

Tax Regimes in the Age of Resource-Backed Loans and Collateralisation

23rd November 2023

1.30 p.m. to 3.00 p.m.

Accra, Ghana

Overview

Africa boasts of abundant natural resources, promising economic prosperity, yet governments grapple with financial constraints, especially in the face of global economic challenges, hindering their ability to provide essential public services. Important infrastructure like electricity, transport, telecommunications, water and sanitation, is crucial for development and livelihood improvement. Moreover, insufficient infrastructure financing has become a pressing concern, forcing governments to explore avenues for economic, industrial, technological, and social progress.

The Global South often encounters obstacles when seeking substantial financing for their development needs. Limited access to deep domestic markets and costly international capital markets poses significant challenges. As technology-driven manufacturing processes drive up mineral demand and prices, resource-rich countries aim to capitalise on their mineral wealth to raise funds. However, extracting these resources requires huge capital investment, often beyond what governments can promptly secure. To bridge this financial gap, governments seek mechanisms to leverage their resources to unlock immediate financing while allowing the mineral extraction cycle to proceed.

Resource-Backed Loans (RBLs) and mineral resource collateralisation represent potential financing mechanisms to achieve these goals. Generally, RBLs are loans secured by leveraging on a country's natural resources. They enable governments to unlock current resources while deferring financing until the resource extraction process is complete. However, RBLs have contributed to mounting debt levels in Africa largely due to their design, particularly their investor-centric nature. While RBLs could theoretically help bridge infrastructure gaps, their design often favors investors over national governments. Addressing this imbalance and creating guidelines for managing RBLs are critical milestones to safeguard African governments from potential exploitation by lending institutions.

Governments in Africa have been mortgaging their natural resources to secure loans from China, a trend that often ignites debt distress when commodity prices collapse. Angola, Democratic Republic of Congo (DRC), Ghana, Guinea, Sudan and South Sudan are among the countries in the continent that have used future revenues from natural resource exports as collateral for Chinese loans, a new study conducted by the China-Africa Research Initiative (CARI) at Johns Hopkins University shows. "Contracting future revenues from natural resource exports as loan repayment is a way both for borrowers to attract finance and for lenders to mitigate risks to repayment. However, this lending modality can pose problems when commodity prices fluctuate," notes the study. Angola and DRC, which have both used their massive oil and copper resources to secure loans from China, have fallen victim to collapse of commodity prices, developments that have forced them to negotiate for debt relief.

Session's Objectives

The session's primary objective is a multifaceted exploration of RBLs and what it potent for Africa's current debt situation. In particular, the session seeks to highlight findings and obtain feedback in relation to the objectives set out below.

- a) Assess the vital role played by regional convergence protocols, particularly in times of economic crises, to better comprehend their relevance to RBLs.
- b) Critically analyse and gauge the extent to which RBLs are integrated into diverse public finance regimes across the African continent.
- c) Formulate a series of policy recommendations designed to effectively address the challenges linked to RBLs in the sphere of resource mobilisation, ultimately promoting responsible and sustainable financial management.
- d) Highlight real-world cases, drawn from experiences, to illustrate both the successes and pitfalls associated with RBLs' implementations in Africa.
- e) Produce a regional analytic briefing paper that can be used as a policy advocacy tool to create awareness on RBLs and reform their landscape in Africa.

Expected Outcomes

- i) Enhanced understanding of regional convergence protocols in economic crises
- ii) Improved insight into RBLs integration in public finance regimes in Africa
- iii) Comprehensive evaluation of RBLs legal frameworks in Africa
- iv) Valuable lessons from real-world RBLs' cases on the African continent
- v) Practical policy recommendations for addressing RBLs challenges in Africa
- vi) A regional analytic briefing paper on RBLs in Africa