

Resource-backed loans and African debt — overview and summary

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When an oil-producing state needs money and the capital markets are closed to it, it can pledge its future production. A trader, alone or together with banks, advances it hundreds of millions of dollars, repaid in cargoes delivered over the years. This mechanism, known as a resource-backed loan or prefinancing, has been practised on a large scale in sub-Saharan Africa since 2004, by Chinese state-owned banks and by traders, several of which are established in Geneva. It has provided liquidity to countries that lacked it. It has also contributed to debt crises, in an opacity that the international institutions denounce. This chapter describes these loans, presents the principal data on them, examines the cases of Chad and the Republic of the Congo, analyses their effects on debt and draws the consequences for Geneva's traders, banks and advisers.

1 In five sentences

1. A loan backed by natural resources provides a country with immediate liquidity repaid through future deliveries of commodities, with attractions — speed, flexibility — and risks — mortgaging of production, opacity, a heavier burden when prices fall.
2. Between 2004 and 2018, 52 loans of this type were granted for more than USD 164 billion, of which 30 to sub-Saharan Africa for USD 66 billion, financed as to 53 per cent by two Chinese banks and for the remainder mainly by traders, principally in Chad, the Republic of the Congo and South Sudan.
3. The prefinancing granted by Glencore to Chad in 2013 and 2014, for USD 600 million and USD 1.45 billion, had to be restructured in 2015 and 2018. The outstanding amount still stood at USD 1.07 billion at the end of 2020.

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4. The Republic of the Congo sought to restructure a debt of USD 1.7 billion owed to Glencore and Trafigura, a precondition for disbursements by the International Monetary Fund.
5. These loans, which contributed to the African debt crises after 2014, impose on Geneva's traders, banks and advisers requirements of transparency, sustainability analysis and anti-corruption vigilance.

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