



Investing in People for Social & Economic Justice

Concept Note

Resource Backed Loans - The case of Zimbabwe Paper

Dialogue and Launch

Introduction

The Zimbabwe Coalition on Debt and Development (ZIMCODD) conducted a research on resource backed loans with Zimbabwe being a case study. The research was aimed at generating knowledge on the implications of mineral resource backed loans in Zimbabwe; assessing the social, economic and environmental implications of resource backed loans; and proffer recommendations on the implications of resource backed loans and on leveraging on the extractives sector to bridge the fiscal deficit. Given the applicability of the research to the Alternative Mining Indaba's natural resource governance discourse, ZIMCODD will launch a research titled **Resource Backed Loans- The Case of Zimbabwe** on the side-lines of the 12th Edition of the Alternative Mining Indaba-2021. During the launch, ZIMCODD will facilitate dialogue on mineral resource governance in Zimbabwe in particular and Africa at large. On one hand, the research is aimed at empowering citizens to demand public accountability in natural resource governance in general and mineral resource management in particular. On another note, the research seeks to conscientize duty bearers on the implications of resource backed loans especially in relation to debt sustainability for them to make informed decisions pertaining resource governance and debt management. Resource Based Loans (RBL) are loans given to a government where repayment is either made directly in natural resources such as oil or minerals, or from a resource-related future income stream. In both cases, the natural resources serve as the collateral. One of the core arguments of the research is that the use of natural resources to cover up for imminent economic decay prejudices future generations. Resource-backed loans and bond structures mortgage the nation's wealth without much productive investment to show for it, thereby constraining future options for financing development.

Rationale

The Alternative Mining Indaba provides an opportune platform for ZIMCODD to popularise the research findings to a diverse audience. The aspect of resource backed loans is not peculiar to Zimbabwe, rather a number of Resource rich countries in Africa have similar experiences, these include Angola, Ghana, Chad, and the Republic of Congo and according to a research conducted by the Natural Resource Governance Institute (NRGI) (2020) to date eleven African countries have signed Resource Backed Loans with China. Despite the reach to diversified participants, the popularisation of the research will also influence those in similar

contexts like that of Zimbabwe to engage in similar work and influence change. This will also stimulate dialogue and debate amongst participants on whether resource backed loans are the best financing model for Africa's development or not. Furthermore, the launch will also provide a platform for experience sharing and discussion around how African countries at large can leverage on the extractives sector to bridge their fiscal deficits without mortgaging their natural wealth. The assumption is that participants will also proffer recommendations towards a more sustainable development financing model for Zimbabwe in particular and Africa at large.

Background

Zimbabwe has been experiencing economic decay, low foreign and domestic investor confidence, external debt and perennial fiscal deficits over the years. This is in spite of the country being endowed with vast mineral resources which when fully utilised has the potential to ensure fiscal balance and economic growth. Instead of developing a comprehensive domestic resource mobilisation framework, the Government of Zimbabwe is on record contracting both domestic and external debt to bridge the financial gaps. Heavy indebtedness has plunged the country into a deep socioeconomic crisis (poverty, hunger and deprivation and poor public service delivery) which calls for the adoption and implementation of a comprehensive domestic resource mobilisation to ease the crisis.

Zimbabwe's external debt staggers at about US\$10.545 billion as at September 2019 and domestic debt at about ZWL\$8.868 billion as at December 2019. Zimbabwe's failure to honour some of its debt obligations has negatively affected the country's credit worthiness. Resultantly, International Financial Institutions in the likes of the World Bank and the International Monetary Fund (IMF) are shunning the country from accessing fresh lines of credit. This led to Zimbabwe extending its borrowing endeavours to emerging lenders with China topping the list in extending loans to the country. Whilst these loans, Chinese in particular, are marred with secrecy and opacity, there is widespread speculation that most of these are natural resource backed with minerals being used as collateral security. minerals. This has seen most of Chinese state and private companies owning mining claims in the diamond, chrome, coal and gold sectors in Zimbabwe. Due to lack of public scrutiny, the loans are often negotiated in the favour of investors with the majority of negotiations done in favour of the investor at the expense of national efforts towards sustainable development.

The Zimbabwe Coalition on Debt and Development sought to generate knowledge on the social, economic and environmental implications of mineral resource backed loans in Zimbabwe. The generated knowledge will be used for engagement with duty bearers towards a comprehensive and a sustainable domestic resource mobilisation framework hinged on sustainable extractive industry. Furthermore, knowledge generated will be used to inform citizen engagement for them to demand public accountability in the mining sector. The research proffer recommendations discouraging mortgaging of resources whilst highlighting the long-term benefits of leveraging on the extractive sector to ensure sustainability in mineral resource extraction.

Activity Objectives

- To launch the Resource Backed Loans research paper to a diversified audience.

- To stimulate dialogue on resource backed loans in Zimbabwe in particular and Africa at large and generate debate on whether it is the best development financing model for Africa or not.
- To proffer recommendations on long-term benefits of leveraging on the extractive sector to ensure sustainability in mineral resource extraction.