Sicomines: A Resource-for-Infrastructure Case Study

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Introduction

The Democratic Republic of Congo (DRC) represents the embodiment of the paradox of plenty. Despite its immense natural resource wealth, it remains one of the world’s poorest countries. By the mid-2000s, the DRC had seen its infrastructure falling apart for decades. Unsuccessful development projects had left it straddled with a massive debt burden, which it had virtually no hope of repaying. In 2006, three years after the end of the Second Congo War, Joseph Kabila was elected president in the DRC’s first democratic election in over four decades. As part of his election campaign, Kabila had announced his ambitious Cinq Chantiers (Five Construction Sites) program. Shortly after the election, he began seeking the funding to bring the plan to life. The following year, his government signed an enormous resource-for-infrastructure (RFI) deal with China Railway Engineering Corporation (CREC), whereby a Chinese consortium comprising CREC and Sinohydro would secure the DRC USD 6.565 billion worth of infrastructure project financing. In exchange, Congolese licenses 9681 and 9682 were allocated to the consortium, and the proceeds were to be used to reimburse the infrastructure financing.

This case study addresses resource-for-infrastructure (RFI) agreements. To do so, it draws upon the Sicomines RFI, which has generated much controversy in Kinshasa, Beijing, and Western capitals alike. The Sicomines agreement has undergone multiple external challenges and amendments. At one point, China Eximbank—the financier of the venture—pulled its funding from the deal, leading to speculation about whether the projects would go forth. The first section addresses the history and structure of RFI arrangements. RFI deals bring substantial infrastructure investments that are delivered to debtor countries in a relatively short timeframe. However, they often fail to generate competition for resource exploitation and infrastructure delivery, and can also lead to low levels of transparency and a deficiency in oversight mechanisms to monitor the delivered infrastructure. The second section explores the Sicomines case, and how it has unfolded over the past decade (See Figure 1 for an illustration of Sicomines’ management structure). Risk has weighted heavily in the Sicomines agreement, because of its long-term nature, the fact that much of its infrastructure financing took place upfront, and the reality that most of its mining proceeds can only be expected to materialize far in the future. The conclusion addresses the policy lessons that can be drawn from the Sicomines case for future projects of the same nature.
Resource-for-Infrastructure Deals

China’s first experiences with resource-backed loans took place at home. In the 1980s, Japan made substantial infrastructure loans to China, which helped it develop its extractive sector, and the Daqing Oil Field in particular. In fact, the Japanese Ministry of International Trade and Industry explicitly pushed for Japan’s first package of foreign aid loans to China to be mainly used to build railroads and ports to facilitate the export of Chinese oil and coal—to Japan. These resource-backed loans helped China develop its infrastructure while also benefiting Japan’s firms.

In turn, as China developed economically over the past decades, it itself rose to prominence as a provider of development finance. During that period, Chinese infrastructure projects mushroomed in Africa. This represents a key effect of China’s “going global” policy, which has prompted the internationalization of its largest state owned enterprises (SOEs). As China’s domestic market became increasingly saturated by overcapacity, many of its construction firms sought international contracts, often financed by the country’s policy banks.

Resource-backed finance represents a relatively small share of the number of loans made by Chinese policy banks in Africa. However, as these loans are often huge, they make up a substantial share of its portfolio. The key difference between RFI deals—which have been employed almost exclusively by China’s policy banks—and other resource-backed loans is that the money from RFI arrangements is spent exclusively on infrastructure projects.

In a World Bank report titled Resource Financed Infrastructure: A Discussion on a New Form of Infrastructure Financing, Halland et al. state: “Under an RFI arrangement, a loan for current infrastructure construction is securitized against the net present value [NPV] of a future revenue stream from oil or mineral extraction, adjusted for risk.” They add: “The emergence of the RFI model can be understood, in part, as a reflection of the gap in risk tolerance and expected return between the extractive and the infrastructure sectors”. As part of RFI agreements, the infrastructure development loans are generally disbursed shortly after the signature of a joint infrastructure and resource extraction contract. These loans are usually made directly to the construction companies in order to cover their costs. The revenues used to reimburse the loans are also generally paid directly from the extractive firms to the financiers (often a decade or more later). The loans’ grace period depends on the concessions’ development timeline, the investments’ size, and their rate of return.

Like resource-backed loans, RFI deals were first used extensively in the African context by the Angolan government. During the 1980s and 1990s, while Angola was at war, multiple banks extended profitable loans—backed by oil—to the Dos Santos government. By the end of the war, Angola has taken 48 such loans, most of which arranged by large Western banks like BNP Paribas, Standard Chartered, and Commerzbank. In 2004, China Eximbank extended its RFI loan to the Angolan government, a practice that has since grown and evolved substantially.

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4 Halland et al. Resource Financed Infrastructure.
5 Halland et al. Resource Financed Infrastructure. p. 4.
6 Brautigam. The Dragon’s Gift.
7 Halland et al. Resource Financed Infrastructure.
Key tradeoffs must be weighted when comparing infrastructure projects financed through traditional means and their counterparts obtained via RFI arrangements. On the one hand, RFI deals provide infrastructure investments that are delivered relatively quickly. As reported by Claude Kabemba of the Southern Africa Resource Watch, Kabila’s government only turned to the Sicomines deal after it perceived it had failed to secure the infrastructure financing it expected from Western donors.\(^8\) Furthermore, the Sicomines agreement saw over USD 2 billion injected in the Congolese economy in a relatively short timeframe. As mentioned above, such agreements may hold a second advantage—the money used for the infrastructure projects does not go through the debtor government’s coffers. In other words, RFI arrangements can help prevent the possibility that other types of political spending take precedent over infrastructure investment. In the same vein, as argued by Paul Collier, RFI deals represent a “commitment mechanism”, which force future governments to devote a proportion of natural resource revenues to a country’s infrastructure needs.\(^9\)

On the other hand, infrastructure projects delivered as part of RFI deals—in their current form—are more likely than their counterparts to suffer from some key shortcomings. They are likely to have a higher price tag, because they bind debtor governments to select firms or consortiums, and entail no competitive bidding procedures. RFI deals can also be prone to quality problems. As part of RFI projects, firms seeking opportunities in the extractive or infrastructure sector partner with financiers and submit unsolicited bids to governments.\(^10\) Therefore, if the debtor government wants to receive the funding, it must also bind itself to the associated firms. Furthermore, as the contractors handle the loans directly, the role played by the debtor governments in the delivery of the projects is diminished, potentially leading to situations where effective oversight can fail to materialize. Halland et al. state: “For the infrastructure component of an RFI transaction, the government must take the primary responsibility for construction supervision. As discussed above, the lender for the infrastructure investment will look for repayment to the committed government revenue stream from the resource component, so it has little incentive to enforce quality standards beyond ensuring that loan disbursements are made in good faith upon submission of the relevant documents evincing milestone achievements.”\(^11\) Finally, because RFI deals have an *omnibus* character, whereby multiple financial and commercial agreements are weaved together, they are generally less transparent than other infrastructure contracts. As argued by Paul Collier, some shortcomings of RFI deals are due to the monopoly on the supply side of these deals. As he argues: “If there were several package deal providers—for example, if bilateral donors teamed up with their national resource companies and construction companies—then the value of RFI deals could be determined through competition even if internally they remained opaque.”\(^12\)

The Sicomines Agreement

According to Johanna Jansson, CREC, seeking to expand into resource extraction activities, was the initiator of the deal.\(^13\) According to Jansson, CREC was seeking a traditional mining agreement

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\(^10\) Halland et al. *Resource Financed Infrastructure*.


\(^12\) Halland et al. *Resource Financed Infrastructure*. p. 71.

when it first contemplated the Katanga investment. However, during the discussions about the establishment of a joint venture with Congolese SOE Gécamines, the Congolese negotiators suggested that an infrastructure component be included in the project. Several of Jansson’s interviewees suggested that “the idea to design the agreement as a barter deal was inspired by the so-called ‘Angola model’, which the Congolese had witnessed at close quarters”.

Other sources have reported that the Congolese government was the originator of the deal, and that the Kabila administration approached the Chinese government upon learning about its agreements in Angola, and after the west had failed to deliver on its promised financial support to his government. At least one Congolese Government outlet, La Prospérité, also presents this version. It states that following the government’s difficulties in securing the financing for the Cinq Chantiers program, it looked to “different continents” for support.

Finally, Brautigam reports that the deal might have originated much earlier. She reveals that, according to an interviewee who previously worked for CREC, the negotiations for the agreement started in late 2003, and experienced a breakthrough in 2006. Brautigam adds that, during the 1990s, CREC approached the Congolese government to offer its services as a contractor. The government responded that, while it did not have any money, it had “a lot of copper”.

In any case, on September 17th 2007, a Memorandum of Understanding (MOU) was signed between the parties. This represented the first stage of negotiations of a deal granting the consortium a 68 percent stake in a new joint venture (JV)—the Sino-Congolais des Mines (Sicomines)—with the DRC’s Gécamines holding the other 32 percent. In exchange, the Chinese consortium would provide the Congolese state with turnkey infrastructure projects financed by Eximbank (Ibid.). Interestingly, as the line of credit was to remain open ended, this is the only document that mentions a figure for the project’s infrastructure component. The mining investment—later confirmed to be of USD 3.2 billion—was not mentioned in the agreement or subsequent ones.

A subsequent document—the Convention de Collaboration—was signed on April 22nd 2008 by the government of the DRC and Sinohydro (on behalf of Sicomines). The document specified that two tranches of infrastructure financing—reportedly worth USD 3 billion each—would be disbursed, in addition to the mining loan. The financing would be disbursed to the contractor of each project. However, the Congolese state would act as a guarantor for the loans. The Congolese government also agreed that the project’s feasibility studies should ensure Sinohydro an internal rate of return (IRR) of 19 percent. Otherwise, it agreed to adopt “all measures likely to ameliorate the conditions of cooperation in order to reach the 19 percent IRR in the profit of Sinohydro”. This represented a substantial rate of return, given that Chinese aid projects typically result in a profit margin of 1 to 2 percent for Chinese companies, compared to the 10 to 15 percent returns they generally secure as part of commercial projects. Furthermore, the Convention outlined the deal’s tax parameters, and stipulated that the Congolese parliament would need to pass a law safeguarding its provisions in the 12 months following the Chinese government’s approval of the deal. International financial institutions and civil society organizations flagged many issues following the agreement’s signature.

14 Kabemba. A Friend in Need.
15 La Prospérité, (2013). 5 Chantiers, 5 Ans Après.
19 Brautigam. The Dragon’s Gift.
The IMF argued it would straddle the DRC with unsustainable debt.\(^{20}\) This was particularly salient since, at the time, the DRC was seeking to have over USD 10 billion of debt forgiven. Furthermore, Global Witness stated: “The guaranteed nature of the internal rate of return set by the agreement is commercially highly unusual in that it removes the investment risk from the arrangement for the Chinese parties and instead makes it the responsibility of the Congolese government”.\(^{21}\)

Following these issues, an amendment—or Avenant—was made to the Convention. It capped the size of the infrastructure loans at USD 3 billion, thereby reducing it by about half.\(^{22}\) It also removed the Congolese state’s guarantee for the mining loan (but not for the infrastructure loan). Two other amendments had also been made to the 2008 agreement in the same year, which saw different firms added both sides of the joint venture, but with the total shares of each side remaining unchanged at 68 percent and 32 percent, respectively (See Table 1 for an overview of the agreements and Table 2 for a breakdown of Sicomines’ ownership structure).

**Table 1: Sicomines Agreement and Amendments**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Loan</td>
<td>USD 6.565 B</td>
<td>Not Mentioned</td>
<td>USD 3.0 B</td>
</tr>
<tr>
<td>Terms</td>
<td>Not Mentioned</td>
<td>6-month LIBOR + 1%</td>
<td>6-month LIBOR + 1%</td>
</tr>
<tr>
<td>Mining Loan</td>
<td>Not Mentioned</td>
<td>Not Mentioned</td>
<td>Not Mentioned</td>
</tr>
<tr>
<td>Terms</td>
<td>Not Mentioned</td>
<td>70%: 6.1%</td>
<td>70%: 6.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30%: 0% (shareholder loan)</td>
<td>30%: 0% (shareholder loan)</td>
</tr>
<tr>
<td>Bonus</td>
<td>Not Mentioned</td>
<td>USD 350 M</td>
<td>USD 350 M</td>
</tr>
<tr>
<td>Reserves</td>
<td>Cu: 8.05 M Tons</td>
<td>Cu: 10.6 M Tons</td>
<td>Cu: 10.6 M Tons</td>
</tr>
<tr>
<td></td>
<td>Co: 202 K Tons</td>
<td>Co: 627 K Tons</td>
<td>Co: 627 K Tons</td>
</tr>
<tr>
<td></td>
<td>Au: 372 Tons</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 2: Sicomines Ownership Structure (September 2008)**\(^{23}\)

<table>
<thead>
<tr>
<th>Chinese Firms</th>
<th>Total Share Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Railway Group (Hong Kong) Ltd.</td>
<td>27.0</td>
</tr>
<tr>
<td>China Railway Resources Development Ltd.</td>
<td>6.0</td>
</tr>
<tr>
<td>Zhejiang Huayou Cobalt Company Ltd.</td>
<td>5.0</td>
</tr>
<tr>
<td>Sinohydro Corporation Ltd.</td>
<td>26.0</td>
</tr>
<tr>
<td>Sinohydro Harbour Company Ltd.</td>
<td>4.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Congolese Firms</th>
<th>Total Share Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Générale des Carrières et des Mine SARL (Gécamines)</td>
<td>20.0</td>
</tr>
<tr>
<td>Société Immobilière du Congo SPRL (Simco)</td>
<td>12.0</td>
</tr>
</tbody>
</table>

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Progress

Almost four years after the third and final agreement was reached, the Congolese parliament had yet to pass a law safeguarding the deal’s exceptional provisions. Eximbank perceived this delay as worrisome, and saw the 25-year reimbursement period agreed upon in the 2009 deal as too long. In early 2012, it rescinded its funding. However, that decision was reversed in 2014. The project has been moving forward ever since. Despite initial progress in the infrastructure development side of the deal, the mining side of the agreement has been plagued by important setbacks.

Mining Component

According to an interview with a senior executive at Sicomines, the plan for the exploitation of the mine is set up in two distinct phases. During phase one, the mine is expected to produce 125 thousand tons of copper per year. Phase two will commence when the mine is able to produce 250 thousand tons of copper per year, the concession’s peak output (re-estimated downward from the initially planned peak output of 400 thousand tons per year). The key bottleneck for the exploitation of the mine has been its access to electricity. The interviewed executive revealed that Sicomines was not able to access as much electricity from the Congolese grid as was agreed upon in its contracts, and that it was paying over 2.5 times the originally agreed upon price for the 25 MW per year it was getting. This constrain forced it to import electricity from neighboring Zambia, at a price 4.5 times higher than the electricity costs estimated in its 2010 feasibility study. According to the executive, that study estimated that 80 MW per year would be needed for the operation of the concession during phase one. However, the difficulties encountered in securing power forced Sicomines to turn to technologies less dependent on electricity (and more on diesel fuel). This led to the 80 MW estimate to be readjusted to 54 MW. Similarly, the estimate for phase two—originally at 180 MW—was readjusted to 150 MW. The executive revealed that, due to the constraints posed by the energy provision, phase two would be unattainable until the Busanga Dam becomes operational (details below). Sicomines officials have estimated that its construction would take four to five years.24

According to the same source, by June 30th 2016, just under USD 1.8 billion had been budgeted and commissioned for the development of the mining concession, of which just over USD 1.7 billion had been spent. Furthermore, according to a senior executive at the Ministry of Mines interviewed in Kinshasa, production at Sicomines started in earnest in November of 2015. That interviewee also revealed that the mine had produced 31 thousand tons of copper by the end of June 2016, 7,835.89 tons of which were produced that very month. At that rate, the mine would produce 94 thousand tons of copper per year, well on its way to the phase one target of 125 thousand tons.

Perhaps the most important setback experienced by Sicomines was the downward adjustment of the estimated deposits of its concessions. In 2013, Reuters reported that the total estimated copper reserves of the concessions were had been downwards to 6.8 million tons. Reuters cited Moise Ekanga as stating: “The value of the deposits were in the beginning estimated at 10 million tonnes of copper. After certification, the proven reserves are 6.8 million tonnes”.25 If, as interpreted by Reuters, the proven reserves equal the total reserves, this marks a 35 percent downward adjustment.

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25 Reuters. (2013). Copper reserves at China’s Sicomines in Congo less than hoped.
Infrastructure Component

The infrastructure-financing component of the deal is tied to the mine’s production. The infrastructure loan is capped at USD 1.053 billion until the start of phase two, when the balance of the USD 3 billion loan will be made available. Many sources have revealed that USD 800 million had been spent on infrastructure projects by 2015. However, the senior executive of Sicomines interviewed as part of this research explained that while USD 845 million had been commissioned for the 12 most pressing projects, USD 590 million had actually been spent. He also revealed that the vast majority of these funds had been spent between 2009 and 2012, as part of the initial wave of projects financed through the deal. The projects delivered comprise the refurbishment, grading, or asphalting of important roads, the construction of a major hospital, the construction of a prefabricated house factory, and the delivery of fiber optic cables and solar panels (See Table 3 for an overview of the infrastructure projects financed through the Sicomines agreement).

The Sicomines senior executive also indicated that the government was in the process of selecting about eight new projects, which would be financed with the balance of the phase one funds. This money had been intended to finance the USD 660 million Busanga Dam project—which was supposed to be financed in equal parts by the mining and infrastructure loans. The dam, located 65 km away from Kolwezi, will supply up to 170 MW of its 240 MW electricity production capacity to Sicomines.26 However, according to a senior government official interviewed as part of this research, the decision was finally made to employ a commercial model for the dam. Therefore, Busanga will now be financed through a separate loan from Eximbank, and built by a newly minted JV named Sicohydro, of which Sinohydro and CREC own 75 percent, and the Congolese Société Nationale d’Électricité (SNEL), Gécamines, and another privately owned Congolese firm own the remaining 25 percent.

Table 3: Sicomines Ownership Structure (September 2008)27

<table>
<thead>
<tr>
<th>Category</th>
<th>Location</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Kinshasa</td>
<td>Refurbishment of the esplanade of the Palais du Peuple</td>
</tr>
<tr>
<td>Health</td>
<td>Kinshasa</td>
<td>Construction of the Hôpital du Cinquantenaire (450 beds)</td>
</tr>
<tr>
<td>Transport</td>
<td>Kinshasa</td>
<td>Refurbishment of the Boulevard du 30 Juin</td>
</tr>
<tr>
<td>Transport</td>
<td>Kinshasa</td>
<td>Refurbishment of the Avenue du Tourisme</td>
</tr>
<tr>
<td>Transport</td>
<td>Kinshasa</td>
<td>Refurbishment of the Boulevards Triomphe et Sendwe</td>
</tr>
<tr>
<td>Transport</td>
<td>Kinshasa</td>
<td>Refurbishment of the Route Lutendele</td>
</tr>
<tr>
<td>Transport</td>
<td>Beni-Luna</td>
<td>Refurbishment of the Route Nationale - RN4</td>
</tr>
<tr>
<td>Transport</td>
<td>Lubumbashi-Kasomeno</td>
<td>Grading of the Route Nationale - RN5</td>
</tr>
<tr>
<td>Transport</td>
<td>Lubumbashi-Kasomeno</td>
<td>Asphalting of Route Nationale - RN5</td>
</tr>
<tr>
<td>Housing</td>
<td>Kisangani</td>
<td>Factory to Build Prefabricated Houses</td>
</tr>
<tr>
<td>Communication</td>
<td>Country-Wide</td>
<td>Fiber-Optic Cables</td>
</tr>
<tr>
<td>Energy</td>
<td>Country-Wide</td>
<td>Solar Panels</td>
</tr>
</tbody>
</table>

27 Different sources report that different projects have been financed through the Sicomines agreement. The projects outlined in the table above are the ones that were reported by at least two distinct sources. They sources employed to generate this table are Jansson (2011) as well as the DRC EITI reports from 2010 to 2014.
Concerns

The concerns raised about the Sicomines agreement fit in three broad categories: the lack of transparency that surrounded its signature, the quality of its infrastructure projects that it will deliver (and the oversight mechanisms in place to monitor them), and the underlying value of the resources and infrastructure exchanged as part of the RFI arrangement.

The lack of transparency surrounding the Sicomines agreement has generated much criticism. As noted by Jansson, the DRC’s 2002 mining code was drafted with the intention to curtail the discretionary power of the president with regards to negotiating stand-alone mining contracts.29 Interestingly as she points out, the Sicomines agreement represented exactly such a contract. Global Witness stated that the negotiations surrounding the deal were carried out in secrecy with no bidding process. Finally, an advisor in the DRC’s Ministry of Finance cited by Global Witness said that the DRC was in a weak bargaining position when it negotiated the deal, and likened it to a sick man.30

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Civil society actors have voiced concerns about Sicomines’ ability to deliver on its engagements and whether the project’s expected social and economic impacts would materialize. These concerns arose in part because the deal was cemented shortly after Kabila’s *Cinq Chantiers* program was unveiled. Many analysts worried that the agreement arose through political expediency rather than economic calculus and, therefore, would not deliver the promised impacts. While external consultants have overseen most of the infrastructure projects delivered through the Sicomines agreement, the quality control for at least three projects was overseen by the Congolese Agency of Public Works. This could represent a concern if, as stated by a Katanga-based activist quoted by Global Witness: “Government inspection officials do not feel free to properly monitor the work of CREC for fear of being accused of being opposed to the *Cinq Chantiers*”. While few concerns raised regarding the quality of the projects can be substantiated, a report published by the African Association for the Defense of Human Rights found that many of the projects built through the Sicomines agreement were overpriced compared to equivalent projects financed by other actors.31

Finally, the very notion that the agreement was of a “win-win” nature has been criticized. In fact, the deal’s negative impact on the DRC’s coffers has been estimated to be of USD 20 billion.32 It is important to note that this estimate is based on a back of the envelope calculation that employs Gécamines’ historical production figures as a baseline, and extrapolate it to reflect Sicomines’ expected production capacity. It fails to present an assessment of costs subtracted from revenues, and does not use an NPV discounting method, which represents the most widely accepted method of evaluating a project’s value. By doing so, it overlooks three key defining features of RFI arrangements that impact their expected net present value: the long-term nature of the Sicomines deal, the fact that the infrastructure financing takes place upfront, and the reality that the mining proceeds only materialize in the future. In fact, some analysts—such as Paul Fortin, who was appointed by the World Bank to run Gécamines from 2005 to 2009—have argued that Sicomines was the vulnerable party in the agreement because it has already invested in the DRC, but has yet to recuperate its investment through mining proceeds.33

**Recommendations**

The Sicomines agreement has been called the deal of the century, and most analysts have argued that the DRC received the worst side of the deal. The risk components present in RFI ventures make it difficult to identify their winners and losers—that is, if they are lopsided—until they reach their conclusion. Furthermore, many of the concerns that have been voiced about the Sicomines agreement fail to address a key issue—the Congolese government did not have access to the necessary funds to carry out the infrastructure investments it was planning when the deal first emerged. As Wells argues, “countries need to evaluate RFI proposals in light of what they might otherwise receive for their resources—and what they would pay to finance associated infrastructure, if financing were to come from other sources”.34

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That said, the concerns raised regarding the Sicomines agreement’s relative lack of transparency and the weak oversight mechanisms to ensure the quality of its infrastructure component are critically important. One would be hard pressed to argue that the Congolese people would have benefitted less from the Sicomines agreement if it had been implemented more transparently and with more consistent third party oversight mechanisms.

A lack of transparency and weak oversight mechanisms represent some of the key drawbacks of RFI agreements highlighted in the first section. The way in which they played out in the Congolese context provides important lessons for future projects. The findings highlighted in this case study lead to the following four recommendations.

1. As argued by Paul Collier, some of the shortcomings of RFI would be addressed if there existed more competition on the supply side of such deals. Fundamentally, RFI agreements are not so different from other financial vehicles. Therefore, it is unclear why other financiers shy away from RFI agreements (if they make sense from a financial perspective). Furthermore, because of the positive aspects of RFI addressed in the first section of this case study, such financing instruments could generate positive spillover effects in the resource-rich debtor countries where they are used (as long as recommendations 2 and 3 are followed).

2. RFI deals must be made more transparent. The omnibus character of RFI deals makes them particularly difficult for third parties to analyze and monitor. This can potentially lead to a host of problems, including infrastructure projects of a suboptimal quality, as well as poorer resource exploitation practices among debtor countries.

3. Infrastructure projects financed by RFI projects must be subjected to the same third party quality controls as their counterparts financed through traditional means. This is particularly true because of the all-encompassing nature of RFI deals, which lends them political importance, and can in turn reduce debtor governments’ incentives to control their quality.

4. In the assessment of RFI projects, risk calculations must be carried out assiduously and conservatively. While risk looms large in any infrastructure financing or resource extraction project, it is particularly salient in the case of RFI agreements. Since, as part of RFI deals, the infrastructure loans are disbursed upfront, only to be repaid decades later, any significant risk exposure can jeopardize projects by dramatically reducing their NPV.

Concluding Remarks

As current practices in the mining sector evolve, and many resource-rich countries experience difficulties securing infrastructure financing from traditional sources, RFI deals represent an interesting avenue that ensures the delivery of public works in a relatively short timeframe. That said, the broad gamut of risks they comprise must be given full consideration by their respective parties, as well as by third-party actors who analyze them. In Wells’ words, “RFI models are neither good nor bad for host countries. They should be evaluated like any other business arrangement, and carefully compared to alternative ways of obtaining returns from natural resources or financing infrastructure.”

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