# One Hundred and Fifteenth Sovereign Debt News Update: South Sudan, Nigeria, DRC, and Angola Resort to Collateralized Loans

**By:**

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Increasing debt levels and exceptionally high commodity prices have prompted many developing nations to pledge their natural resources in order to obtain the desperately needed funding. This borrowing technique, known as resource-backed loans, allows a country to obtain funding in exchange for future streams of income from its natural resources, which are collateralized. This update spotlights the $12.9 Billion to South Sudan by a UAE Firm in exchange for 20 years oil repayment, and highlights a similar trend in Nigeria, the Democratic Republic of Congo (DRC), and Angola. Oil is South Sudan's most valuable resource and the source of the vast majority of its national wealth, accounting for roughly 90% of the country's income and more than 30% of the country's

GDP. For South Sudan, an East African country grappling with famine and conflict, oil-based loans have therefore perpetuated a damaging reliance on future oil production to finance current spending- a pattern that has locked the country in a spiral of debt. Nigeria is Africa's main oil producer and the largest oil producer in Africa. The petroleum industry accounts for about 9% of Nigeria's GDP and for almost 90% of all export value. The DRC is a significant player in the global copper industry, producing about 63% of the world's cobalt, with about 80% from industrial copper mines, and the remaining 20% gathered by artisanal mining. Angola's economy is heavily dependent on its oil & gas industry, which makes up more than 90% of its exports. These countries give a snippet of how African countries are resorting to resource backed loans due to their inability to access traditional financing.

**Details of South Sudan's $12 Billion Oil-Backed Loan from UAE Firm**

According to an unpublished report reviewed by Bloomberg, a United Nations Security Council-appointed panel of investigators found that the Dubai-based Hamad Bin Khalifa Department of Projects (HBK DOP) and South Sudan's then-finance minister, Bak Barnaba Chol, appeared to have agreed to the terms of the loan in documents signed between December 2023 and February 2024. The company, led by a distant relative of the Abu Dhabi royal family, has agreed to lend South Sudan €12 billion ($12.9 billion) in exchange for repayment in oil. The deal is considered one of the largest oil-for-cash agreements, equalling roughly five times the country's existing external debt and nearly doubling its gross domestic product (GDP) of about $7 billion. While there has not been an indication of when the first $5 billion instalment will be paid, available documents show that 70% of the loan has been committed to infrastructure, and 30% will go toward the country's working capital. According to one source, the deal could force the East African country to continue producing oil until at least 2043, years beyond the lifespan of the country's existing oil wells. The agreement reportedly offers South Sudan $10 less per barrel of oil than the international benchmark price, implying that HBK DOP could secure access to oil at a discounted price for up to two decades with the loan.

**South Sudan Repeating the Same Mistake?**

South Sudan was one of a handful of African oil-producing nations to sign "prepayment agreements" with international commodity trading firms, which gave governments cash at the time in return for shipments of oil to be delivered later on. A 2023 report by The Sentry, the result of a three-year investigation into a loan deal between Trinity Energy (a local company), African Export-Import Bank (Afreximbank), and the government of South Sudan, spotlighted a 2018 deal in which South Sudan's Trinity Energy Limited entered into a trade finance facility with Afreximbank for a series of $30 million loans to purchase diesel and gasoline to sell to the South Sudan market. This report, titled "Crude Dealings: How Oil-Backed Loans Raise Red Flags for Illegal Activity in South Sudan", uncovered red flags for illicit business practices including bribery, tax evasion, and trade-based money laundering. According to the report, "*the government of South Sudan committed to award cargoes of crude oil to Trinity Energy. The deal skirted legislation on oversight, transparency, and competition and facilitated off-book government spending*."

However, the government seemed to have awakened to the adverse impacts of oil backed loans at one point. Exactly two years ago, in May 2022, the country's then finance minister, Agak Achuil, said that South Sudan's government had been unable to pay civil servants for months as the country's oil revenues were being spent servicing oil-backed loans that would not be paid off until 2027. Earlier, in June 2019, Sudan's Information Minister, Michael Makuei Lueth, announced that the President had directed that all pre-sales contracts be suspended as they were "*not healthy and they are actually destroying the economy*". It is therefore surprising that the same government has bound itself to yet another oil for cash agreement of such magnitude.

If not for the economic constraints, then South Sudan would have completely abandoned oil backed loans for the legal entanglements that have ensued in the past. South Sudan's troubled history with such agreements has not been without legal consequences for defaulting on payments. Britain's High Court in June 2020 ordered South Sudan to pay commodity trading giant Trafigura $9.7 million within 30 days. Court documents show the government had already paid an additional $36 million towards the debt earlier this year, following legal action after South Sudan failed to deliver six cargoes on time between May 2018 and March 2019. A UN report in April 2021 revealed that South Sudan lost nearly 25% of potential revenue on a $446 million loan due to fees, interest, and costs. Currently, South Sudan is locked in a dispute with the Qatar National Bank after it failed to supply crude oil to service a 2012 loan that had grown to more than $600 million. As reported by Afronomicslaw in 2020, South Sudan faced a debt restructuring dispute at the International Centre for Settlement of Investment Disputes (ICSID) wherein Qatar National Bank filed the ICSID claim under the Facility Agreement.

### Nigeria's Oil Backed Loan

The federal government of Nigeria is expected to receive $1.05 billion from a syndicated loan backed by oil by the end of May 2024 to help revive the economy and improve the foreign-exchange market. The $1.05 billion loan is part of the $3.3 billion "pre-export finance facility" (PxF) facilitated by the Nigerian National Petroleum Company (NNPC) Ltd and arranged by the African Export-Import Bank (Afreximbank) in January 2024. Under this deal, Nigeria pledged a total of 164.25 million barrels of crude oil, at 90,000 barrels per day, starting from 2024 to repay the loan through Project Gazelle Funding Ltd, an "orphan" special purpose vehicle (SPV) incorporated in Bahamas for the PxF. The NNPC had received the initial disbursement of $2.25 billion of the agreed $3 billion under the crude oil prepayment facility. The Afreximbank oil-for-cash loan agreement with NNPC is expected to attract an interest of 11.85 percent per annum. Reportedly, the firm is also finalising a $200 million funding plan that includes guarantees, and letters of credit to support the East African crude oil pipeline linking Uganda's oil fields to Tanzania's port of Tanga.

### DRC's Minerals-for-Infrastructure Deal

Another recent example of resource backed loans comes from the Democratic Republic of Congo (DRC). Chinese investments falling under an amended mega-mining contract between DRC and China signed in March 2024 will be tied to global copper price fluctuations. The original agreement, the "minerals for infrastructure" contract, was signed in 2008 with Beijing. Under this deal, Sinohydro Corporation and China Railway Engineering Corporation are to build infrastructure (roads, bridges, hospitals, clean water facilities, etc.) in the DRC between 2008 and 2040, for $3 billion. In exchange, they would obtain a 68% stake in the Sino-Congolese Mining Company (Sicomines), a joint venture that mines cobalt and copper in Congo. The revamped minerals-for-infrastructure deal is contingent on the price of copper in that, Kinshasa will receive $324 million annually for infrastructure projects until 2040, provided that copper prices remain above $8,000 per ton. Following recent negotiations, the investment amount has been raised to $7 billion to align with mining concessions' true value. So far, $1.5 billion has been disbursed. Should the price drop below this threshold, the funding will gradually decrease until it reaches $5,200 per ton. If the copper price rises above $12,000, 30% of the additional profit will go to financing additional infrastructure projects. Important to highlight is that under the terms of the revised contract, the project benefits from a "t*otal exemption from all indirect or direct taxes, duties, customs duties, and royalties until 2040*". This, undoubtedly, affects the country's revenue collection. The amended mega-mining contract between DRC and China signed in March 2024 has some striking similarities with other resource-for-infrastructure deals that the DRC and China have signed in the past. Readers may want to refer to Nciko wa Nciko's Chapter 7 discussing the Busanga Hydropower Plant in the AfSDJN's, How to Reform the Global Debt and Financial Architecture book.

## Angola Takes Unusual Route

In 2022, S&P Global Ratings estimated that 80% of debt to China was in oil-backed loans. According to the country's finance minister, Vera Daves de Sousa, Angola is using an unconventional arrangement with China to alleviate its debt burden by reaching an agreement with the China Development Bank to access funds held as collateral for a significant loan. Almost 40% of the oil-producing nation's external debt, or roughly $17 billion, is owed to Chinese creditors. After an arrangement with Chinese lenders to suspend debt service increased last year, its debt payments skyrocketed, which caused inflation to soar and its currency to weaken. Angola was required under the conditions of the loan from the state-owned China Development Bank (CDB) to keep a minimum of $1.5 billion in cash in an escrow account. According to Daves de Sousa, Angola was required to supplement this collateral when the oil price exceeded $60 a barrel.

Under the new agreement, Angola will be able to access funds from the escrow account to make monthly interest payments, with an estimated availability of $150 million to $200 million. Angola's government debt plan indicates plans to repay $3.1 billion in loan amortizations to the CDB in 2024, with total payments to external creditors expected to reach $10.1 billion this year. According to Daves de Sousa, the deal does not involve changes to maturities or payment schedules; instead, Angola seeks to expedite debt repayment to prevent default.

The Risks Associated with Resource-Backed Loans

According to a 2020 report published by the Natural Resources Governance Institute (NRGI), "*Resource-backed loan terms are seldom public and do not lend themselves to straightforward comparison due to their complexity*." The terms of resource-backed loans vary widely and are often opaque, raising the risk that countries accountable only to themselves might continue to borrow heavily until they are forced to seek help as debt servicing burdens climb. In Chapter 10 of the AfSDJN's How to Reform the Global Debt and Financial Architecture book, Ian Murithi emphasizes that "*publicly available information on collateralised borrowing remains rare and as a result there is often no knowledge of the terms or even their very existence due to the unusual and broad confidentiality clauses that are included in such instruments*."

In the case of oil backed loans, major losses are recorded when oil prices fall. When oil prices fell, first in 2015 and 2016, then again in 2020, countries like Chad and the Republic of Congo needed more oil than they were able to deliver to repay the money they had borrowed. Further, payments tend to trump important priorities as education, healthcare, and social protection. In 2020, payments to Trafigura exceeded the country's meagre healthcare budget of $14 million, and dwarfed the $7.6 million that the World Bank injected to help fight the COVID-19 pandemic.

**Conclusion**

While resource-backed loans can be attractive for resource-rich developing nations that struggle to secure traditional financing, the risks highlighted above make resource backed loans undesirable. Further, these kinds of deals only make debt resolution difficult due to their complexities. The controversial resource-backed lending model ought to be viewed as predatory lending behaviour which African governments need to guard against as it is not in their best interests to mortgage the future. Only under certain conditions can resource backed loans be beneficial. The IMF key recommendations which should guide both lenders and borrowers when deciding whether and how to effectively utilize collateralised borrowing for beneficial outcomes are imperative. The IMF categorically provides that beneficial development outcomes from collateralised transactions are more likely if: *(i) it produces assets or revenue streams that can be used for repayment (i.e., "related assets/revenues"); (ii) the reduced risk resulting from collateralisation is reflected in improved financial terms; (iii) a rigorous debt sustainability assessment is passed; (iv) there is full, public transparency on all contractual terms; [and] (v) collateralisation respects and complies with any applicable Negative Pledge Clauses (NPCs).*

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