

Pre-financing for producer states: a special case

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The pre-financing that traders grant to the national companies of producer countries deserves separate examination, given its importance for Africa, which Part I will develop. In these transactions, the trader, often with the support of banks, advances considerable sums to a national oil or mining company, to be repaid through future deliveries of commodities on agreed terms. The producer country obtains immediate liquidity; the trader obtains guaranteed access to supply and a return.

These transactions carry particular risks. Performance risk concerns the ability of the national company to deliver the promised quantities. Political risk concerns changes of government, forced renegotiations and expropriations. Corruption risk concerns the conditions under which the contracts were awarded. Reputational risk concerns the way the public and non-governmental organisations perceive contracts that mortgage the future production of a poor country.

Such pre-financing also affects the indebtedness of the countries concerned. Where it is guaranteed by the state or commits a significant share of future production, it constitutes a form of debt, sometimes with little transparency, which can compromise the sustainability of public finances. The international financial institutions have called for greater transparency in these transactions.¹ For Geneva traders and banks, structuring these transactions requires particular attention to the governance of the country, the transparency of the contracts and compliance.

1 Notes

1. IMF and World Bank, Collateralized Transactions: Key Considerations for Public Lenders and Borrowers, 19 February 2020 (at the request of the G20 International Financial Architecture Working Group): collateralised transactions “can be beneficial to a developing country borrower under a range of circumstances”, but carry risks (negative pledge clauses, loss of fiscal flexibility); NRGI, Resource-Backed Loans: Pitfalls and Potential, 27 February 2020: 52 resource-backed loans (USD 164 billion, 2004–2018), only one contract made public, loans from oil trading houses to Chad, the Republic of the Congo and South Sudan; David Mihalyi and Jyhjong Hwang, Resource-Backed Loans in Sub-Saharan Africa, World Bank, Policy Research Working Paper 9923, 2022: 30 loans totalling USD 46.5 billion, Angola accounting for nearly half, only 15 of them appearing in the Debtor Reporting System. ↩

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