



**AFRICAN FORUM AND NETWORK  
ON DEBT AND DEVELOPMENT**

## **CONCEPT NOTE**

### *Harnessing Natural Resources for Sustainable Development: Governance and Domestic Resource Mobilization in Africa's Resource-Backed Loans*

#### i. Background

Over the past 25 years, the [African Forum and Network on Debt and Development \(AFRODAD\)](#) has developed deep expertise in public debt management and its links with domestic resource mobilization, as well as international finance in Sub-Saharan Africa. AFRODAD's work focuses on improving transparency, accountability, and governance in Resource Backed Loans (RBLs) to protect public resources and promote sustainable debt management.

Resource backed loans are financial arrangements in which a country pledges its natural resources such as oil, gas, minerals, or future revenues from these resources as collateral or a direct source of repayment for a loan. These loans often link two distinct supply chains, the infrastructure development supply chain and the resource extraction supply chain, with governments securing loans to build infrastructure, and repayment coming from future resource revenues<sup>1</sup>.

RBLs are attractive for African countries facing large infrastructure gaps and limited access to financing from conventional sources. However, the opaque nature of many RBL deals, combined with fluctuating global commodity prices, presents significant challenges that can outweigh their benefits<sup>2</sup>. These loans are typically acquired through agreements that involve the ceding of mineral rights to financiers. Unfortunately, the acquisition of RBLs may

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<sup>1</sup> Mihalyi, D., Adam, A., & Hwang, J. (2020). *Resource-Backed Loans: Pitfalls and Potential*. Natural Resource Governance Institute (NRGI).

<sup>2</sup> Halland, H., Beardsworth, J., Land, B., & Schmidt, J. (2014). *Resource Financed Infrastructure: A Discussion on a New Form of Infrastructure Financing*. World Bank Group.

not always follow established legal processes, potentially leading to violations of legislative frameworks. The process of acquiring RBLs often involves complexities and potential dangers, including non-disclosure of public debt information and non-compliance with general mining and petroleum rights acquisitions<sup>3</sup>.

While RBLs offer a potential avenue for rapid infrastructure development in Africa, they also carry significant risks. One of the most pressing concerns is the potential for unsustainable debt levels. Repayments for these loans often depend on future resource extraction, making them vulnerable to fluctuations in commodity prices. This volatility can lead to financial shortfalls, exacerbating the debt burden.

Moreover, many RBLs are negotiated in secrecy, bypassing democratic processes and public scrutiny. This lack of transparency increases the likelihood of unfavorable terms that benefit lenders at the expense of citizens. Collateralizing national resources as security for RBLs can also lead to a loss of sovereignty. In the event of default, countries may be forced to relinquish control of strategic assets, such as mines or oil fields, to foreign creditors. Other challenges include weak governance frameworks and poorly structured agreements which can lead to unfavorable terms and the misuse of loan proceeds<sup>4</sup>.

By advocating for stronger legal frameworks, AFRODAD aims to mitigate the negative impacts of RBLs and support domestic resource mobilization for long-term economic stability.

## ii. Problem analysis – country cases

AFRODAD's paper on Resource-Backed Loans (RBLs)<sup>5</sup> offers a comprehensive analysis of the challenges and risks associated with these financial instruments in countries like Chad and South Sudan.

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<sup>3</sup> Afrodad, *Resource-Backed Loans and Public Sector Collateralisation of Natural Resources in African Countries*, accessed September 17, 2024, <https://afrodad.org/sites/default/files/publications/Resource-Backed-Loans-and-Public-Sector-Collateralisation-of-Natural-Resources-in-African-Countries.pdf>.

<sup>4</sup> Cust, J., & Mihalyi, D. (2017). *The Presource Curse? Oil Discoveries Can Lead First to Increased Borrowing, Then to Economic Crises*. International

<sup>5</sup> Afrodad, *Resource-Backed Loans and Public Sector Collateralisation of Natural Resources in African Countries*, accessed September 17, 2024, <https://afrodad.org/sites/default/files/publications/Resource-Backed-Loans-and-Public-Sector-Collateralisation-of-Natural-Resources-in-African-Countries.pdf>.

- Chad: The case of Chad serves as a severe illustration of the potential dangers of RBLs. The paper reveals that Chad's reliance on RBLs led to significant fiscal distress, hindering its ability to meet social obligations. The country's ceding of mineral rights to RBL financiers resulted in a situation where only a small fraction of revenue was available to address social needs. This case underscores the urgent need for transparent and sustainable debt management practices to mitigate the negative consequences of RBLs.
- South Sudan: In South Sudan, RBLs have raised concerns about potential illegal activities and have contributed to a worsening fiscal situation. The country's experience with RBLs has not improved its capacity to respond to social needs, as the government has struggled to pay civil servants' salaries. The paper highlights that RBLs in South Sudan have failed to deliver the expected benefits and have instead exacerbated the country's indebtedness, demonstrating the need for more prudent financial management.

### iii. Objective

Given the growing reliance on Resource-Backed Loans (RBLs) across Africa, there is an urgent need for greater transparency, robust governance frameworks, and informed negotiation practices to mitigate the risks of unsustainable debt and resource loss.

This webinar is crucial for several reasons:

- ✓ It aims to raise awareness among policymakers and citizens about the long-term financial risks associated with RBLs.
- ✓ It will advocate for greater transparency in RBL deals and encourage stakeholders to demand public oversight.
- ✓ It will generate policy recommendations to guide African governments in negotiating more equitable RBL deals.
- ✓ It will facilitate cross-country learning by analyzing case studies from countries like Tanzania, Mozambique and Zambia.

Furthermore, this webinar seeks to promote a deeper understanding of the legislative frameworks and governance challenges surrounding Resource-Backed Loans in African countries. Aligned with AFRODAD's mission to advocate for sustainable and accountable public debt management in Africa and ensuring that RBLs contribute positively to African economies without exacerbating debt crises.

The webinar will convene a diverse group of stakeholders, including government officials, academics, civil society organizations, international organizations, and representatives from the private sector. This diverse gathering aims to foster dialogue and collaboration, promote transparency, and explore sustainable alternatives to RBLs in Africa.

iv. Expected outputs

- ✓ Increased awareness of the fiscal risks posed by RBLs and the need for stronger governance frameworks.
- ✓ Policy recommendations for African governments to adopt transparent, sustainable financing mechanisms.
- ✓ Networking opportunities among stakeholders to foster collaboration on improving Africa's debt management strategies.

v. Webinar details:

Title	<i>Harnessing Natural Resources for Sustainable Development: Governance and Domestic Resource Mobilization in Africa's Resource-Backed Loans</i>
Date	3 December 2024
Time	15:00 EAT
Format	Zoom Webinar