RESOURCE-BACKED LOANS AND PUBLIC SECTOR COLLATERALISATION OF NATURAL RESOURCES IN AFRICAN COUNTRIES

AFRODAD

African Forum and Network on Debt and Development

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INTRODUCTION

1.1 BACKGROUND

Africa and the world at large are generally focused on mechanisms to attain the Sustainable Development Goals (SDG). SDG8, for example, requires that countries should promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all by 2030 . However, one of the major threats towards the attainment of the SDGs is how to finance development, as the underlying and enabling conditions are in a poor state. For example, the quality, quantity and accessibility of economic infrastructure in developing countries lags considerably behind those in advanced and emerging market economies to an extent that the gap are an actual constraint on real economic activity (Gurara, Klyuev, Mwase, & Presbitero, 2018). Financing is mainly constrained by indebtedness, which has reached unsustainable levels in many countries. For example, Africa's public debt burden rose from an average of 37% of GDP in 2012 to 62% in 2019 (Ferry, Jonveaux, & Terrieux, 2021). Indebtedness generally implies that the ability to unlock additional finance is now heavily constrained as reliance on the traditional financiers is limited.

Traditionally, developing countries rely on official development finance as the main financing mechanism. Gurara, Klyuev, Mwase, & Presbitero (2018) estimate that about 57% of official development finance is multilateral support with World Bank being the largest player while 43% accounted for by bilateral support. The major drawback for unlocking finance is that the governments are considered as carrying a high financial risk by investors, hence their access to international capital markets is limited (Mihalyi, Adam, & Hwang, 2020). The need to explore alternative financing mechanism is thus paramount.

Over the past decades, the fast growing emerging markets as well as new technology inspired manufacturing processes have created rising demand for minerals, which have generally seen a surge in their prices. The existence of the mineral price boom began to demonstrate the impact that mineral exploitation could have on development processes of resource rich countries. This meant that poor countries that are rich in mineral resources had prospects of higher revenues if they were to exploit their resource endowments and raise resources, thus positioning minerals wealth as a source of growth and new economic development opportunities. Thus, attention has now shifted to mechanisms through which mineral resources can be a solution to the various challenges and difficulties that characterise poverty alleviation and development oriented efforts by African governments. One such mechanisms of leveraging on resource endowments are the resource-backed loans (RBLs) and collateralisation of mineral resources.

Despite heaving proven mineral resources, extraction of the resources requires huge capital outlays which do not only take long time to mobilise but the amounts required may also be beyond the scope of governments to raise. Although mineral resources remain valuable even when underground, the value is only enjoyed only when they are extracted and marketed. This means that resource rich countries remain wealthy on paper but would need the actual exploitation of the resources for that wealth to be realised. This creates a mismatch between the wealth of an economy as measured by resource endowments on one hand and the ability of the governments to respond to the urgent socio-economic needs on the other. Resource-backed loans and collateralisation of mineral resources are intended to ensure that governments unlock resources at the present time while the financing is settled later when the resource extraction cycle has been completed.

Also known as resource financed loans (RFI), these financing models are mainly traced to the Angola Model of 2004, when Angola secured an infrastructure loan contract from China Exim Bank and a resource extract contract were sealed as a settlement at the same time (Xu, Ru, & Song, 2020). Under the agreement, China Exim Bank was to loan Angola USD2 billion at an interest rate of LIBOR+1.5%, a grace period of five years, an amortization period of 17 years, which was to finance about 107 infrastructure projects ranging from hospitals and schools to roads and power transmission networks (Xu, Ru, & Song, 2020). Angola was to finance this through a revenue of 10,000 barrels of oil per day as collateral for the infrastructure loan, which was placed in an escrow account to be drawn down by China Exim Bank as payment. Resource financed loans are a popular financing mechanism by China; between 2003 and 2011, out of a total of USD132 billion provided by Chinese banks in financing to African and Latin American governments, about 57% was in the form of resource financed loans (Xu, Ru, & Song, 2020).

However, since the negotiation is done in advance before the actual extraction of the mineral resources began, there are a lot of uncertainties and unknowns that would be at play. The prices of the minerals will not be known as these are bound to change over time. The actual production and extraction costs would also not be known with certainty. In addition, since the financier is actually bailing out a government that would have failed to raise resources on its own, there is an element of desperation on the part of government which the financier can also seek to exploit. But the use of these alternative approaches is fraught with its own opportunities and challenges. Although they are emerging as a popular financing mechanism, RBLs remain essentially a contested concept and it is hard to standardise their operationalisation without exploring the different sheds of meaning behind the concepts and how they should be understood in extractives sector in African countries. It is not clear if RBLs are structured in a way that is mutually beneficial to both the government and the investor without one part being prejudiced. The opportunities, risks and threats which need to be borne in mind when negotiating and consummating RBLs still need to be laid bare. In addition, the lessons which resource rich African countries can derive from RBLs consummated thus far need to be outlines to ensure that a mutually beneficial arrangement can be structured.

It is under this context that this policy brief has been prepared. It analyses the merits of resource-backed loans as a source of financing infrastructure, pointing out at the pitfalls and attendant challenges which need to be borne in mind if they are to be used as a mode of finance.

1.2 STUDY OBJECTIVES

In order to explore these issues further, the objectives of this policy brief include the following:

- To define resource backed loans and collateralisation of resources;
- To explain how resource-backed loans and collateralization of natural resources compare to traditional ways of mobilising resources to finance development processes;
- To describe the structural, financial, and operational strengths, weaknesses, opportunities, and threats around the use of resource-backed loans and natural resource collateralization;
- To describe the policy recommendations that should be considered in mainstreaming the use of resource-backed loans and collateralizations as models of development financing in African countries.

WHAT ARE RESOURCE-BACKED LOANS?

Mihalyi, Hwang, Rivetti, & Cust (2022) define RBLs as loans that are secured by using a country's natural resources to serve as either a direct source of repayment or as an underlying guarantee of repayment in respect of the loans. Mihalyi, Adam, & Hwang (2020) also add that under these schemes, the natural resources can serve as payment in kind, serve as the source of an income revenue stream used to make repayments, or they can serve as an asset that serves as collateral. Halland, Beardsworth, Land, & Schmidt (2014) highlight that these are a financing model where a government pledges its future revenues from a resource development project so as to repay a loan used to fund the construction of an unrelated infrastructure project.

Regardless of how they are defined, there are about three distinct stages involved in RBLs:

- The government agrees on a resource development and production license with a resource developer with a firm development timeline and a fiscal regime that provides clear revenue flows when the resource is under production.
- The government agrees with a potential lender to pledge part or all of the government revenue flows it will receive from the resource production project in exchange for a credit facility to be paid back (both principal and accrued interest) solely from the pledged revenue stream.
- The government or the lender or both use the credit facility to obtain infrastructure by contracting with entities that specialize in the development and construction of the specific types of infrastructure to be built. Funds from the revenue flows would be used to finance the construction and, potentially, the operations and maintenance of the infrastructure for a specified duration.

RBLs thus tend to be more complex in that they involve the linking up of two supply chains that would have been otherwise separate: the infrastructure building supply chain and the resource extraction supply chain (Xu, Ru, & Song, 2020). RBLs commonly have their repayment terms set in value terms like other regular loan.

COLLATERALISATION OF MINERAL RESOURCES

Resource-backed loans are often labelled as or seen as a subcategory of collateralized loans. Mihalyi, Hwang, Rivetti, & Cust (2022) argue that collateralisation of mineral resources takes place when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. This means that the mineral resources have only been used as a collateral but if government were to be able to raise resources from other revenue sources, the collateralised mineral resource would not be used by the lender. Thus, a borrower would be granting liens over specific existing assets or over future receivables to a lender as security against repayment of the loan.

Mihalyi, Adam, & Hwang (2020) go further and provide that collateralisation can be done as a way of mitigating the risk of payment difficulties. This would see the lender requiring for placement of a resource revenue flow, for example a given percentage of mineral revenue in an escrow account or assign rights to future production volumes, which would be known as "collateralized future commodity receipts arrangement. The collateralised revenue then becomes the basis for unlocking credit and the lender get access to the collateralised revenue in the event of default.

Mihalyi, Hwang, Rivetti, & Cust (2022) classify collateral arrangements into four categories as follows:

- Resource sales receivables: The most common collateral arrangements, they require that specific amounts of natural resources (e.g. barrels, tons) be sold to some designated buyers for the benefit of the lender in the event of failure to repay the loan.
- Resource sales pre-payments: These are basically advances that are made in respect of purchases of resources in future. These are most commonly used by commodities traders who want to be assured of a purchase of natural resources in future and are usually of very short term, ranging from a few months to a few years.
- Resource development access: These tie the expected returns from granting mineral development rights to an infrastructure project and are sometimes referred to as "resource for infrastructure" deals or "barter deals."
- Direct resource collateral: These involve the collateralisation of undeveloped resources that would still be underground to a loan that would have been advanced now.

Thus, RBLs and collateralisation of mineral resources do not necessarily mean the same, although in most cases the impact is the same as governments in developing countries, especially Africa, are rarely able to raise resources to redeem the collateralised mineral rights. Thus, as is the case in most literature, in this policy brief, collateralisation of mineral resources is treated as being part of RBLs.

HOW RBLS CAN BRING BENEFITS TO THE MINERAL RICH COUNTRY

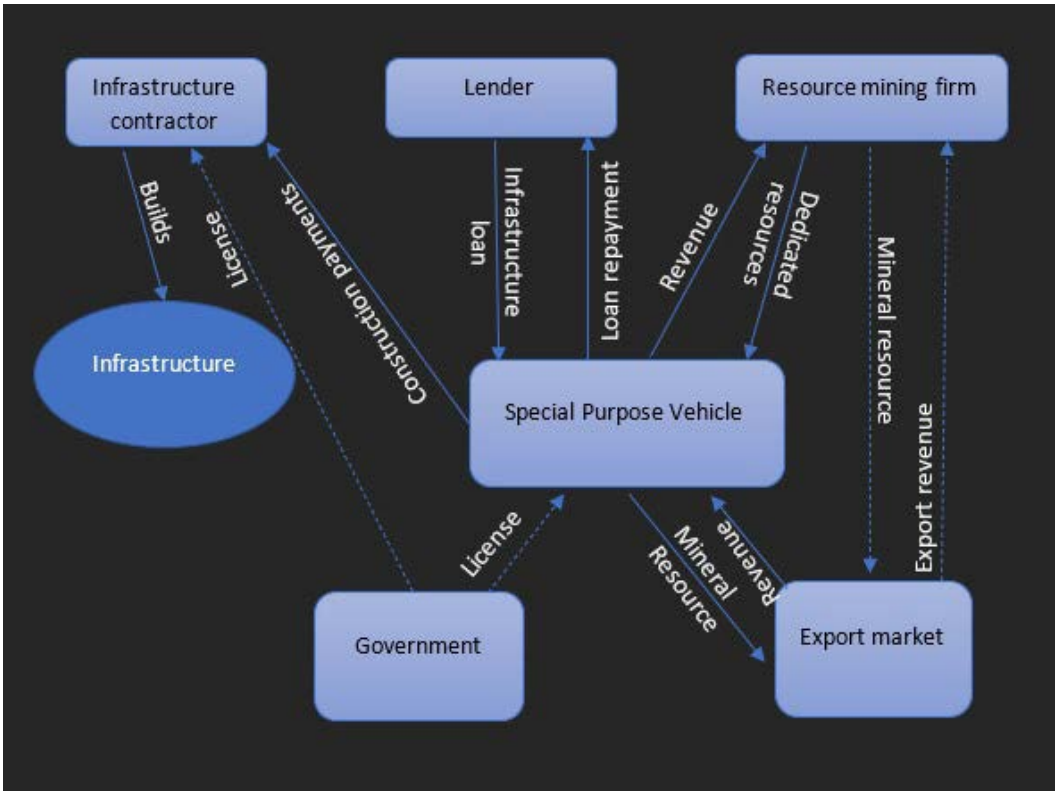
Given that RBLs can be used to finance infrastructure, it follows that if properly structured they can indeed provide a solution to the infrastructure financing nightmare for African countries. However, there are a number of conditions which need to be fulfilled to ensure that countries unlock full benefits from RBL. The whole process should be done transparently and effectively, while the loan has terms that are favourable, with the infrastructure projects being well selected and well executed (Mihalyi, Hwang, Rivetti, & Cust, 2022). If this happens, RBLs would be able to generate increased economic activity that helps in the generation of the tax base in future that is able to either repay collateralised loans or generate revenue that is able to offset what the government would have paid off from the revenues from the earmarked resource project.

According to Xu et al (2020), the traditional borrowing models where governments in developing countries borrow from foreign creditors to build public infrastructure in the hope of using tax revenues to repay their loans has often resulted in unsustainably high levels of debt, mainly due to two main reasons. Firstly, this is often corrupted by politicians who divert the loans from the originally intended uses towards other projects, resulting in high debt levels without any corresponding completed infrastructure. Secondly, most of the resource rich countries are often poorly governed and a weak institutional framework makes them more likely to renege on their promises to repay the loans. However, properly structured RBL can get around these challenges and make it possible for resources to unlock funding opportunities.

Resource financed loans generally tend to unlock higher levels of funding compared to the conventional sovereign loans; based on a novel project-level database, resource financed loans were found to be much larger than conventional sovereign loans, averaging USD 1.9 billion compared with USD188 million for non-RFI loans (Xu, Ru, & Song, 2020). Resource financed loans can overcome the corruption related challenges of resource diversion which characterise the traditional borrowing models if properly structured. The models allocate funding directly to construction companies rather than to borrowing governments. This eliminates totally the resource diversion risk. The resource revenue also goes directly to an independent escrow account established to service the debt of infrastructure loans rather than flowing conventionally into the coffers of governments (Xu, Ru, & Song, 2020). This generally gives an assurance that once RBLs have been negotiated, the extraction of the mineral resources is going to be complimented by the construction of infrastructure, an assurance which is often missing from the traditional financing models.

The structure of a typical RBL which eliminates corruption and diversion risk by minimising government control can be explained by an illustration (Figure 1). Under this structure, the lender has to remain separate from the infrastructure contractor as well as the mineral resource extractor, hence a special purpose vehicle (SPV) has to be created to be the link. The infrastructure loan and all obligations, including the loan repayment and payment for construction activities have to be done through the SPV, which implies that the role of government would be restricted to licensing. In terms of management of the mineral resources, the SPV's role would also be restricted to the specified resource flows under the terms of the RBL; if only a portion of the mineral resources is dedicated to the project, then the resource mining firm would be free to export the rest on their own but if all mineral proceeds are to be for the project during the specified duration, then the resource extracting firm would also receive revenue through the SPV.

Figure 1: A typical RBL institutional arrangement to minimise corruption risk



Source: Xu, Ru, & Song, 2020 with Author's modifications

HOW RBLS CAN FAIL TO ENHANCE DEVELOPMENTAL OUTCOMES

However, there are also situations where RBL may fail to provide the optimum benefits in terms of giving the infrastructure that is commensurate with the value of the resources extracted. When governance is weak or the capacity to manage debt is weak, or there is poor selection and execution of the relevant infrastructure projects, the large RBLs may become overly burdensome for borrowers (Mihalyi, Hwang, Rivetti, & Cust, 2022). In addition, RBLs can also quicken debt sustainability problems if they are too large or they create a cycle of increased dependence on this type of borrowing (Mihalyi, Hwang, Rivetti, & Cust, 2022).

Coming up with an ideal RBL model that eliminates risks is also a complex process. The government would need to have three separate agreements; with a resource developer (for the development and production license), with the lender (for the credit facility), and with the infrastructure developer (for the infrastructure construction). However, these components need to be separately addressed, with the differing interests and risks that each party has in the structuring, negotiation, and implementation phases being well managed (Halland, Beardsworth, Land, & Schmidt, 2014). This is often difficult for governments to accomplish, with experience to date showing that governments lose control since the three counterparties frequently form alliances once governments have started negotiating transactions to coordinate their positions (Halland, Beardsworth, Land, & Schmidt, 2014). For example, resource developers assume responsibility for coordinating construction of the infrastructure, or the lender offers concessional finance only if some preferred contractors are used, who might not be optimally qualified for the types of infrastructure the government requires (Halland, Beardsworth, Land, & Schmidt, 2014).

The complexities involved might also see government coming out second best in terms of deriving optimal benefits. Halland, Beardsworth, Land, & Schmidt (2014) identify a number of instances where RBL tend to give unfair advantages to other parties rather than government and these include the following:

- Often, governments give away too much in their desperation for the infrastructure they would be receiving as contractors or lenders take advantage and inflate the price of the infrastructure
- The credit terms of the agreement are often not the best available under the circumstances, and governments can be powerless to shift them fairly or to their advantage

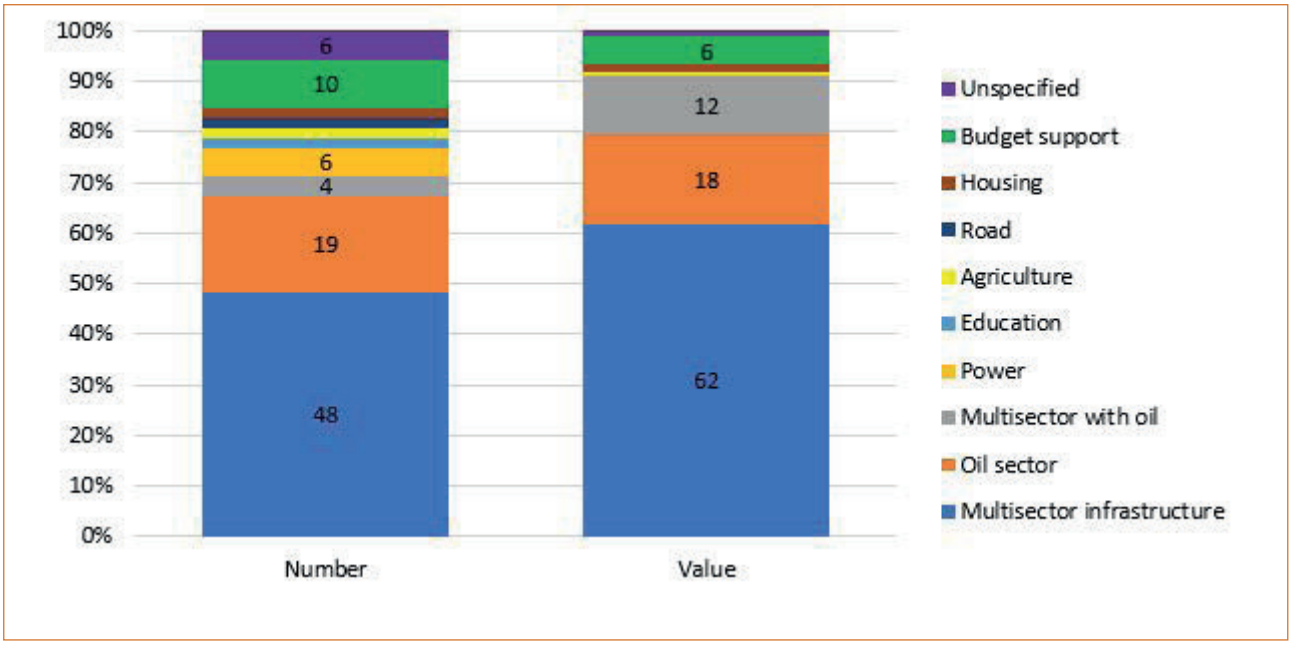
- The restrictions on the sources of goods and services that can be purchased with the proceeds often are made to promote industries of the lending countries at the expense of local industry, resulting in limited benefits in the value chains of the resource rich country
- The amount of capitalised interest in the infrastructure credit might fail to reflect a reasonable estimate of how long it will take for the government to be entitled to revenues from the resource component. Once the value of the resources extracted matches with the amount lent, the revenue flows revert to government and if interest terms are not well negotiated, the period will be unnecessarily prolonged
- The pricing of each infrastructure component is often established under conditions that are not transparent and competitive, such that the selected supplier might not be the most ideal.
- A number of resource rich governments may be incapable of negotiating complex projects and given that they will be negotiating with a consortium of a development bank, which could be supported by a foreign government with a team of engineers, financiers, lawyers, and other consultants; the mismatch is likely to be to the government's disadvantage.
- The estimation of the infrastructure value and the resource under the ground also need some accuracy. This would be the basis upon which some equivalence between the value of the resource to which the resource developer is being given access and the amount or value of the infrastructure the country will receive. However, the valuation methods tend to be too complex with the uncertainty mainly inherent in the risk factor to be borne by the government rather than the other parties to the transaction.

Thus, while it is possible to unlock value from RBL, these factors which make it difficult for governments to be the net beneficiaries from these transactions are also too numerous.

COUNTRY EXPERIENCES IN THE USE OF RBLS IN SUB-SAHARAN AFRICA AND LATIN AMERICA

A comprehensive database of RBLs by Mihalyi, Hwang, Rivetti, & Cust (2022), which is also contained in Mihalyi, Adam, & Hwang (2020) can be used to infer critical lessons on RBLs. It shows that RBLs have been used a lot in Sub-Saharan Africa and Latin America. The database has a total of 52 RBLs, out of which 30 were from Sub-Saharan Africa while the rest were from Latin America. These 52 RBLs had a total value of US$163.6 billion. A look at the distribution of the various projects financed using RBLs shows that about 48% in number and 62% in value of these were mainly multisector infrastructure projects (Figure 2), while about 19% in number and 18% in value were from the oil sector. The database also shows that there is a tendency to use RBLs for budget support and debt rollover, which means that revenues from minerals could also be used to cover up fiscal management inefficiencies and deficiencies.

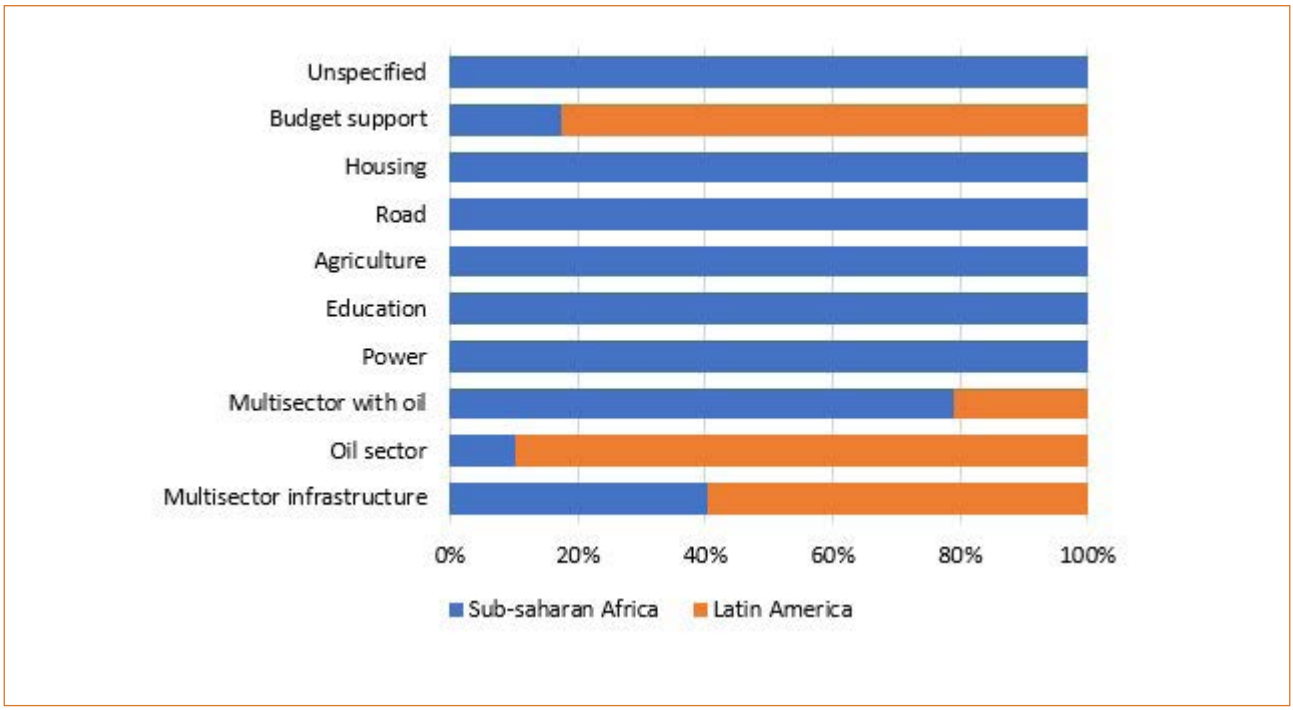
Figure 2: RBLs are mainly financing infrastructure projects spanning across various sectors



Source: Author's construction using Mihalyi, Adam, & Hwang (2020) database

However, a comparison between Sub-Saharan Africa and Latin America shows that these high-value RBLs across several sectors are mainly in Latin America, which constitutes about 60% of these projects (Figure 3). However, projects having multisector dimensions while also including the oil sector tend to be more concentrated in Sub-Saharan Africa. RBLs have also been used to finance projects in education, housing, roads, agriculture and power but this is only confined to Sub-Saharan Africa. The use of RBLs to support budgetary needs is also more confined to Latin America than Sub-Saharan Africa.

Figure 3: Distribution of RBLs between Sub-Saharan Africa and Latin America



Source: Author's construction using Mihalyi, Adam, & Hwang (2020) database

The comparison also shows that although Africa had more RBLs in number at 30 compared to Latin America with 22, the value of the RBLs concluded in Latin America was higher at US$97.8 billion compared to Africa's US$65.8 billion (Mihalyi, Adam, & Hwang, 2020). The 30 RBLs that were signed in Africa over the period 2004 and 2008 were spread over 11 countries, namely Angola, Chad, the Democratic Republic of Congo (DRC), Ghana, Guinea, Niger, the Republic of Congo, São Tomé and Príncipe, South Sudan, Sudan, and Zimbabwe. For Latin America, these were spread over three countries; Brazil (five RBLs), Ecuador (seven RBLs) and Venezuela (10 RBLs).

Although both central government and state-owned enterprises are the known borrowers of RBLs, only 30% of the loans were borrowed by state-owned enterprises, making central government the primary borrower. On the other hand, lenders are mainly state policy banks or development banks, which are dominated by the two policy banks of China; China Development Bank (CDB) and China Export-Import Bank (Eximbank) (Table 1). Also among the lenders is the state-owned oil company China National Petroleum Corporation (CNPC), private commodities traders such as Trafigura and Glencore, the Export-Import Bank of Korea (Kora EXIM) and China National Aero-Technology Import & Export Corporation (CATIC).

Table 1: Country experiences in RBL, the key lenders and projects financed between 2004 and 2008

COUNTRY	RBL TOTAL VALUE (US$)	NO. OF RBLS	LENDERS	PROJECTS FINANCED
Angola	24 billion	6	China Eximbank China CBD	Multisector infrastructure projects (energy, water supply, health, education) Kilambia Kiaxi New Town Phase I
Brazil	25 billion	5	China CBD	Exploitation of pre-salt oil fields Oil sector investment (bilateral cooperation agreement) Debt relief Financing and leasing of oil platforms, other equipment needed for oil exploration and production, and joint investments in exploration and refining
Chad	1.96 billion	2	Glencore	Budget financing Purchase of Chevron oil fields
Democratic Republic of Congo	3.5 billion	2	China Eximbank Korea Eximbank	Construction and rehabilitation of various railways, roads, hospitals Economic Development Cooperation Fund - network of water supply pipelines in Kinshasa
Ecuador	13.8 billion	7	China CBD China Eximbank	Hydroelectric dams [Delsitanisagua, Minas-San Francisco, Mazar-Dudas] Esmeraldas thermoelectric plant Villonaco wind farm, ECU-911 security project Budget financing Transportation, education, and health-care projects
Ghana	25.6 billion	5	China CBD China Eximbank China Sinohydro	Bui Hydropower Project Multisector infrastructure including roads, bridges, interchanges, hospitals, affordable housing
Guinea	20 billion	1	China Eximbank	Multisector infrastructure including Coyah-Dabola road, Conakry road network and sanitation, university building
Niger	1 billion	1	China Eximbank	SORAZ oil refinery (replacing an earlier loan)

Republic of Congo	6.1 billion	5	China Eximbank Trafigura Glencore Gunvor	Multisector infrastructure Advances on oil cargo Oil infrastructure
São Tomé and Príncipe	30 million	1	Nigerian Government	pent on administering Joint Development Zone with Nigeria
South Sudan	1.2 billion	3	China Eximbank	Budget support Agricultural project Advances on oil sale Nadapal-Torit-Juba and Juba-Rumbek-Wau roads
Sudan	3 billion	1	China Eximbank	Multisector infrastructure
Venezuela	59 billion	10	China CBD China Eximbank	Partial earmarking to oil sector, military equipment Funding infrastructure: electricity, heavy industry, housing, agriculture projects, $6 billion at Venezuela's discretion; tied with freeway and power plants construction Multisector infrastructure (Joint Fund) Increase Sinovensa production in Orinoco Oil sector development
Zimbabwe	408 million	3	China Eximbank China CATIC	Purchase of Rural Electrification Agency equipment Purchase of agricultural equipment Construction of the National Defence College

CHALLENGES AND OPPORTUNITIES WITH THE USE OF RBLS AS A SOURCE OF FINANCE

a) Crowdingut other sources of finance and compromising debt sustainability

While RBLs have not been widely used relative to other traditional financing mechanisms, when they are used they tend to involve very large volumes and end up threatening debt sustainability. These large loans that involve a collateralised resource or guaranteed revenue tend to bestow priority on the lender ahead of other lenders who often get marginalised to the periphery with higher risks of default. For example, in 2018 Venezuela virtually defaulted on some of her debt obligations, but the oil backed loans that had been received from Russia and China were still serviced as they become senior debt relative to traditional lenders (Mihalyi, Adam, & Hwang, 2020). Having some resources being earmarked to a particular category implies that the resources available to service other obligations become constrained, which compromises debt servicing capacity in general. The majority of countries that took out RBLs also tend to be countries that are characterised by debt sustainability challenges.

RBLs also compromise debt sustainability in that there is no clearly pre-defined orderly default procedure as is the case with traditional financing mechanisms where governments have to negotiate a debt distress arrangements using laid down procedures. For example, China does not participate in the Paris Club forum where various creditors often coordinate on how they can reschedule debt to distressed companies and neither is China part of the London Club forum where private creditors, or other bodies representing private lenders can also work out debt distress programmes (Mihalyi, Adam, & Hwang, 2020). Angola, Chad and the Republic of Congo, are good examples where the IMF recommended the renegotiation of RBLs as a key factor in restoring debt sustainability (Mihalyi, Hwang, Rivetti, & Cust, 2022).

b) Transparencyhrouds most of the RBLs

Countries that borrow using RBLs generally tend to be those that have weaker debt disclosure practices, with only 50% of the RBLs being able to be identified on the World Bank's Debtor Reporting System (Mihalyi, Hwang, Rivetti, & Cust, 2022). About two thirds of resource-backed loans went to countries with poor or failing Resource Governance Index scores (Mihalyi, Adam, & Hwang, 2020) hence they tend to be highly correlated with countries that have limited transparency and accountability. The lack of transparency takes place across all stages of the procurement cycle, including loan level information such as interest rates, maturity, and resource-security arrangements. Since the deals tend to be highly complex, lack of transparency implies that they are high chances that the risks involved as well as the anticipated outcomes could be poorly evaluated.

c) The Cost of financing RBLs is not necessarily low

The RBL borrowing rates tend to be, on average, higher than other sources of financing with comparable terms, even though there are large variations in the terms (Mihalyi, Hwang, Rivetti, & Cust, 2022). If they do not provide a cheap mode of financing, then their advantages over traditional financing sources becomes diluted. This calls for the need for care in the negotiation process to ensure that the terms do not necessarily place an advantage on the lender when access to critical resources has been mortgaged. More transparency in lending terms is also needed to increase scrutiny to put pressure on the negotiators to be fair.

d) The intended use goes beyond infrastructure

A look at the RBLs reveals that in addition to financing infrastructure, they are also used for budgetary support. Using RBL receipts to finance budgetary shortfalls is very risky, especially given that a one-time cash injection will not necessarily prevent future shortfalls in government revenue (Mihalyi, Hwang, Rivetti, & Cust, 2022). Supporting the budget will also not necessarily fix the underlying causes of the low tax revenues which have necessitated this support, hence is more likely to require future borrowings again to sustain such level of expenditure. It is important to ensure that RBLs are only used to finance infrastructure as this generates the future expansion capacity.

e) Contracting processes in RBLs tend to be outside the general government procurement systems

In all countries, public procurement follows a distinct process designed to eliminate loopholes for corruption while also ensuring that there is efficient resource utilisation. This also includes following a competitive bidding process to identify service providers. However, Chinese RBLs often involve a condition or lead to construction or procurement being carried out by Chinese companies, even though this could be due to their ability to best leverage the preferential financial support that the state policy banks would be bringing (Mihalyi, Hwang, Rivetti, & Cust, 2022). Specifically, RBLs with Chinese policy banks are often bundled with oil sector production or trading agreements as well, which is where the use of Chinese construction companies and other suppliers in delivering infrastructure are often imbedded (Mihalyi, Adam, & Hwang, 2020). This eliminates the competitive bidding process that would have allowed the government procurement entities to select more competitive bids.

f) RBLs can benefit one party more than the other if not properly negotiated

An example from an RBL which involved two African governments, São Tomé and Príncipe and Nigeria (Box 1) generally demonstrates that there is need for caution in lending when the revenues from the earmarked project are not certain. This is a good example of how an RBL can benefit a borrower. However, the example involving Chad and Glencore (also in Box 1) also demonstrates the need for caution in managing uncertainties that affect revenue fluctuations, including rising commodity prices, in such a manner that the lender is not necessarily advantaged. This generally underlines the need for expertise in negotiations.

CONCLUSION

The review of RBLs has generally revealed that there is scope for using them as a financing mechanism taking into account the abundance of natural resources in Africa. The co-existence of natural resource endowment and huge infrastructure gaps in developing countries can be a justification for the use of RBLs. However, such justification holds water if the actual and envisaged social returns from constructing the infrastructure projects turn out to be higher than the interest charges and all the risks that are associated with the loan. This is mainly the challenge that developing countries have to deal with to ensure that RBLs are successfully utilised as a solution to the infrastructure deficit that also threatens the attainment of development indicators, including SDGs.

The risks with RBLs tend to be mainly confined to project selection and execution, especially as most of the loans lack of transparency, accountability and competition at all the critical stages. If these are addressed, RBLs would have an advantage over other traditional financing mechanisms, especially since they tie the government's hands against political pressures to spend resource revenues on consumption at the expense of infrastructure. They assure delivery of infrastructure regardless of emergence of short term socio-political developments which are often used to relegate the long term infrastructure development goals to the periphery.

The manner in which RBLs are structured also stands out as a key determinant of the level of local benefits from the project, especially in terms of the multiplier and value chain benefits unlocked into the local economy. A clear separation of the resource extractor, the infrastructure contractor and the lender makes it easier to ensure compliance with the public procurement system, which is designed to ensure competitive bidding and selection of the best contractors. The creation of a SPV that helps sustain this separation is thus one of the most important steps towards ensuring this distinction of operators as well as non-collusion in operations.

RBLs also tend to be very complex in nature and the lack of transparency also implies that the necessary expertise to ensure that favourable outcomes emerge has taken a long time to emerge. Thus, it is important for the international community to continue to spearhead efforts that are designed to develop technical capacity in Sub-Saharan African countries for the management of RBLs so as to enhance negotiation skills.

POLICY RECOMMENDATIONS TO RESOURCE RICH SUB-SAHARAN GOVERNMENTS

(i) Governments should subject RBLs to the normal public procurement systems to ensure competition. Now that the RBLs are a known and emerging source of financing, Governments should encourage competition among lenders to ensure that there is an incentive for the lenders to give favourable terms. In addition, competition should be ensured in the selection of all the players in the infrastructure projects to ensure that governments secure the best possible deals. The tying of contractors to specific projects should only be allowed if this results in distinct cost saving advantages, especially where such contractors have good standing terms with lenders and can access cheaper finance.

(ii) Governments should ensure that there is increased transparency in RBLs. The IMF and the Extractive Industries Transparency Initiative (EITI) have recently broadened their transparency norms to ensure that they also cover RBLs. All the key terms of each loan contract should be promptly made public to ensure that oversight also develops aimed at protecting the interest of the countries in RBL negotiations

(iii) Governments should source experts to bring to the RBLs negotiations. While the building of local expertise in RBLs is ongoing, governments should ensure that there experts seconded to the negotiations, as the lenders also have their own experts. Expertise deficient areas include legal analysis in contracting, economic modelling of future returns and costs, resource valuation and engineering analysis of the infrastructure. With such expertise, the resultant RBLs would be able to safeguard the interest of the resource rich developing countries.

(iv) Governments should ensure that the RBLs and all costs involved are brought on budget. Most of the RBLKs are complex and high value but their associated spending are not accountable. To overcome this, all these loans, including those by state-owned enterprises, should be reflected in the national budgets so that the oversight arms, including members of parliament, subject them to scrutiny.

(v) Governments should ensure that RBLs are properly invested. The use of RBLs for budget support or for consumption purposes should be discouraged but rather investment should be in productive ventures that ensure that the returns would exceed their costs of financing.

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