

Analysing sustainability: what the lender must verify

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

A Geneva lender contemplating a prepayment facility for an African state or state-owned enterprise must carry out a sustainability analysis that recent cases have made indispensable. It covers the country's total debt and its servicing, measured against public revenues and exports. The analysis also examines the share of future production already pledged under other prepayment arrangements, information that states do not always publish and that the International Monetary Fund's assessments sometimes reveal only belatedly. Next come the sensitivity of repayment to the commodity price, with scenarios of a 30 to 50 per cent fall such as those of 2014 and 2020, together with the governance of the borrowing state-owned enterprise and the use of the funds. Finally, there is the question of whether the borrowing complies with national law, which often requires parliamentary authorisation that borrowers circumvent.¹

This analysis has a cost and a consequence: it often leads to the loan being refused or reduced, which less scrupulous competitors, or Chinese creditors, have not done. The Geneva trading houses argue that their prepayments brought states liquidity that nobody else was offering. Their critics reply that this liquidity financed unproductive spending and mortgaged years of production. Both are right: the answer lies in the quality of the analysis, the transparency of the transaction and the use of the funds, which Chapter VI sets out as good practice.

1 Notes

1. NRG, Resource-Backed Loans: Pitfalls and Potential, press release of 27 February 2020: 52 resource-backed loans analysed (USD 164 billion, 2004–2018), 77% of the amount granted by Chinese state banks, only one contract made public; loans by oil trading houses to Chad, the Republic of the Congo and South Sudan; recommendations: key terms verified by finance ministries and made public, repayment flexibility, competition among lenders, use of legal expertise; IMF and World Bank, Collateralized Transactions, 19 February 2020 (negative pledge clauses, loss of budgetary flexibility). ↩

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