

The mechanism

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A loan backed by natural resources is, according to the definition given by the Natural Resource Governance Institute, a mechanism by which a country obtains funds in exchange for future revenue streams from its natural resources, such as oil or minerals, or in exchange for repayment guarantees constituted by those resources.¹ In its most common form in Africa, the loan is granted to the national oil company, with or without a state guarantee, and repaid through deliveries of crude to a trader, on fixed or indexed price terms.

The mechanism has several attractions for the borrowing country. It provides immediate liquidity, often considerable, while bypassing the capital markets and the conditions of the international financial institutions. It is quick to put in place. It makes it possible to finance infrastructure or current expenditure. For the trader, it guarantees access to supply for several years, with a return that combines interest, discounts on the price of the crude and trading margins.

The mechanism also carries risks, which Part H touched on in connection with trade finance. The country mortgages a share of its future production, whose value may exceed the amount of the loan. The terms — interest rate, discounts, fees — are often opaque. Repayment in kind, independent of prices, becomes heavier when prices fall. And the concentration of deliveries on a single trader reduces competition and the transparency of sales.

An economist at the Natural Resource Governance Institute has compared these loans to payday loans, at very high rates and over very short terms, in which the borrower risks losing control of its resources.² Severe as it is, the comparison reflects the concern of the specialised institutions at commitments that often escape the rules of public debt management.

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Key point. A resource-backed loan provides a country with immediate liquidity in exchange for future deliveries of commodities. It combines speed and flexibility, but it mortgages production, it is often opaque and it becomes heavier when prices fall.

1 Notes

1. Natural Resource Governance Institute, “Les gouvernements africains doivent faire la lumière sur les prêts adossés aux ressources naturelles” (African governments must shed light on resource-backed loans), resourcegovernance.org, 2023. ↩
2. “Hypothéquer le futur : les risques des prêts adossés aux ressources naturelles” (Mortgaging the future: the risks of resource-backed loans), Mongabay, 14 April 2020, citing David Mihalyi. ↩

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