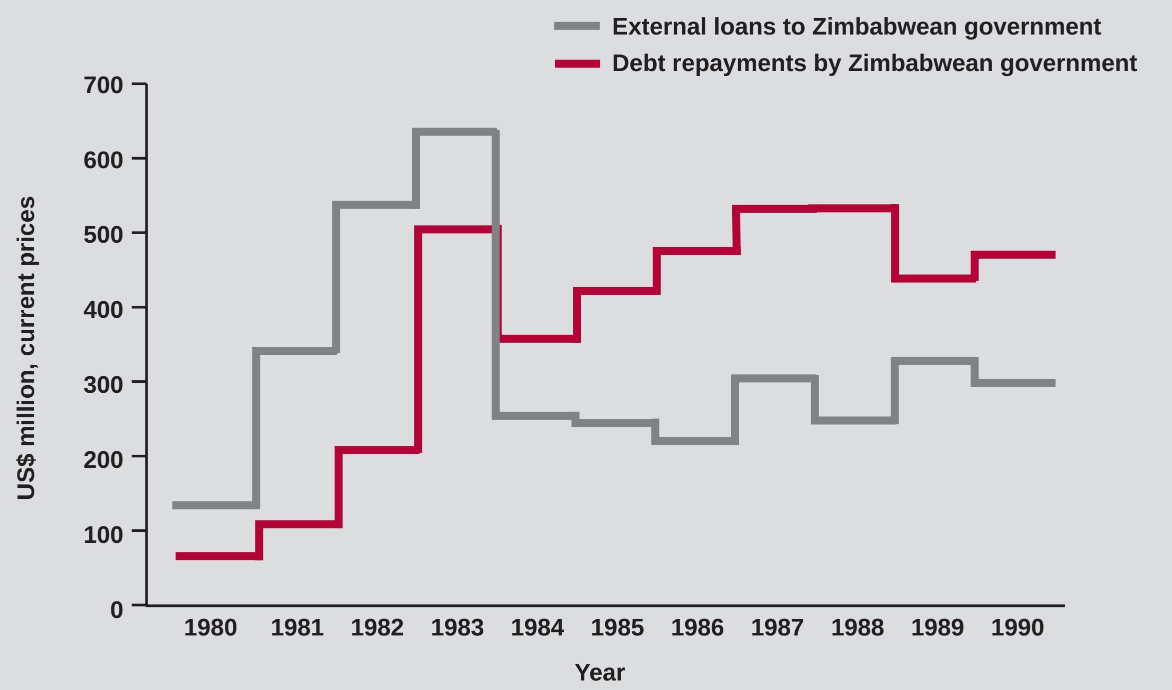
From 1983 onwards for the rest of the decade, an average of 30 per cent of Zimbabwe's exports were spent on debt repayments, causing resources and valuable foreign exchange to flood out of the economy.[52] Today, the IMF and World Bank regard any country paying more than 15 per cent of exports in debt service as potentially in *"high risk of debt distress"*.

From 1984 on, the Zimbabwean government was given new loans annually of more than US$200-300 million. Yet Zimbabwe's repayments on its debt were higher than these new loans. Despite this, the Zimbabwean government's foreign debt continued to increase through the 1980s. The only explanation can be that much of the repayment was interest. Despite the huge debt repayments, in the mid-1980s the World Bank was still saying that Zimbabwe had a *"satisfactory and sustainable debt situation"* in order to justify the giving of yet more loans.[53]

Graph 5. Zimbabwe debt in the 1980s (US$ million, current prices)[54]



Graph 6. Foreign loans disbursed to Zimbabwe government and debt repayments, 1980-1990 (US$ million, current prices)[55]



2.5 Social development in the 1980s

Whilst economic performance in the 1980s was weaker than hoped for, poverty fell. Infant mortality went down from 79 to 66 of every 1,000 births. Malnutrition in under-five-year-olds fell from 21 per cent to 12 per cent.[56] The average number of years a child spends in school increased from 6.5 in 1980 to 10.1 by 1990.[57] The UNDP Zimbabwe Human Development Report 1999 concluded that: *"Many of these health gains were brought about by direct public sector intervention."*[58] This public spending offset declining real incomes in the 1980s by reducing household expense on social services.

Despite criticising Zimbabwean government economic policies during the 1980s, in the early 1990s the World Bank said: *"In the 1980s the principal achievements of the Government in promoting development were undoubtedly in the social field … Zimbabwe's social indicators are now significantly ahead of other Sub-Saharan African countries and compare favourably with other developing countries."*[59]However, the social progress made in the 1980s was to come to an end in the 1990s.

3. 1990s: Adjustment, liberalisation and de-development

3.1 The economy in the 1990s

"In the 1990s, efforts to accelerate growth through better fiscal management and market liberalization largely failed. Social progress slowed, per capita incomes declined, and poverty increased." [60]

World Bank Operations Evaluation Department on Zimbabwe, 2004

Although Zimbabwe entered the 1990s with the economy growing and poverty falling, the country's debt served to undermine progress; 25 per cent of the country's earnings from exports were being spent on debt repayments, as was 25 per cent of government revenue.[61] The World Bank did not regard Zimbabwe's debt as a problem, arguing that Zimbabwe had avoided a *"damaging build-up of external debt"*.[62] Although debt burdens in other African countries were even higher, it remains baffling how such a blinkered view of Zimbabwe's debt could be seen.

The World Bank did criticise Zimbabwe for *"relatively disappointing"* growth, and argued that to increase economic growth and exports Zimbabwe needed to liberalise its economy from state control and reduce government spending in order to create more space for the private sector to thrive.[63] For example, from the mid-to-late 1980s the World Bank argued publicly that Zimbabwe's strategy of regulating imports in order to develop local industry had gone as far as it could. To speed up economic growth the Bank argued that trade liberalisation was now needed.[64]

The lobbying of international lenders worked. In 1990/1991 the Zimbabwean government began to implement a rapid liberalisation programme, called the Economic Structural Adjustment Programme (ESAP). ESAP was presented as being a homegrown policy from the government, and it certainly had a lot of support within the ruling party. However, lenders such as the World Bank also made ESAP a condition of Zimbabwe receiving new loans in order to be able to keep paying its huge debt.

The major features of the ESAP were cuts in government spending, trade liberalisation, deregulation of prices, devaluation of the exchange rate and removal of labour laws. For example, security of employment regulations were removed making it easier to sack workers. Measures to improve conditions for multinational companies included allowing greater profit remittances by multinational companies, moving to 100 per cent of profits being allowed to be taken out of the country by 1994/95.[65]

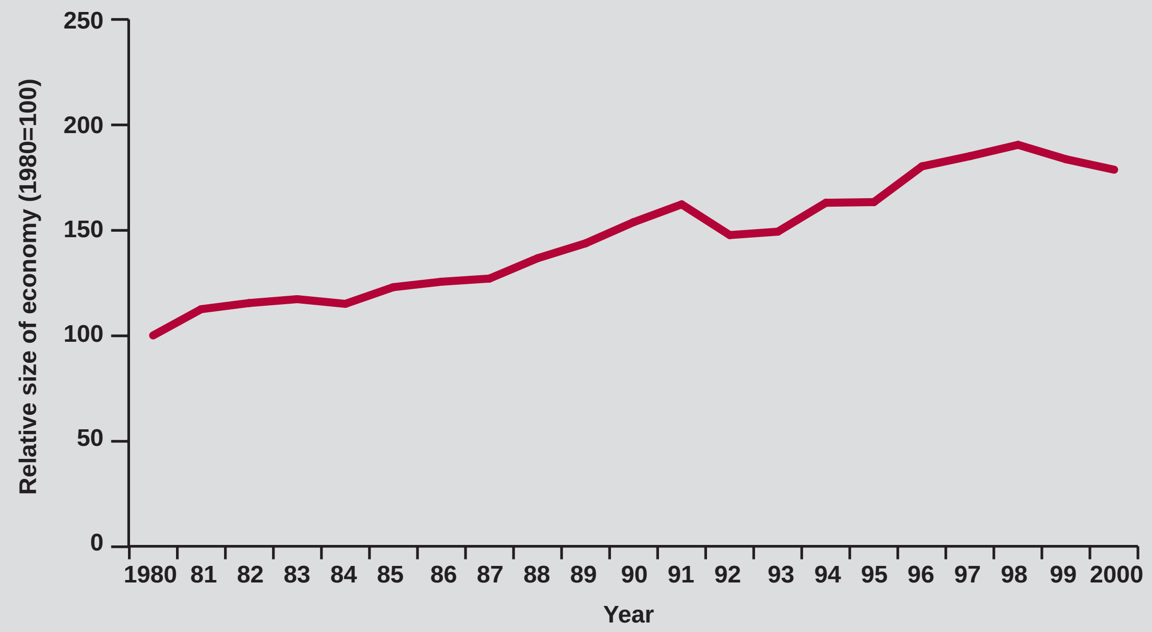
In 1992 the IMF, followed by the World Bank, began dispersing loans to support the ESAP, and they were soon accompanied by other lenders such as the African Development Bank and donors such as the Danish, British, German and Swedish governments.[66]

Just as the adjustment programme was beginning, Zimbabwe was hit by its most serious drought since 1967. Maize production fell 25 per cent in 1990-91 and a further 33 per cent in 1991-92. Absurdly, the Grain Marketing Board was still obliged to export 0.6 million tonnes of maize in 1990-91 in order to meet adjustment targets for exports. Meanwhile 1.9 million tonnes of maize had to be imported to cover the food deficit, mainly on commercial terms rather than with any aid assistance. If the 0.6 million had not been exported, it would have saved US$200 million in foreign exchange.[67]

By December 1992 6 million of Zimbabwe's 10 million population were registered for drought relief. Once again loans were given to help Zimbabwe deal with the impacts of the drought. The country really required grants – or a moratorium on debt repayments – to deal with the emergency. In their absence, the debt created by the drought loans meant the impact of the natural disaster continued years later with the debt repayments required on vital emergency 'aid'.

Following the drought recovery was slow, and there was no sign of the accelerated growth promised by the World Bank. Between 1991 and 1997 economic growth averaged 2.9 per cent, well below the rate in the 'disappointing' 1980s.[68] Naiman and Watkins summarise that in the case of Zimbabwe *"economic crisis actually followed rather than preceded the implementation of structural adjustment"*.[69] Yet in 1995 the World Bank's evaluation of its first structural adjustment loan was that, whilst the drought had constrained the programme, in general it had *"progressed well"*.[70]

Graph 7. **Relative size of Zimbabwe's economy, 1980-2000**[71]



Graph 8. Size of Zimbabwe's economy, 1981-2000 (US$ billion, 2007 prices)[72]

Rather than creating new jobs, under the structural adjustment programme unemployment shot up from 30 to 50 per cent.[73] Using alternative figures, the African Development Bank says unemployment increased from 22 per cent in 1992 to 35 per cent in 1996.[74] The proportion of Zimbabweans living below the poverty line increased from 40 per cent in 1990 to 75 per cent by 1999.[75]

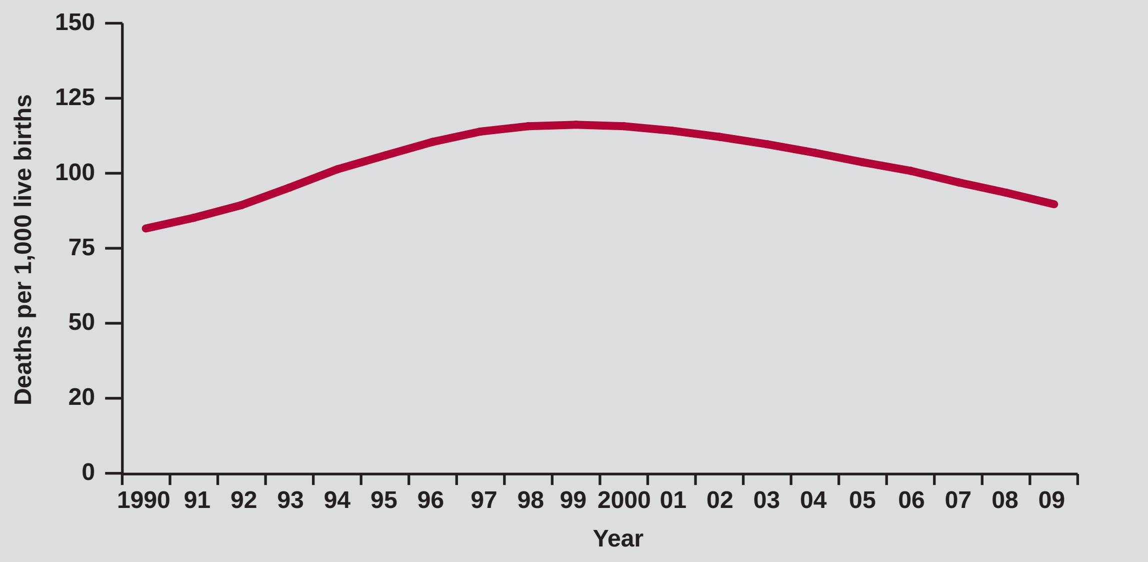
Reflecting worsening inequality, while during the 1980s an estimated 45 per cent of domestic income had gone to wage earners and 55 per cent had gone as profit to those with capital, during the 1990s this disparity widened, with 40 per cent of income being in wages, and 60 per cent in profit.[76] Much of the burden fell on women who often assume responsibility for making ends meet when real incomes fall. There was a trend to women taking on several jobs in the formal and informal sectors, increasing their workload and adding to their 'dual burden' as primary carers of the family.[77]

The increase in unemployment, poverty and inequality was reflected in worsening social outcomes. The number of women dying in childbirth increased from 390 to 670 per 100,000 live births between 1990 and 2000.[78] The number of children dying before their fifth birthday increased from 81 to 116 per 1,000 between 1990 and 1999.[79] Additionally, the proportion of the population undernourished increased from 40 to 46 per cent between 1991 and 1996.[80] In 1999 the UNDP Zimbabwe Human Development Report stated that *"over three-quarters of the rural people in communal areas are poor and cannot even meet their basic nutritional needs"*.[81]

The significance of these deteriorating social conditions was largely ignored by the World Bank and IMF.[82] In 1995 the World Bank praised Zimbabwe's structural adjustment programme as *"highly satisfactory"*.[83] Such optimism continued through the decade, with the World Bank praising Zimbabwe in 1997 for implementing its structural adjustment programme *"with determination and persistence"*.[84] However, by 1999 the World Bank resident representative in Zimbabwe, Thomas Allen, was telling the Structural Adjustment Participatory Review: *"From the broader perspective of poverty and human development, the programme design itself was flawed, particularly in the underestimation of its social consequences."*[85]

Uncovering Zimbabwe's debt

Graph 9. Under-five mortality rate, 1990-2009[86]



INDIVIDUELL MÄNNISKOHJÄLP / Flickr

Child running through a field of maize, Honde Valley, 2006

Table 1. The reality of structural adjustment during the 1990s

Structural adjustment goals	Real outcome in Zimbabwe
Economic growth to increase	Economic growth fell from averaging 4.5 per cent in the 1980s to 2.9 per cent between 1991 and 1997.
Balance of payments more positive	Balance of payments became negative. There was a trade surplus every year from 1985 to 1990, averaging 2 per cent of GDP. Between 1991 and 1997 there was a trade deficit in all but one year, averaging 5 per cent of GDP.
Unemployment to fall	Unemployment increased, from 22-30 per cent to 35-50 per cent.

3.2 Drought loans

Giving loans, rather than grants, to cope with the drought yet again made little sense. There is no way emergency loans can be invested to enable their repayment, and so yet again the effects of the drought continue to this day in the huge debt burden created.

Loans directly in response to the drought included US$120 million from the World Bank between 1992 and 1995 for an 'Emergency drought and recovery and mitigation project'. Around half the funds for the 'project' were used to import food, with the World Bank estimating the total foreign exchange cost was over US$450 million.[87] The World Bank delayed giving loans for drought or adjustment until 1992 to make sure the Zimbabwe government was serious about implementing adjustment policies.[88] We estimate this drought loan continues to make up around US$150 million of Zimbabwe's debt to the World Bank.

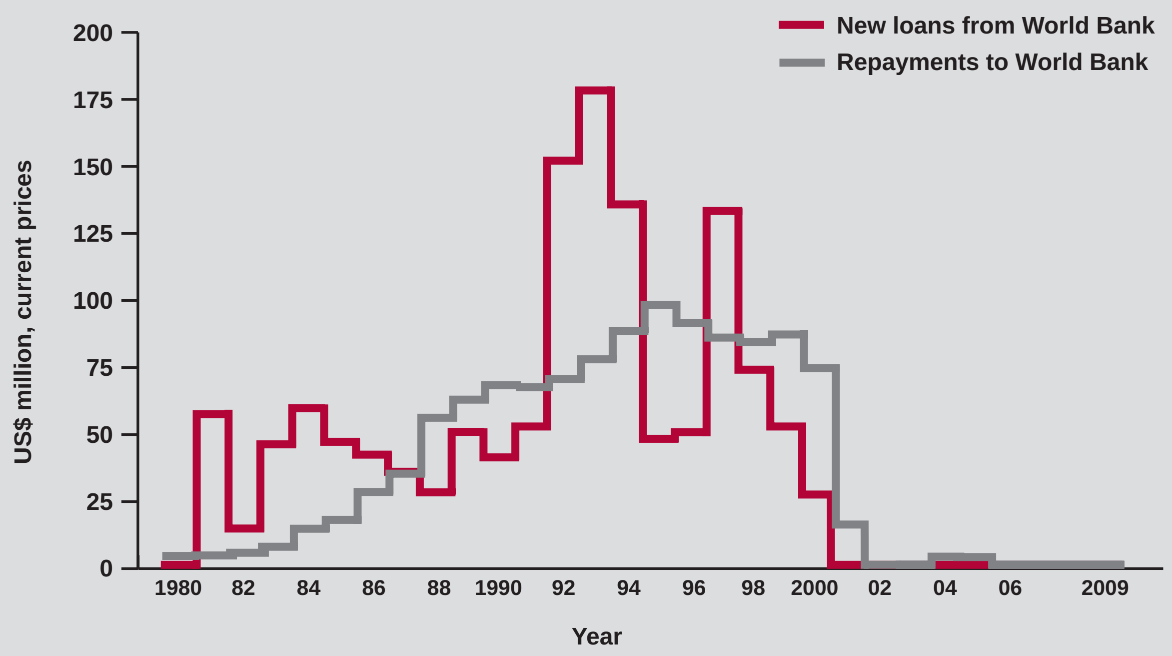
3.3 Structural adjustment loans

The largest World Bank loans during the 1990s were for structural adjustment. Rather than being invested in projects, such loans were effectively used to 'buy' economic liberalisation from the Zimbabwean government. There is no record of what the loans were spent on, but they were presumably used primarily to meet old debt repayments. This effectively bailed-out private lenders who had given loans in the 1980s. The percentage of the Zimbabwean government's foreign debt owed to private creditors fell from 40 per cent in 1990 to just over 10 per cent towards the end of the decade.[89]

Based on the original loan documents, and the date of Zimbabwe's default, we estimate US$370 million of Zimbabwe's debt to the World Bank comes from structural adjustment loans.

The African Development Bank also gave loans to support structural adjustment, starting in 1991, disbursing US$200 million. The African Development Bank's evaluation of structural adjustment was that it was: *"mixed – on the positive side, the economy is more or less deregulated. On the negative side, the performance of the economy continues to be uncertain"*.[91] If the African Development Bank loans were on the same terms of those of the IBRD, then the current amount still owed would be US$240 million, roughly half Zimbabwe's debt to the African Development Bank.

Graph 10. World Bank loans to, and repayments from, Zimbabwe, 1980-2009 (US$ million, current prices)[90]



The impact of structural adjustment is discussed in more detail below. However, the World Bank's 2003 evaluation of its structural adjustment loans says the Bank's own performance was *"unsatisfactory"*, while that of the Zimbabwean government was rated *"highly unsatisfactory"*. The evaluation says extreme poverty increased from 26 per cent of the population in 1990/91 to 35 per cent in 1995/96. The Bank says it: *"under-estimated government concerns about the impact of reforms on the distribution of income and assets and on the racial divide inherited at independence"* and that, shockingly, *"The social impact of reforms was not monitored during 1991-96"*.[92]

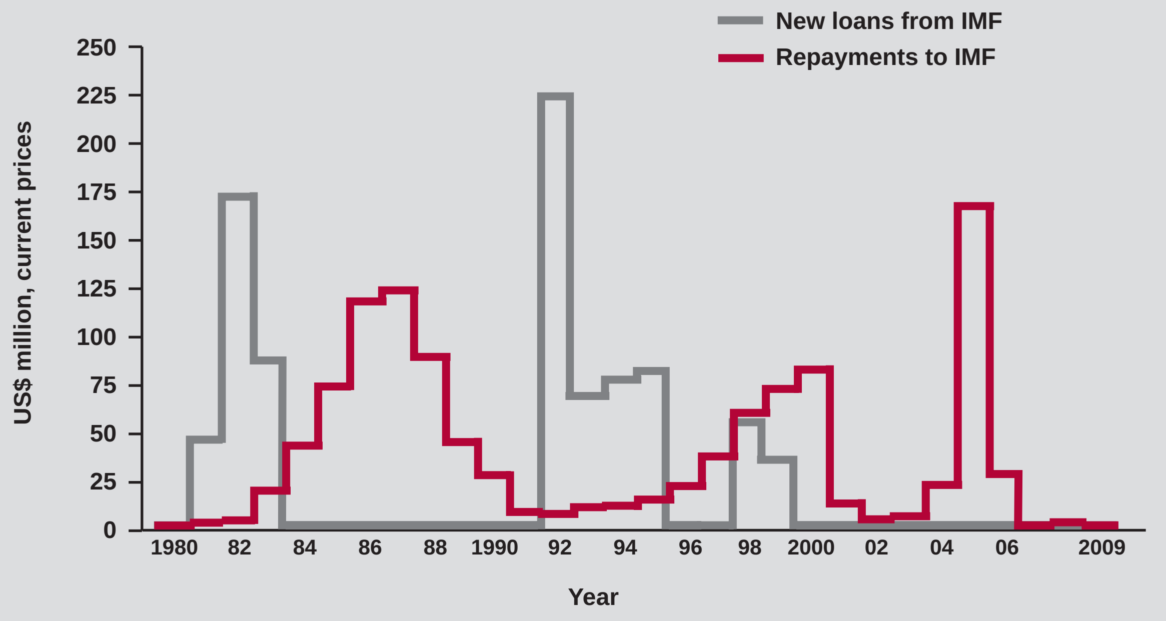
The Bank says the trade liberalisation and investment deregulation carried out under ESAP were successful, but that financial liberalisation and tax reductions increased government deficits and led to higher interest rates, limiting investment.[93] The Bank also criticises itself for continuing to lend to Zimbabwe from 1997 on after the Zimbabwean government implemented unbudgeted spending increases.

The IMF disbursed US$440 million in loans between 1992 and 1995 both to 'support' the structural adjustment programme, and to 'assist' in response to the drought. The IMF loan was initially at its standard interest rates, though in May 1992 following the extreme drought, further disbursements were made with lower rates of interest.[94]

The early 1990s loans were followed by further loans of US$90 million in 1998 and 1999.[95] The 1998 and 1999 loans were given primarily to meet repayments due on old IMF loans; in 1998 Zimbabwe repaid US$58 million and was given a new loan of US$53 million by the IMF. Money was moved from one bank account in the IMF's office in Washington DC to another. Since 1992, Zimbabwe has repaid US$540 million to the IMF, slightly more than it has been lent, but still owes US$150 million.[96] All of this effectively comes from the original early 1990s structural adjustment and drought loans.

Uncovering Zimbabwe's debt

Graph 11. IMF loans to, and repayments from, Zimbabwe, 1980-2009 (US$ million, current prices)[97]



3.4 Project loans in the 1990s

As well as structural adjustment loans, the World Bank continued to give loans for projects through the 1990s. From 1991 to 1997 US$25 million was loaned for a second family health project, following the first one in the 1980s (see above). The World Bank evaluation is that the impact of the project on health was less than expected because of the *"faltering economy"*, less government spending on health and the rapid increase in HIV/AIDS.[98]

The World Bank health project was being undermined by the impacts of adjustment, but again the money was given as loans so left Zimbabwe with an increased debt burden. Once again, the evaluation fails to consider whether an external loan for healthcare is in any way suitable. Furthermore, World Bank lending for health care in the 1990s also came with conditions to bring in user fees for health services. Patrick Bond writes that: *"In 1992, within a year of the implementation of user charges, the maternal mortality rate had doubled even in Harare due to fees imposed for ante-natal checkups and hospital care."*[99]

We estimate despite making interest and principle repayments in the 1990s, Zimbabwe continues to owe US$28 million for an inappropriate healthcare loan. The Spanish government also gave the equivalent of €28 million of loans for Spanish healthcare equipment during the 1990s; €8 million of which is still owed.[100]

The World Bank responded to the devastating AIDS crisis by giving loans of US$50 million from 1993. Just as with drought, giving loans rather than grants to deal with a crisis such as AIDS is morally unacceptable and economically inappropriate. The World Bank evaluation of the project ignores any discussion of the economic suitability of a loan, simply saying economic and financial rates of return were *"not calculated for the project"*.[101] Overall the World Bank evaluated its own performance as *"unsatisfactory"* saying that: *"For a long time, during project implementation the level of importance given to AIDS by Bank management was lower than it should have been."*[102] Yet we estimate this project still makes up US$55 million of Zimbabwe's debt.

Between 1990 and 1997 US$36 million was disbursed to supply credit to farmers and increase production of export crops. The World Bank's evaluation said the outcome of the project was 'mixed'. In particular, small farmers struggled to repay loans – investments funded by the project failed to increase production enough – which pushed the debt burden onto the central government. The World Bank says major factors which impacted on the project included the structural adjustment programme, the speed of the Zimbabwean Agricultural Finance Corporation to respond to economic changes under adjustment, and the droughts of 1991/92 and 1994/95.[103] Despite making repayments on the project, we estimate total debt outstanding from this project is now back to US$36 million.

We estimate US$42 million is outstanding on loans from IBRD for a railways project, which also included bilateral loans from the German public bank KfW, and the Finnish, Swiss and Austrian governments. The World Bank evaluation reports that the project helped move Zimbabwe railways away from hiring expensive South African locomotives and wagons and made the railways more efficient, primarily through cutting staff numbers from 17,000 to 10,000. However, through the mid-1990s railway traffic fell due to the economic disruption of the adjustment programme. The World Bank estimates that the financial rate of return on the project was only 10 per cent, compared to a projection of 50 per cent at the start of the project.[104] It is yet again doubtful even on the World Bank's own analysis that the project created the return to repay loans.

From 1994, IBRD began disbursing US$89 million for a third power project, primarily to improve the performance of Hwange power station. As with the original Hwange project, devaluation led to far more debt being created than originally intended. The World Bank evaluation found that the financial rate of return on the project was between -1.1 and 5.3 per cent.[105] There appears to have been no consideration of reducing the US$ valued loan amount in response to the devaluing of the Zimbabwean dollar. Again the World Bank pushed for increases in electricity tariffs to pay for the ever increasing debt of the Zimbabwe Electricity Supply Authority. We estimate with repayments of principle due to begin in 1999, the debt from this project has now increased to US$113 million.

One of the last loans given to Zimbabwe was US$30 million disbursed between 1996 and 2000 to provide credit for small businesses. The World Bank says there was effectively a negative financial return on the project as the deterioration of the Zimbabwean economy severely impacted on small business borrowers.[106] The Bank blames external economic shocks such as the Asian Financial Crisis and devaluation of the South African Rand, as well as the government's unbudgeted spending increases, the war in Democratic Republic of Congo and the land occupations for causing this crisis. Loan disbursements on the project were only suspended in 2000 when Zimbabwe defaulted on its World Bank debts. The significance the World Bank attributed to several external factors, which seem characteristic of the volatile nature of the global economy, throws into question how well-thought-out the loans and projects actually were.

Gerry Labrijn / Flickr

The road and railway bridge over the Zambezi which connects Zimbabwe to Zambia

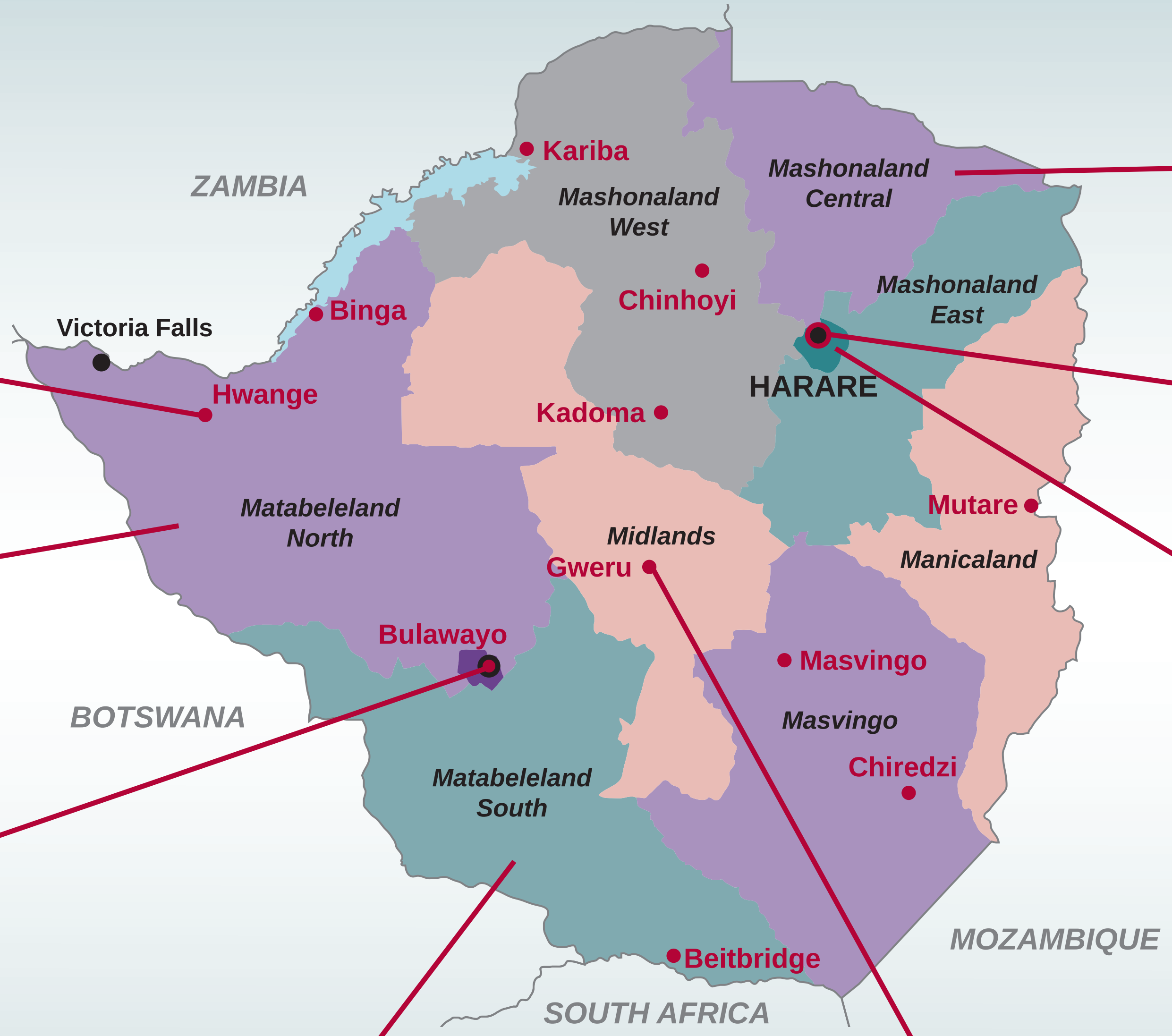
Mapping Zimbabwe's debt

The 1992 drought affected the whole country, with maize yields drastically down in every region. US$600 million was spent on debt repayments despite the drought, whilst US$700 million of new loans were given to help the country cope.

The largest World Bank loan in the 1980s was for Hwange coal power station, which also led to debt being owed to the UK government and others. The power plant was far too expensive to generate the resources to repay the loans.

The early 1980s drought affected the whole country, but the border regions more than the centre. Zimbabwe's large debt was first created with loans in the drought years of 1982 and 1983 of $540 million and $640 million.

Unemployment shot-up during structural adjustment in the 1990s. Unemployment has tended to be highest in Zimbabwe's second city Bulawayo. US$760 million is owed to the World Bank, African Development Bank and IMF for structural adjustment loans.



The World Bank gave loans for tree planting in regions such as Mashonaland, despite there already being a plentiful supply of wood for locals.

Chinese loans equivalent to US$100 million for a defence college in Harare are the latest in a long line of foreign government loans for unproductive purchases.

US$33 million of debt owed to the UK comes from loans for the police to buy British-made Land Rovers.

Matabeleland South was one of the regions targeted by the World Bank's health loans in the 1990s. The World Bank says the impact of loans was less than expected because of the faltering economy and lower government health spending in the wake of adjustment.

Thornhill airfield in Gweru is one of the two main bases of the Zimbabwean air force. US$16 million of debt owed to Spain comes from loans to buy military equipment including aircraft.

3.5 The impact of debt in the 1990s

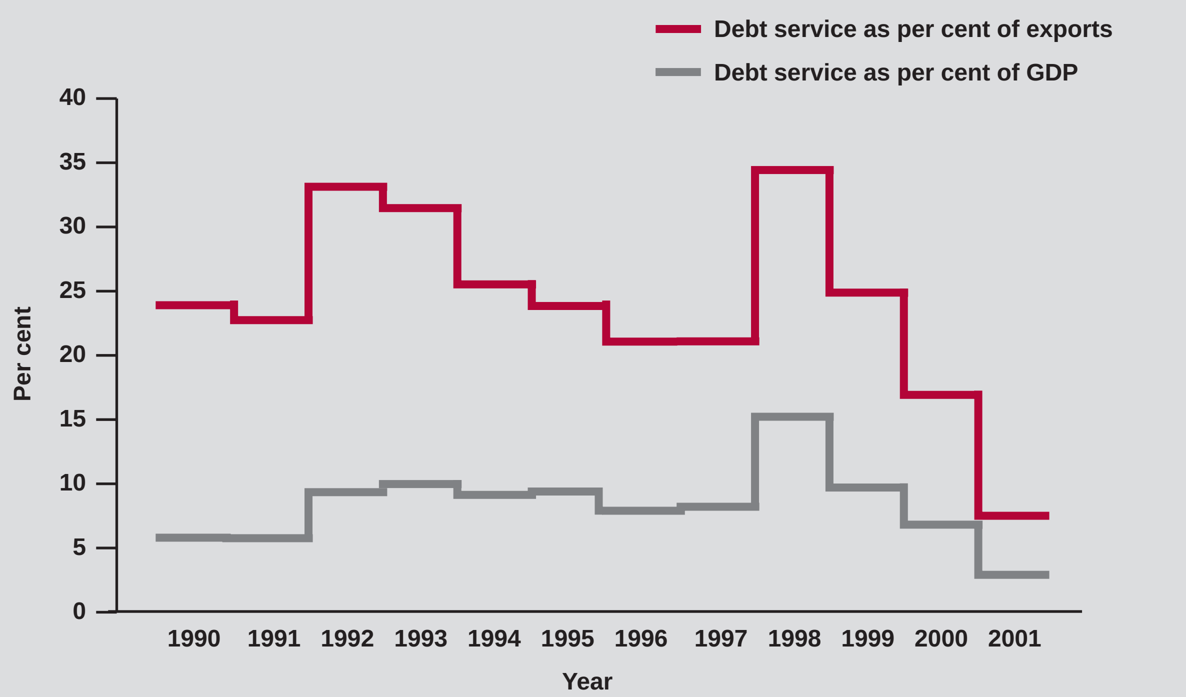
Through the 1990s Zimbabwe continued to pay around US$600 million a year in debt repayments. In 1991 and 1992 debt shot up as new loans were given in order to 'support' the structural adjustment programme and in response to the devastating drought. But even during the 1991/92 drought years debt repayments were almost as high as the new loan disbursements. As the 1990s continued loan disbursements fell though debt repayments remained high, shooting up to US$1 billion in 1998 – a gigantic 15 per cent of national income. In the early 1990s, Zimbabwe's debt service once again reached 30 per cent of exports, and stayed above 20 per cent until default in 2000.[108]

From the mid-1990s the combination of repayments and lack of new loans meant that Zimbabwe's debt finally began to fall; but this meant the net outflow of resources (the difference between loan disbursements and repayments) from the country increased. By 2000 the government simply could not afford to keep paying its foreign debts. In 2000 the government began to default on loans.

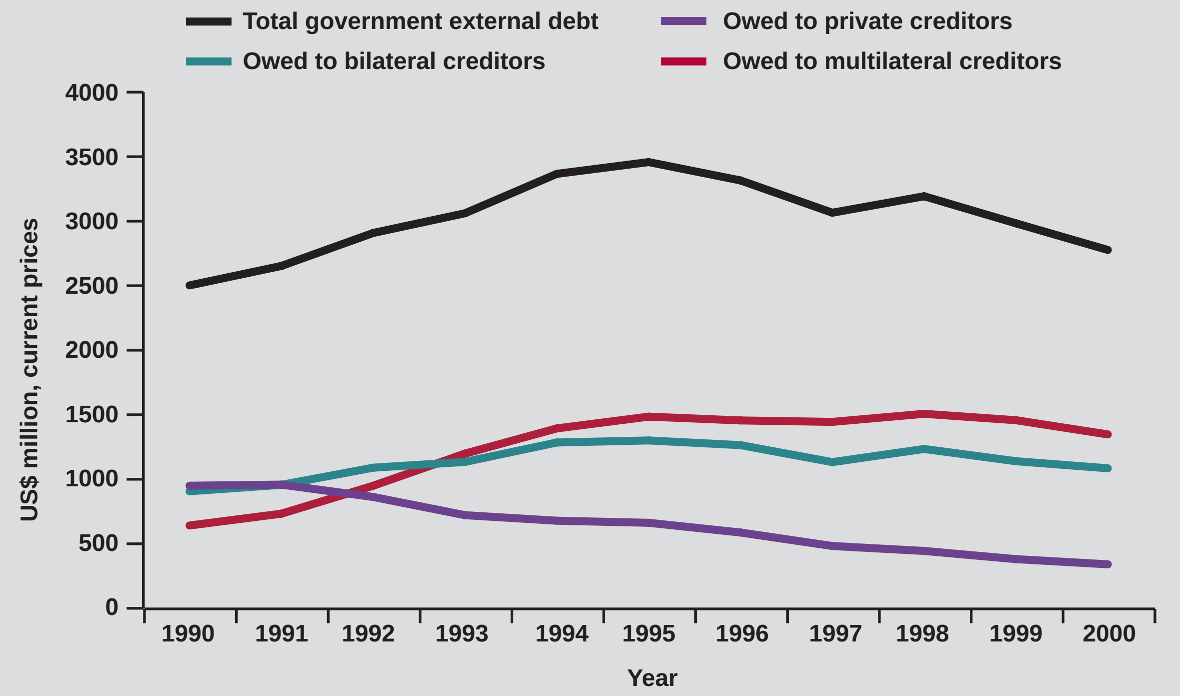
Through the 1990s, debt owed to private creditors fell. Private banks were effectively being bailed-out by the multilateral lenders. Structural adjustment loans were used to repay foreign private debts so that Zimbabwe would not need to consider defaulting. By the time Zimbabwe eventually defaulted, much of the debt owed to foreign private creditors had been paid off.

Protesters form a human chain in Harare calling for Zimbabwe's debt to be dropped, December 1998

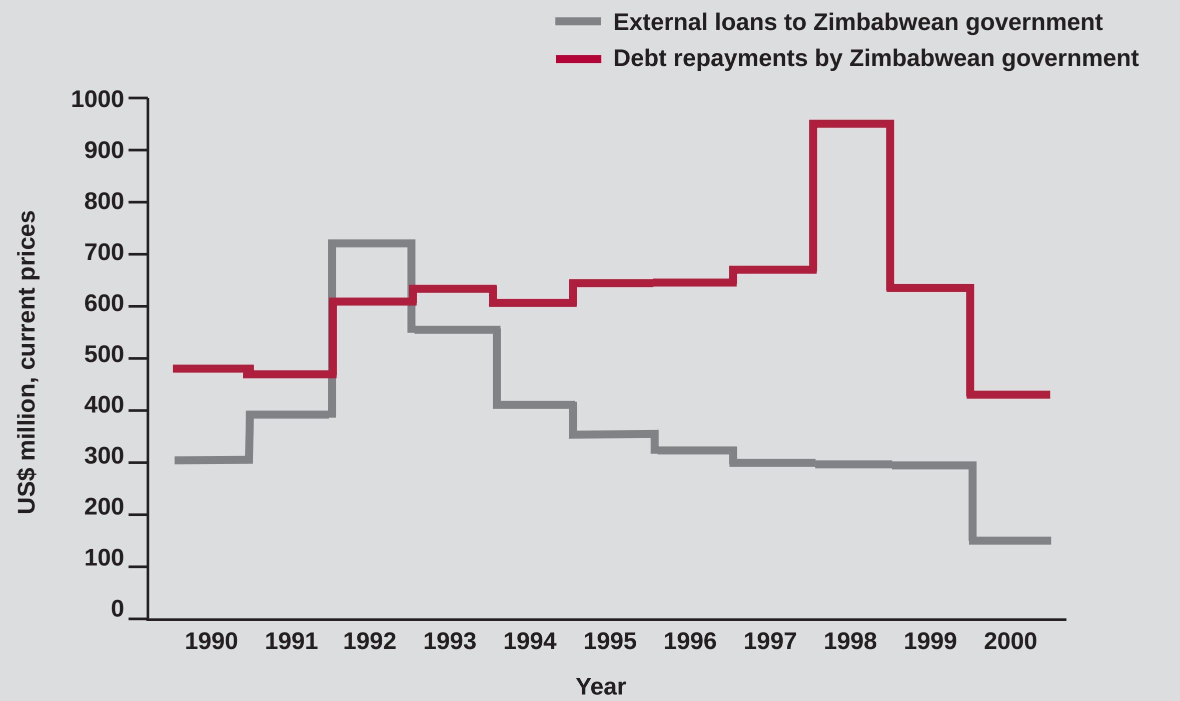
Graph 12. Debt service 1990-2001 (per cent of exports and per cent of GDP)[107]



Graph 13. Total external debt 1990-2000 (US$ million, current prices)[109]



Graph 14. Foreign loans disbursed to Zimbabwe government and debt repayments, 1990-2000 (US$ million, current prices)[110]



In 1996 the IMF and World Bank first launched the Heavily Indebted Poor Countries (HIPC) initiative. The HIPC initiative aimed to reduce debts for some countries down to a more 'sustainable' level. In 1996, to qualify for the HIPC process a country had to be low income, borrowing from the World Bank IDA. It also had to have a total debt stock-to-exports ratio of 200-250 per cent, after receiving traditional debt relief from the Paris Club group of rich country creditors. In 1996 Zimbabwe qualified on neither count, being considered rich enough to borrow from IBRD as well as IDA. Its total external public debt stock-to-exports ratio was 'only' 140 per cent, before any debt relief from the Paris Club.

By 1999 just seven countries were eligible for HIPC, with only four having received any debt relief,[111] and even these still had very high debts.[i] Under pressure, the IMF and World Bank expanded HIPC criteria by lowering the threshold to total external public debt being 150 per cent of exports. Again, Zimbabwe probably fell under this level in 1999, especially following any Paris Club traditional debt relief. But Zimbabwe was also still classified as too rich for HIPC.

There are many flaws in the HIPC scheme, one of which is the condition that to qualify a country has to follow IMF and World Bank structural adjustment policies, the impact of which in Zimbabwe we now return to.

3.6 The impact of structural adjustment

3.6.1 Trade liberalisation

Manufacturing in Zimbabwe had developed through government investments during World War II when imports from Europe were not possible. After the UDI regime declared independence in 1965, international sanctions caused a rapid increase in manufacturing production to make up for no longer available imports. The manufacturing sector grew by 9 per cent a year between 1966 and 1974, though this growth rate then fell with the rising costs of war.[112]

After independence, Zimbabwe had effectively protected domestic producers from international competition through a foreign exchange allocation system. The allocation of valuable foreign exchange was controlled by the government. Businesses and local people could only obtain foreign currencies such as dollars or pounds sterling to buy imports as these currencies were allocated to them by the government. Therefore, the buying of imports was heavily constrained, protecting domestic producers and manufacturers.

Under ESAP the foreign exchange allocation system was abolished. Taxes on imports were brought in to help in the transition, though these were rapidly removed through the 1990s. The sudden incentive for imports was meant to be counter-balanced by a devalued exchange rate. However, between 1990 and 1997 imports grew at an average rate of 10 per cent a year, compared to 7 per cent growth of exports.[113] The drought also caused food imports to increase in 1991 and 1992 in particular. Rather than solving a balance of payments crisis, the adjustment process helped to create one. In contrast, in the 1980s Zimbabwe's balance of payments had improved, with exports growing at 3 per cent a year compared to 2 per cent growth of imports. Zimbabwe had a trade surplus in every year between 1985 and 1990.[114]

The IMF and World Bank argued liberalisation would create export-led growth through greater integration with international trade. As a share of GDP, Zimbabwe's international trade increased from 40 per cent at the turn of the decade to over 100 per cent by 1998.[115] But this increase in trade did not produce the desired increase in economic growth.

One important manufacturing sector was textiles, clothing and shoes. Prior to liberalisation, the World Bank had estimated that the textile sector was competitive and should generally expand production, crucially of exports, in a liberalised economy.[116] Initially import tariffs for textiles were set at 60 per cent, but soon fell to 15 per cent. These reductions were greater than the devaluation of the exchange rate, making imports relatively cheaper.

As has been repeatedly seen across Sub-Saharan Africa, second-hand clothing flooded the market, putting domestic producers out of business. Whatever the ability of textile companies to compete with overseas producers, there was no way they could compete with the dumping of second hand clothes. In the mid-1990s, the textiles, clothing and footwear manufacturing sectors collapsed. During the 1980s textiles, clothing and footwear manufacturing had grown by 12 per cent a year in real terms. In 1995 alone, textile output contracted by 61 per cent and clothing and footwear by 20 per cent.[117] By 1995, total manufacturing production across all sectors had fallen by 20 per cent.[118]

i. Bolivia, Guyana, Mozambique and Uganda had received debt relief, on average cancelling just 30 per cent of their debt. Burkina Faso, Cote d'Ivoire and Mali were also judged eligible for debt relief.

Uncovering Zimbabwe's debt

3.6.2 Public spending

The government anticipated that cuts in spending and the adjustment programme would hit the poor. The initial 1990 adjustment policy statement said:

> Structural adjustment programmes are usually accompanied by social problems, especially to the vulnerable segments of society such as the poor and unemployed. With market forces determining price levels, in the short-term prices are bound to increase beyond the reach of the poor and this can lead to social unrest. Government will therefore take measures to cushion the poor against such possible adjustment effects.[119]

However, with cuts in government spending part of the adjustment programme, social protection spending was limited. Social spending became more dependent on external aid, which also fell short of expectations.[120] Government spending on social sectors declined.

Following the introduction and increase in user fees for healthcare in the early 1990s there were declines in out-patient attendance. Real per capita expenditure on healthcare fell by 40 per cent between 1990 and 1994.[121] Having increased from 3 per cent in 1980, public expenditure on education fell from 5.9 per cent of GDP in 1990 to 4.6 per cent of GDP by 2000.[122] Large increases in user fees in education were found to impact particularly negatively on female enrolment in school.[123]

Despite the cuts in public spending, the government's budget deficit was more than 10 per cent throughout the ESAP era,[124] and foreign debt as a percentage of GDP continued to increase.

3.6.3 Inflation

Following liberalisation inflation shot up across the country. There were competing reasons for the rampant inflation:

- devaluation increasing the cost, and so price, of imports
- sudden liberalisation of prices, allowing them to increase rapidly
- specific factors, such as large increases in food prices due to lower production. As well as the drought, the World Bank said the removal of fertiliser subsidies reduced yields from communal farmers,[125] whilst commercial farmers shifted away from food crops to export crops such as tobacco.

Food prices increased the most; 14-fold between 1990 and 1999. This is in comparison to a 9-fold increase in the price of healthcare, 6-fold increase in energy and 5-fold increase in clothing.

The IMF-conditioned response to the high inflation which follows adjustment is to increase interest rates in order to reduce economic activity, holding back inflation. High interest rates helped to push up the government budget deficit and put private companies into further financial difficulty. However, they are also supposed to attract savings, keeping capital in the country for productive investment. However, in Zimbabwe there is evidence almost the opposite happened. Commercial banks charged the high interest rates but did not pass them on to local savers, discouraging new saving. This led to record profits for banks such as Barclays. Financial liberalisation meant it was easier for these profits to be taken out of the country by the business and political elite.[126] High interest rates may actually have increased rather than decreased capital flight.

3.6.4 Investment

One target of the adjustment programme was to increase domestic saving to 25 per cent of GDP in order to provide capital for investment. However, this target was never met, with the savings rate averaging 16 per cent between 1991 and 1998.[127]

A central measure in the ESAP programme was to increase interest rates to encourage people to save, thereby creating more resources for investment. However, the high interest rates made it more difficult for businesses to invest. And for most Zimbabweans, high rates provided no incentive to save because, as Financial Gazette commentator Henry Bloch said at the time:

> By far the greater part of Zimbabwe's population exists at or below the Poverty Datum Line and, unavoidably, must therefore spend what funds as they may be able to obtain on meeting the costs of the absolute essentials of life. Therefore, no matter how much they may desire to do so, they are unable to save and invest, irrespective of the attractiveness of interest rates.[128]

High interest rates and uncertainty and low returns in the real economy led to money switching from productive sectors such as building societies and the stock exchange to speculating on money markets. Liberalisation of the financial sector actually increased speculative rather than productive investment.[129]

The newly liberalised economy was also meant to lead to greater inflows of private foreign capital. Foreign direct investment did grow during the adjustment period, though not by as much as expected by the IMF and World Bank.[130] Similarly to domestic investment, there was a greater increase in more speculative short-term foreign loans to the Zimbabwean private sector, attracted by high interest rates and enabled by liberalisation.[131] This is reflected in figures for the Zimbabwean private sector's debt owed outside the country, which increased from US$800 million in 1990 to US$1.8 billion by 1997.[132] These speculative inflows further exacerbated Zimbabwe's debt crisis. In 1997, the sudden outflow of such speculation led to a dramatic collapse of the Zimbabwean dollar (see below).

3.6.5 Agriculture

Through the 1980s investments in the communal farming sector (as opposed to commercial) were successful, with their share of agricultural output rising from 5 per cent in 1980 to 18 per cent by 1989. However, the World Bank insisted that government support for communal lands cease at the end of the 1980s.[133]

The support which had been provided to communal farms in the 1980s was drastically cut in the 1990s. Extension services, subsidies for inputs such as fertilisers and soft loans were all removed. Centralised purchasing systems were also removed, 'freeing' farmers to sell to their own markets. In reality, small farmers had to sell following harvests at a low price to middle men who gained from the newly liberalised system.[134]

Demonstrating the broader trend of widening inequality, most advantages from the structural adjustment programme were mainly felt by the commercial agriculture sector, which benefited from the devaluation and liberalisation of prices. This was a conscious design of the adjustment programme to increase exports, partly in order to earn the money to pay foreign debts. Commercial farmers shifted away from growing food crops to horticultural products for export. Production of flowers, fruit and vegetables for export increased by almost 400 per cent in the 1990s. Meanwhile maize production fell. Zimbabwe became increasingly food insecure, with changes in global prices or exchange rates quickly affecting food security in the country.[135]

The fall in production from communal farms following the removal of state support also benefited the commercial sector due to the fall in competition and so higher food prices. As a share of agricultural production, the commercial sector increased from 68 per cent in 1989 to 81 per cent by 1993, reversing the communal sector gains of the 1980s.[136]

4. 2000s: Crisis and de-development

4.1 Opposition and crisis

The impact of ESAP led to increasing protest against the government and its economic policies. In 1993 and 1995 there were 'bread riots' in poor suburbs of Harare against rising prices. Public sector workers went on strike in 1996 and private sector employees followed with mass strike action in 1997.[137] The political unrest led to the creation of the opposition Movement for Democratic Change (MDC).

The economic and political turbulence in Zimbabwe reached crisis point in 1997. The impact of structural adjustment caused large scale protests from trade unions and civil society against the government. Riots took place against price rises which led to the government reintroducing price controls, as well as a customs tax on imported luxury goods and capital controls to try to prevent money flooding out of the economy. However, in 1998 the IMF insisted these policies be dropped in return for giving new loans to pay old debts.[138]

On 14 November 1997, commonly referred to as 'Black Friday' there was a sudden 40 per cent drop in the value of the Zimbabwe dollar. The government had announced unbudgeted payments and new pensions for 50,000 veterans of the liberation war, almost certainly to get them onside as allies during the political unrest. Initially the government sought to fund these payments through a new levy, but this was prevented by trade union demonstrations. Instead the government borrowed and printed money, causing further devaluation and inflation.[139]

Meanwhile, in rural arrears, war veterans and hungry rural peasants began occupying farms, sometimes forcibly. The percentage of the rural population living below the poverty line had increased from 36 per cent in 1991 to 48 per cent by 1996.[140] Whilst beginning around 1998, it was 2000 when the major occupations began. In time the government came to back the occupations as another means of maintaining itself in power.[141] Furthermore, the military intervened in the war in the Democratic Republic of Congo, costing the government US$360 million a year, though it is thought to have earned the political and military leadership much through trade in diamonds and timber.[142]

Multilateral and foreign government loans continued to be disbursed to Zimbabwe until 2000, when the government defaulted on the huge debt. In the late 1990s Zimbabwe continued to meet all debt repayments; in 1998 the Zimbabwe government spent US$940 million paying foreign debts, a gigantic 15 per cent of GDP. The economy shrank at the end of the 1990s as debt repayments, government spending and inflation spun out of control.

Zimbabwe's economic crisis reached a nadir in 2008, when hyperinflation led to an almost complete breakdown in the economy. Government economic mismanagement, primarily through funding its deficit and that of state-owned enterprises by printing money, caused prices to increase by up to 230 million per cent a month. In April 2009 the US dollar and South African Rand became the country's official currencies. Along with the formation of the ZANU-PF and MDC inclusive government, this has led to a stabilisation of the Zimbabwean economy, with growth returning since 2009, supported by high prices for the country's commodity exports.

Sokwanele / Flickr

The price of jam sores as inflation wrecks havoc through the Zimbabwean economy, 2007

4.2 The creation of bilateral debt

In the early 2000s debt owed to other governments increased by one-third. It is likely that this was due to export credit agencies paying out on defaulted private debts, and then recharging the debt to Zimbabwe. Export credit agencies promote exports from their country by giving government backing to bank loans which are used to buy exports. For example, a multinational bank gives a loan to the Zimbabwean government to buy exports from a British company. The UK government export credit agency, the Export Credits Guarantee Department (ECGD), back the loan so that, if the Zimbabwean government stops making repayments, the UK government bails out the bank and charges the money to the Zimbabwean government.

CovLtwt / Flickr

Land Rovers on display at British motor festival, 2008. It is not known what make were sold to the Zimbabwean police.

The ECGD says Zimbabwe owes it £190 million (US$300 million).[143] At least £90 million of this plus interest arrears originated between 2000 and 2004, with the Zimbabwean government defaulting on private bank loans used to pay for British exports to, amongst others, the Ministry of Finance, ZESA and the police force.[144]

For example, as of June 2011, Zimbabwe owed the UK government £20.9 million for loans to buy 1,500 British made Land Rovers and parts to be used by the Zimbabwean police. A further £5.9 million is owed on loans given to buy radar equipment from Siemens Plessey Electronics. The UK government has not revealed whether this was for civilian or military use. The UK government did not make any social impact analysis of these loans.[145]

Incredibly, the UK ECGD says that it *"does not hold that information"* when asked what debt repayments were made to it by Zimbabwe between 1990 and 1999.[146] Furthermore, the UK ECGD says it cannot say what date the exports were first supported, and how much of the debt owed is principle and interest, because it would take more than three-and-a-half days for someone to find out from their files.[147]

4.3 Loans and repayments to the present day

Whilst Zimbabwe has been in default on most of its loans to the west, it has continued to make some (but not all) repayments to the IMF, under threat of expulsion. Since 2000 Zimbabwe has paid the IMF US$300 million. This has tended to consist of a few million dollars a year, but in 2005 Zimbabwe made a one-off payment of $165 million, allegedly through raiding private foreign exchange accounts in Harare.[148] In September 2011 the IMF said it *"strongly encouraged Zimbabwe to make timely payments to the Fund and increase them as payment capacity improves"*.[149]

Whilst western governments and multilateral institutions stopped lending to Zimbabwe in the 2000s, one key new lender has been China. One of the most contentious loans is the agreement on a Yuan640 million (US$100 million) loan agreed in 2011 to build a defence college (it is not known how much of this has been disbursed). Devaluation of the US dollar against the Yuan, a process that is only likely to continue, means the relative size of the loan for the Zimbabwean economy has already increased. The interest rate on this loan has reported to be between 2 and 5 per cent.

Uncovering Zimbabwe's debt

The loan agreement was signed by Finance Minister Tendai Biti before it was scrutinised by parliament. Under questioning in parliament, Minister Biti said: *"A country like Zimbabwe does not have the capacity of repaying those interests. It does not have the capacity of paying such amounts."* [150] Given these views, it is unclear why Minister Biti signed the loan agreement. According to news reports, parliamentarians were unhappy that they were not consulted on the contraction of the loan. By the time of the parliamentary debate the agreement had already been signed, and MPs were whipped in line to ratify the agreement.

Other loans have included US$25 million of loans for agricultural equipment and tools, tied to no less than 50 per cent being supplied by Chinese companies. China has also been following the past practice of western governments by giving export credits; backing bank loans to Zimbabwe to buy Chinese exports. In 2006 Zimbabwe received US$200 million to buy Chinese fertilisers and agricultural equipment.[151]

Other Chinese loans have included US$20 million for steel production and US$8 million for the ministry of water. The agreement between China and Zimbabwe specifically states loans would be repaid with proceeds of exports of tobacco, cotton and minerals such as copper, platinum, gold and diamonds.[152] Many of these exports are vital to the continued industrial development of China.

Whilst Zimbabwe is in default on most of its external debts, according to the World Bank it continues to pay around US$100 million a year in external debt service, around 2 per cent of national income and 5 per cent of exports.[153]

Graph 15. **Relative size of Zimbabwe's economy, 1980-2010, index where 1980=100**[154]

Table 2. Progress towards the Millennium Development Goals
(Data is for nearest available years. Only those where some data is available are listed)[155]

Goal	1990	1995	2000	2005
1. Eradicate extreme poverty and hunger				
Population undernourished, per cent	40	46	43	39
Population below national poverty line, per cent	26	35	-	-
Adults in employment, per cent	70	70	67	66
2. Achieve universal primary education				
Children enrolled in primary education, per cent	-	-	85	91
3. Promote gender equality and empower women				
Ratio of girls to boys in education	0.97	-	0.97	0.99
4. Reduce child mortality				
Under-five mortality rate, per 1,000 live births	81	106	116	104
Infant mortality rate, per 1,000 live births	51	55	62	63
1-year olds immunised against measles, per cent	87	87	75	66
5. Improve maternal health				
Maternal mortality ratio per 100,000 live births	390	450	670	830
6. Combat HIV/AIDS, malaria and other diseases				
Tuberculosis prevalence rate, per 100,000	450	370	470	730
7. Ensure environmental sustainability				
Population using an improved drinking water source, per cent	78	79	80	82
Population using an improved sanitation facility, per cent	43	43	44	44

Kate Holt / IRIN

An internally displaced family's weekly food supply, provided with assistance from a network of NGOs.

5. Zimbabwe's debt today

It is unclear how much debt Zimbabwe owes. No reconciliation of owed amounts has yet been made with creditors, and it is feared that some new loans and activities are not fully captured in official statements. Zimbabwe's debt today has been reported to be as high as US$7 billion.[156] The IMF and World Bank estimate that the Zimbabwean government's external debt amounts to around 120 per cent of national income.[157]

At the end of 2009 the Reserve Bank of Zimbabwe reported that Zimbabwe's external debt was US$6.7 billion made up of:

- Bilateral debt of US$2.7 billion
- Multilateral debt of US$2.4 billion
- Unspecified reserve bank debt of US$1.2 billion
- Other (primarily private debt) US$0.4 billion[158]

In Table 3 opposite we show Zimbabwe's debts to multilateral institutions at the end of 2009, according to the Reserve Bank of Zimbabwe.

Of the bilateral debt, the amounts in Table 4 are owed (figures in italics are based on the Reserve Bank of Zimbabwe's end-2009 figures, figures in normal type are recently stated figures by the creditor government). The total amount of these figures is US$2.8 billion, reasonably close to the Zimbabwean governments stated amount of US$2.7 billion.

Table 3. Zimbabwe multilateral debt[159]

Institution	Estimated total debt owed (US$ million)
World Bank	1,270
African Development Bank	660
European Investment Bank	250
IMF	160
Other	80
Total	**2,400**

Table 4. Zimbabwe bilateral debt

Country	Amount in stated currency	Amount in US$
France[160]	€400 million	$571 million
Germany[161]	€384 million	$549 million
UK[162]	£208 million	$330 million
China	*$339 million*	*$339 million*
Japan	*$263 million*	*$263 million*
US	*$212 million*	*$212 million*
Italy	*$139 million*	*$139 million*
Finland	*$98 million*	*$98 million*
Spain[163]	€34 million	$49 million
Sweden	*$44 million*	*$44 million*
Netherlands[164]	€29 million	$41 million
Belgium	*$34 million*	*$34 million*
Austria	*$28 million*	*$28 million*
Norway	*$20 million*	*$20 million*
Switzerland	*$19 million*	*$19 million*
South Africa	*$18 million*	*$18 million*
Kuwait	*$10 million*	*$10 million*
Saudi Arabia	*$8 million*	*$8 million*
Israel	*$1 million*	*$1 million*
Total		**$2.8 billion**

Uncovering Zimbabwe's debt

6. What are Zimbabwe's choices?

Zimbabwe is currently in default on most of its debt from the western world, although it is taking out new loans and repaying lenders such as China. The Zimbabwean coalition government has recently set up a new debt management office and has opened talks with creditors on resolving the debt. The government says it intends to implement a hybrid option of taking part in the 'best' parts of the Heavily Indebted Poor Countries (HIPC) initiative and using revenue from diamond sales to pay off the debt.[166] However, for the creditors which run the HIPC scheme, there is at the moment no option for a country to choose which bits it wants to take part in. What creditors require of a country going through HIPC is set out overleaf.

Below we look at the options for Zimbabwe and what they would mean.

"Given Zimbabwe's levels of socio-economic distress, activists and civil society organisations maintain that the repayment of external debt should not be given any priority until a proper national debt audit has been carried out, which will show whether any of the debt is odious and illegitimate. Side by side with this, there is a strong view that neither debt cancellation (while desirable) nor new loans (which are necessary) should be extended unless the loan contraction and debt management legislation and processes are thoroughly reviewed – so it is imperative that the debt audit is carried out now." [165]

Deprose Muchena, Open Society Initiative for Southern Africa

Tim Jones / Jubilee Debt Campaign

Members of Zimbabwean civil society meet to discuss alternatives for dealing with debt and to promote responsible lending and borrowing.

6.1 The Heavily Indebted Poor Countries (HIPC) Initiative

6.1.1 How HIPC works

The HIPC process can lead to a reduction of some debts. It is a voluntary scheme, meaning no creditor is obligated to cancel any debts. On completion of the scheme, multilateral and most bilateral creditors relieve debts to get the total debt down to a level judged by the IMF and World Bank to be 'sustainable'. Participation by some foreign government's and private creditors is patchy. In addition, many western governments cancel up to 100 per cent of debt owed, whilst the IMF, World Bank and African Development bank – through an additional measure called the Multilateral Debt Relief Initiative (MDRI) – cancel 100 per cent of debt owed to them prior to 2003/2004.

Zimbabwe does not officially qualify for the Heavily Indebted Poor Countries initiative as, being in default on World Bank repayments, it has never been reclassified as being poor enough to be eligible to borrow solely from the World Bank's IDA. Whilst current members of the Zimbabwe government talk of entering HIPC, to be allowed to do so by the IMF and World Bank would require the international financial institutions to change either their rules or retrospectively say Zimbabwe is and was an IDA-only country borrowing classification in 2004. The indications from creditors is that they would be willing to do this, on condition that the Global Political Agreement is fully implemented.

Once a country is considered eligible for HIPC, it then has to take certain actions to reach 'Decision point' when the amount of debt cancellation on offer is decided. These pre-actions include:

- Payoff arrears to the IMF, World Bank and African Development Bank and meet any new debt repayments coming due.
- Develop an Interim Poverty Reduction Strategy Paper (PRSP), on the way to producing a full PRSP.
- Have a track record of implementing an IMF programme. This could entail taking out new loans from the IMF, as well as following IMF economic conditions.

Zimbabwe's arrears to the World Bank amounted to US$577 million at the end of 2009, and so almost certainly are now well over US$600 million. More than $150 million of this is interest on the arrears. Arrears to the IMF are now over US$150 million, with at least US$30 million of interest.[167] Arrears to the African Development Bank are over US$400 million, over US$150 million of which is interest. To clear Zimbabwe's arrears to the Bank and Fund would need one-off payments of at least $750 million. The government's total budget is around US$2.7 billion; the Zimbabwean government simply does not have access to such money.

In such cases, the multilateral institutions usually give either new loans or grants in order for countries such as Zimbabwe to pay-off arrears. In the case of the Democratic Republic of Congo, the IMF and World Bank gave new loans, whilst the African Development Bank wrote off money owing to its most concessional African Development Fund, whilst restructuring the maturity of arrears owed to the African Development Bank.

To move from decision point to completion point, when the debt is actually cancelled, a country has to:

- Meet debt repayments with international creditors (there is some relief on payments on debts which are due to be cancelled).
- Develop a full Poverty Reduction Strategy Paper.
- Stay on and implement the conditions in an IMF programme.
- Meet specific policy conditions set by the IMF and World Bank.

Uncovering Zimbabwe's debt

6.1.2 Debt reduction under HIPC and MDRI

It is difficult to estimate how much of Zimbabwe's debt would be relieved under HIPC and MDRI because the debt figures are not certain, and it is not known how much debt each creditor would cancel. Based on the end-2009 figures for the size of the debt, and Zimbabwe being given new loans to pay off arrears to international institutions, we roughly estimate debt stock would be cut from US$6.8 billion to US$3.9 billion, a reduction of around 45 per cent.

The major reductions in Zimbabwe's debt would be that owed to western governments. If loans were used to pay-off arrears, debt owed to the World Bank would fall 60 per cent, but that owed to the IMF and African Development Bank would fall by just 10 per cent. There would be greater reductions in debt owed to multilateral institutions if grants were used to pay off old arrears rather than new loans which are not then eligible to be cancelled.

Many Paris Club creditors go beyond HIPC cancelling 100 per cent of outstanding debts. The UK for example cancels 100 per cent of all outstanding debts at HIPC completion point. Whether or not a country cancels 100 per cent often depends on the debt and when it was contracted. For example, Germany, the US and Italy cancel 100 per cent of all debt assumed prior to the Cologne summit in 1999.[168] We have assumed in our estimates that 100 per cent of debt owed to these countries would be cancelled. However, export credit agency debt resulting from Zimbabwean defaults from 2000 on may not fall within this, so it is possible not all such debts would be cancelled.

The IMF estimate that if Zimbabwe were meeting debt service payments on its debts in 2011, this would cost 13 per cent of the country's exports, and 23 per cent of the government's revenues. A similar level is estimated through to 2015.[169] If, after completing HIPC, debt service fell in a similar proportion to our estimate of debt cancelled Zimbabwe would still be paying 7 per cent of exports and 13 per cent of government revenues on external public debt repayments. Most of this would be on debt which originated from 1980-2000. This would be a huge drain on any future Zimbabwe government, preventing investments in public services, poverty reduction and economic development.

Furthermore, during the HIPC process countries are expected to make payments on some of their debts. On average it has taken a country three-and-a-half years to move from HIPC decision point to completion point. Whilst countries tend to be relieved making payments on many of the debts which will ultimately be cancelled, at the least they have to make payments on those debts which will not be eligible for cancellation. So the Zimbabwean government could expect to pay at least 13 per cent of revenues on debt repayments as a condition of entering HIPC, and these payments would not necessarily be reduced even on completing the scheme.

Regardless or not of the accuracy of the rough estimates above, given that Zimbabwe is currently in default on most of its external debt service, HIPC would impose a financial cost on the country. Advocates of HIPC would argue that the reason to enter HIPC is that Zimbabwe would then be eligible for new loans from the IMF, World Bank, African Development Bank and potentially some bilateral and private creditors. But taking out new loans would threaten to repeat the mistakes of the past:

- Much of the new loans would be spent paying the remaining debt service from old loans, rather than invested in productive activities.
- Putting new loans on top of the old debts which have not been cancelled would potentially leave Zimbabwe with another catastrophic debt burden, especially if the country were hit by an economic shock.
- Repaying old debts would legitimise the original loans, rather than analysing their impact and learning lessons for the future.

A further financial problem for countries completing HIPC has been vulture funds. Vulture funds buy up debt at a cheap price owed by countries in default or thought likely to default. Once HIPC debt relief has made a country solvent again, vulture funds then look to sue countries for the full amount of debt plus interest, making a huge profit. HIPC is an entirely voluntary scheme so there is no requirement on private creditors such as vulture funds to reduce the level of their claimed debt.

Vulture funds look to sue a country for debt repayments in a third party country in which the debtor holds assets. The majority of cases, against countries such as Zambia, Liberia and Democratic Republic of Congo, have been in UK or US courts. In 2010 the UK Parliament passed a law which says vulture funds can only sue HIPC countries for the debt which would be remaining if they had taken part in HIPC debt relief. This effectively makes it worthless for vulture funds to now pursue cases against HIPC countries in UK courts. However, if the percentage HIPC debt relief for Zimbabwe was quite low – as we have estimated – vulture funds might still pursue Zimbabwe for debts, even in UK courts.

Box 2. Zimbabwe's resources at the IMF

In 2009 the G20 group of countries decided the IMF should create and allocate US$290 billion[1] divided amongst the IMF's 186 member countries. Of this, US$420 million was deposited into Zimbabwe's account at the IMF. A further US$100 million is held in trust by the IMF until Zimbabwe's arrears to international organisations are cleared.[170] Of the US$420 million, US$150 million has been withdrawn by the Zimbabwean government and used. In August 2011 Finance Minister Tendai Biti announced that US$150 million of the allocation might be used to pay off Zimbabwe's debt to the IMF, hoping that this would release the remaining US$100 million.[171] However, it is unlikely the IMF will release the money whilst arrears to the World Bank and African Development Bank are still owed.

6.1.3 HIPC and economic conditions

To qualify through the HIPC process, countries have to meet economic conditions set by the IMF and World Bank. These have tended to be the same liberalisation and adjustment conditions as placed on Zimbabwe during the 1990s. Rather than making lenders more accountable for their actions, HIPC continues to give power to creditors, whilst making it more difficult to empower local democratic control over economic decisions.

Many of Zimbabwe's neighbouring countries have completed the HIPC process in the last decade. Economic conditions pushed on these countries include:

- **Malawi** had to privatise its agricultural marketing system, remove subsidies for inputs such as fertilisers and sell off some of the country's grain reserve. In 2001/02 and 2004/05 the country was hit by a food crisis with production falling and fewer grain reserves available. Since completing HIPC in 2006, Malawi has reintroduced fertiliser subsidies – against the wishes of the World Bank – and maize production has increased.[172]
- **Zambia** was not allowed to employ more healthcare workers, even when the Canadian government offered to foot the bill for five years, because it would have meant exceeding IMF spending limits.[173]
- **Tanzania** had to privatise the *Dar es Salaam* water system, selling it to City Water Services in 2003 – a consortium which included UK company Biwater. Problems with the water supply led to it being renationalised in 2005. In 2008 a UN tribunal found that water and sewerage services had deteriorated under the consortium and awarded £3 million in damages to the Tanzanian government.[174] A tribunal held later the same year at the World Bank ruled that Tanzania had violated an international investment treaty with the UK by renationalising the water supply, but as City Water's value was nil it did not have to pay any damages to the company.[175]

6.2 Traditional debt relief through the Paris Club

Zimbabwe could ask for debt relief from the Paris Club group of rich countries without joining HIPC. However, it would not get any multilateral, private or other bilateral debts cancelled and it would have to start making payments on any remaining debt owed to Paris Club countries. Furthermore, the Paris Club require a debtor country to be implementing an IMF programme – new loans and economic conditions – before considering debt relief. Such an option has the same downside as HIPC but would cancel less debt and lead to higher debt repayments.

Campaigners give the Paris Club a red card as the group of rich country creditors marked its anniversary in 2006.

6.3 Continue default

Zimbabwe is currently in default on many of its loans. The government could continue to be in default. The main financial cost would be to continue to not be able to access new loans from lenders such as the IMF and World Bank, western governments and private lenders. However, as this report has shown, many of these loans can be of questionable benefit.

However, the Zimbabwean government has continued to contract new loans of dubious benefit from China. These threaten to repeat past mistakes of over-reliance on foreign borrowing rather than using domestic resources, and using foreign borrowing for activities which will not create the return with which to pay them. Future Zimbabwean governments could find themselves in a similar power relationship with China as the government of the 1990s was with lenders from the western world.

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6.4 Using mineral proceeds to pay off debt

Prime Minister Morgan Tsvangirai has been reported as saying that Zimbabwe will use revenue from diamond sales to repay part of its external debt. Tsvangirai has claimed that Zimbabwe has so far sold diamonds worth US$300 million.[176]

Dependence on diamonds for revenues has continually fuelled human rights abuses, corruption and conflict across the world. The Kimberly Process Certification Scheme was created by the United Nations in 2003 to try to prevent conflict diamonds entering the mainstream diamond market. However, its ability to do so has been criticised by NGOs such as Partnership Africa Canada and Global Witness. Zimbabwe has been allowed into the Kimberley process despite allegations of human rights abuses in the Marange diamond field discovered in 2007.

Mineral resources such as diamonds are no silver bullet towards tackling poverty, providing jobs or reducing inequality. All too often such resources increase inequality as those with power already control, and thereby profit, from their extraction and export. This does nothing to improve productivity and provide jobs in the rest of the economy, and is more likely to lead to their neglect.

Resources such as diamonds could be useful if revenue from their export is democratically controlled and invested to improve areas such as education, health and the domestic economy. If used for domestic investment, mineral resources provide an alternative way of buying imports for investment, other than taking out dangerous foreign loans.

Using mineral resources on debt repayments would be a waste; perpetuating the de-development cycle where wealth earned from mineral exports is taken out of the country by local elites and multinational companies. Using the revenue from minerals such as diamonds to repay debt risks locking Zimbabwe in to a resource-cursed future, and shuts the door on a genuine alternative source of investment.

6.5 Debt audit

An alternative approach would be for creditors to support an official audit of Zimbabwe's debt. This would investigate how loans were used, and how the loans and their repayment affected Zimbabwe. An audit would therefore have the benefits of learning lessons from the past, increasing transparency in Zimbabwean fiscal affairs and influencing policies over future borrowing. Even if the Zimbabwean parliament is not yet willing to undertake such an audit, Zimbabwean citizens and parliamentarians must be able to access information on past debts and their impact from creditors, increasing transparency within the country.

In this report we have argued that loans and debt, and the economic conditions attached to them, have played a key role in impoverishing Zimbabwe. Given that Zimbabwe is currently in default on most of its loans to the western world, a debt relief process would enable lenders such as the IMF and World Bank (and potentially governments) to lend to Zimbabwe again through export credit agencies. The danger is that new loans from the west, coupled with China's ongoing lending, would maintain the negative impact of debt on the Zimbabwean people.

Instead, a new approach is needed that recognises past failures. This may even mean waiting longer to cancel Zimbabwe's debt. Below we outline changes lenders should make.

7. Recommendations

7.1 The demands of the Zimbabwe Coalition on Debt and Development

There are many lessons to be taken from the history of debt in Zimbabwe. The Zimbabwe Coalition on Debt and Development (ZIMCODD) and member organisations such as the Congress of Trade Unions (ZCTU), National Students Union (ZINASU) and Human Rights Association (ZimRights) have called for:

- The Zimbabwe Parliament to establish a Public Debt Commission and conduct an Official Debt Audit. An audit should investigate whether loans did or did not benefit the people of Zimbabwe. The outcome of the audit should be used to increase transparency, accountability and quality of any future borrowing. Loans found not to have been of use or actively damaging should be declared illegitimate and cancelled on that basis.
- The Ministry of Finance to ensure transparency, accountability and inclusiveness in the contraction of loans. All loans should have a financial, social, environmental and poverty reduction analysis made public prior to being agreed. Parliament should approve loan guarantees before they are agreed. Parliament's Budget, Finance and Economic Development Portfolio Committee should be empowered to make an objective determination of each loan and bar it if need be. Citizens should be informed of all loans, with terms and conditions of loans publicised in national newspapers before they are signed.[177]

The Zimbabwe government has recently created an Aid and Debt Management Office, but Parliament has not passed legislation on its terms of reference. ZIMCODD have welcomed the creation of this Office, but are calling for a terms of reference to be passed, including guaranteeing consultation on loan contraction with stakeholders, including civil society.

7.2 Recommendations for Zimbabwe's creditors

Regardless of developments within Zimbabwe to increase transparency and accountability, all lenders to Zimbabwe should also act to improve transparency and the quality of any lending.

To give Zimbabwean people greater control over their economy, and to prevent debt continuing to play a part in impoverishing the country, we recommend all lenders, whether multilateral, bilateral or private:

1. Signal their support for an official audit of all Zimbabwe's debt to show how original loans were used, and how these loans and their repayment affected Zimbabwe.

   Even if the Zimbabwean parliament does not yet hold an official audit of Zimbabwe's debt, lenders should release all loan documents, information and evaluation. Releasing information will improve the ability of Zimbabwean civil society to increase transparency and accountability over debt contraction within the country.

2. Change lending practices to ensure debt does not continue to impoverish Zimbabwe in the future, through:
   - Giving grants as the primary financial assistance to Zimbabwe to enable reconstruction and development
   - Only ever giving grants in response to an economic shock such as drought or changes in commodity prices
   - Assisting Zimbabwe in making use of its own domestic resources by supporting measures to tackle capital flight and tax avoidance
   - Only giving loans if a) citizens, through their elected representatives in Parliament, participate in the loan contraction process, b) there are environmental and social impact assessments of the loan, with any directly affected communities having to give their prior, informed, consent c) the lender and borrower set out what productive investment the loan will be used for, showing in full how this will generate the funds to repay it, and this is independently evaluated, d) the project is independently evaluated during and at completion, e) repayments can be cancelled if there are any failures on the lender's part
   - Not attaching economic policy conditions such as agricultural and trade liberalisation to loans.

3. Only once lenders have recognised their past mistakes and changed their lending practices should they make themselves eligible to lend to Zimbabwe again by cancelling debt.

7.3 Recommendations to lenders across the world

The Zimbabwean story highlights the dangers of basing economic development on the use of foreign loans. We support calls for poverty and inequality to be reduced primarily through mobilizing domestic resources and reducing the outflow of resources through illicit flows, tax avoidance and multinational company profits, as well as debt repayments.

The story of Zimbabwe leads to specific recommendations for creditors and donors in their actions across the world. These lessons and corresponding recommendation are set out below.

Lesson 1: Zimbabwe's debt was too high for much of the 1980s and 1990s, and continued repayment of that debt contributed to economic and social crisis. Austerity only increased the extent of the crisis. A permanent mechanism is needed for cancelling debts before a crisis is created, which could also help to deter reckless lending:

Recommendation: An international debt court should be created to adjudicate on debt restructuring for countries in debt crisis. A court, independent of creditors and debtors, would cancel any debts contracted illegitimately, and then reduce the size of all debts (multilateral, bilateral and private) to ensure governments can meet the costs of public services and basic needs. This in turn will remove the moral hazard that lenders know they will be repaid, and thus make lenders less reckless in their behaviour.

Lesson 2: Too many loans were given to projects in Zimbabwe with little if any thought into how they would generate the return to repay them.

Recommendation: Loans should only be given for projects where lender and borrower can set out how it will generate the funds to repay it.

Lesson 3: Debts created during droughts in the 1980s and 1990s have burdened Zimbabwe for many years.

Recommendation: Grants rather than loans should always be given in response to shocks such as drought or changes in commodity prices.

Lesson 4: Loans have been – and continue to be – given with little transparency and accountability, driven by the interests of lenders and the political elite rather than needs of the Zimbabwean people.

Recommendation: All project lending should be independently evaluated prior, during and at completion, and this should include the active involvement of civil society and affected groups as well as parliament. All project documents and evaluation should be made publicly available.

Lesson 5: Lenders have not had to bear any responsibility for their poor lending, such as badly designed projects, or failed structural adjustment programmes.

Recommendation: Loan repayments should be cancelled if independent evaluations find failures on the lender's part.

Lesson 6: Zimbabwe had no choice but to implement structural adjustment in order to access new loans to pay old debts. The impact of structural adjustment was disastrous.

Recommendation: Lenders should never attach economic policy conditions such as agricultural and trade liberalisation to grants, loans or debt relief.

Lesson 7: Zimbabwe's foreign debt continually increased due to devaluation.

Recommendation: The exchange rate risk of foreign loans should be removed by decreasing repayments of principle and interest in line with changes in the exchange rate.

Lesson 8: Through the 1980s and 1990s Zimbabwe never met predictions for economic growth set by the IMF and World Bank, especially in terms of US dollars

Recommendation: There should be moratoriums on the repayment of principle and interest if baseline economic growth rates are not met. If this is defined in terms of the exchange rate in which the loan is given, it can also deal with the exchange rate lesson above as well.

Uncovering Zimbabwe's debt

Appendix: Where Zimbabwe's debt comes from

Below is a summary based on the above sections of the origin of those debts we have been able to identify.
In many cases they are our estimate based on the original loan document and the date of Zimbabwe's default.

Multilateral

World Bank: International Development Association

- US$220 million for structural adjustment loans, 1992-1995
- US$150 million for the drought loans, 1992
- US$55 million for the HIV/AIDS project, 1993
- US$31 million for the enterprise development project, 1996
- US$28 million for the loans to small farmers, 1982
- US$2 million for the tree planting project, 1983

World Bank: International Bank for Reconstruction and Development

- US$150 million for structural adjustment loans, 1992
- US$113 million for Hwange rehabilitation, 1994
- US$88 million for Kariba and Hwange rehabilitation, 1988
- US$49 million for first and second railway development project, 1983 and 1991
- US$36 million for agriculture project, 1990
- US$34 million for first and second health projects, 1986 and 1991
- US$30 million for the first Hwange power project, 1982
- US$25 million for first and second highways projects, 1983 and 1988
- US$20 million for manufacturing export project, 1983
- US$17 million for forest management, 1990
- US$14 million for the first housing project, 1984
- US$9 million for manufacturing rehabilitation, 1981
- US$5 million for transport rehabilitation, 1981
- US$5 million for small scale enterprises, 1985
- US$3 million for agriculture project, 1983

African Development Bank

- US$240 million for structural adjustment loans
- US$16 million for Kariba and Hwange rehabilitation, 1988 with World Bank

International Monetary Fund

- US$150 million originally for structural adjustment loans

International Fund for Agricultural Development

- US$17 million for agriculture project, 1990 with World Bank
- Some for agriculture project 1983 with World Bank

Bilateral

Germany

- US$8 million owed to KfW for second railway development project with World Bank, 1991
- US$4 million owed to KfW for loans to small farmers with World Bank, 1982

UK

- US$300 million owed to ECGD for export credits, including US$33 million for Land Rovers and US$9 million for radar equipment
- US$30 million owed to DfID and CDC from tied loans in 1980s, including Hwange power station and housing project with World Bank

China

- US$200 million for export credits for fertiliser and agricultural equipment
- US$25 million for tied loans for agricultural equipment
- US$20 million for steel production
- US$8 million for ministry of water
- Defence College loan of US$100 million to be disbursed, but not included in figures yet.

Japan

- US$2 million for agriculture project, 1990 with World Bank

Finland

- US$5 million owed to KfW for second railway development project with World Bank, 1991

Spain

- US$16 million for arms in 1980s and early 1990s
- US$14 million for vehicles in 1998
- US$12 million for healthcare equipment in 1990s
- US$4 million ships in 1986
- US$2 million meteorological equipment in 1997-1999
- US$1 million printing equipment in 1998-1999

Austria

- US$2 million owed to KfW for second railway development project with World Bank, 1991

Uncovering Zimbabwe's debt

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