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China's Position Among Lenders in Sub-Saharan Africa

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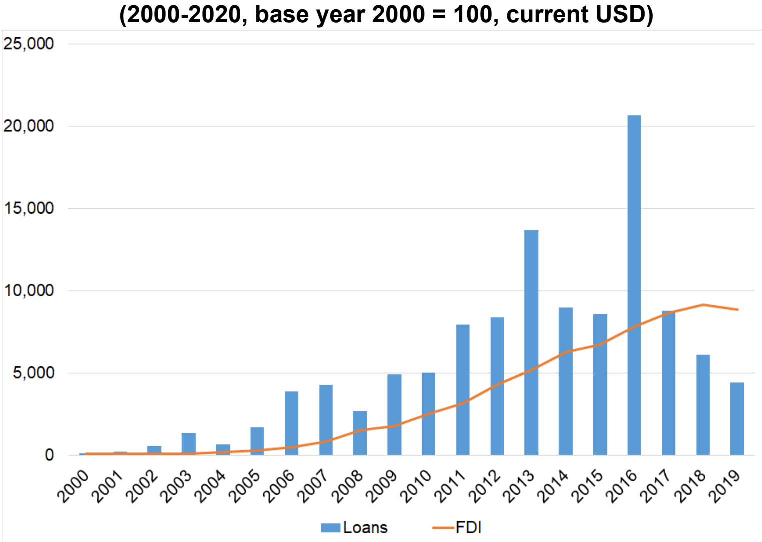
- Over the past two decades, China has become the leading lender in sub-Saharan Africa, holding 62.1% of the region's bilateral external debt in 2020, up from 3.1% in 2000. Its loans are mostly split between seven countries, which account for two-thirds of Chinese lending over the period.
- The growing proportion of Chinese loans compared to other lenders is based on a complex institutional framework, in which two State-owned "policy banks" – the Export-Import Bank of China (56.8% of loans) and the China Development Bank (22.9%) – play a central role.
- Chinese loan contracts contain a large number of specific clauses. Chinese banks seem to prefer the mechanisms of private loan contracts, securing both their repayments and their strategic interests with cross-default clauses that allow the lender to terminate the loan and demand repayment if the borrower defaults on its other creditors. They also use "tied aid" mechanisms, more or less requiring countries to use Chinese contractors.
- The dependence of some African countries on Chinese lending has consequences not only for the debtor countries themselves but also for multilateral debt treatment arrangements.
- Since 2016, Chinese lending to Sub-Saharan Africa has been undergoing a shift in terms of geography and lending volumes in an effort to secure Chinese loans on the continent. The relative decline in Chinese lending has been accompanied by an increase in foreign direct investment (FDI) and a growing role in standard-setting (see chart opposite).

Chinese loans (flow) and FDI (stock) to Sub-Saharan Africa (2000-2020, base year 2000 = 100, current USD)



Source: INSEE, DG Trésor calculations.
Note: Net job losses or gains correspond to differences in non-farm payroll employment (including temporary workers) between end-2019 and end-2020.

1. China's presence in Africa is primarily through loans[1]

1.1 In a matter of years, China has become the continent's leading lender

Although China has a long history with Africa,[2] the country's arrival on the international lending scene dates back to the 2000s (see Box 1). According to data from the China-Africa Research Initiative (CARI), on an annual basis, new loans granted by Chinese institutions in Sub-Saharan Africa[3] grew from $127m in 2000 to $5.8bn in 2019, peaking at $26.6bn in 2016, including a $19bn loan to Angola.

From its lending activities alone, conducted through its banking institutions, China has become Africa's leading bilateral lender in the span of a decade.

Chinese FDI flows to Africa, which had historically been limited, have recently shot up: between 2014 and 2018, China accounted for 16% of FDI flows in Africa, versus 8% for the US, 8% for France, 6% for the United Arab Emirates and 5% for the United Kingdom.[4] In total, China's FDI stock in Africa still only accounted for 2% of its total global FDI stock in 2019,[5] less than Africa's 2.4% share in the World's FDI stocks.

Box 1: History of Chinese aid in Sub-Saharan Africa

The first instance of Chinese aid granted in Africa was to Guinea under President Ahmed Sékou Touré in 1960, two years after the country declared independence and a few months after it formally recognised the People's Republic of China, making it the first country in Sub-Saharan Africa to establish relations with Beijing.[a] On 21 January 1964, in Bamako, Mali, Chinese Premier Zhou Enlai pronounced the founding principles of China's development aid policy, with emphasis on reciprocity of aid and respect for the sovereignty of recipient nations. Five years after the concept of South-South cooperation came out of the 1955 Bandung Conference, China capitalised on the momentum, with projects such as the TAZARA railway connecting Tanzania and Zambia built between 1970 and 1976. Up to 1978, 80% of Chinese development aid in Africa was donations.

At the time, Chinese development assistance was primarily allocated to countries close to the Soviet Union. This ended with the economic reform and opening up of China and the creation in 1994 of two "policy banks" (banks whose assets are fully owned by the Chinese State): the Export-Import Bank of China (EximBank) and the China Development Bank (CDB). In 2000, the first Forum on China-Africa Cooperation (FOCAC) was held; it is now a triennial summit between all African countries that formally recognise the People's Republic of China. Since 2013, Africa-China relations have also been shaped by China's Belt and Road Initiative»[b] which includes projects in Eastern Africa.

a. Chelpi-den Hamer (2020), "L'aide au développement de qui ? Les États-Unis et la Chine dans leurs relations avec les Suds", IRIS, 2020.
b. Dumond J., Landais M. et P. Offret (2018), "The New Silk Road", *Trésor-Economics*, no. 299.

Although China became Sub-Saharan Africa's leading trade partner in 2009, according to the UN, the region accounted for only 2.7% of China's global trade in 2019, after peaking at 3.2% in 2014. And Africa is the recipient of only 23% of all lending by official Chinese institutions worldwide, behind Asia (29%) and Latin America (24%).

In line with China's official position, which prioritises Africa for official development assistance (ODA), African countries were the top recipients of Chinese ODA between 2000 and 2017 with 42% of the total volume (see section 2.1 below), ahead of Asia (38%) and the Middle East (9%).[6] China accounts for 6.9% of all ODA provided by Development Assistance Committee (DAC) donors over the period.[7]

(1) The authors would like to thank the Beijing Regional Economic Department for its help with this issue of *Trésor-Economics*.
(2) The first direct trading between China's Ming dynasty and the continent of Africa can be traced back to Zheng He's voyage to the Swahili Coast between circa 1420 and 1430.
(3) Sub-Saharan Africa refers to all African countries except Morocco, Tunisia, Algeria, Libya and Egypt.
(4) OECD, 2020, primary sources of FDI flows to Africa.
(5) CARI.
(6) Malik, Parks, Russel, Lin, Walsh, Solomon, Zhang, Elston and Goodman (2021), "Banking on the Belt and Road: Insights From a New Global Dataset of 13,427 Chinese Development Projects", AidData at William & Mary.
(7) And 42% of other official flows.

Although on the decline, China's influence is generally positively perceived by the African public. According to a study published by Afrobarometer in September 2020 on the basis of surveys conducted in 18 African countries, 23% of respondents considered the Chinese model to be the best for the future development of their country, behind the United States (32%) and ahead of former colonial powers (11%) and South Africa (11%). Overall, 59% of respondents considered China's influence on their country to be mostly positive. In the top two recipient countries of Chinese loans in Sub-Saharan Africa, the figure is 43% (Angola) and 57% (Ethiopia). It has declined over the past decade in most countries.

According to a ranking by the French Council of Investors in Africa, perception of China varies by sub-region: it is the fifth-ranked non-African country in terms of image across Africa as a whole,[8] third in Eastern Africa and fourth in Western Africa; in Middle Africa, it fails to make the top five.

The size of the debt owed to China can detract from its image, as demonstrated by the 2018 protests in Zambia.[9] Despite the proliferation of Confucius Institutes (58 locations across 43 countries in 2018), only 2% of Africans consider Chinese to be the best international language for children to learn,[10] in fourth place behind English (71%), French (14%) and Arabic (4%).

1.2 Two-thirds of Chinese loans concentrated among seven countries

Between 2000 and 2019, the total volume of Chinese loans in Sub-Saharan African stood at $140.9bn. In comparison, loans received as ODA from multilateral and bilateral lenders belonging to the DAC (of which China is not a member) stood at $140.2bn and $29.4bn respectively[11] (see Table 1). However, loans are just one component of ODA from traditional lenders, accounting for roughly 50% of African ODA for multilateral DAC members and only 7.1% for bilateral members between 2000 and 2019.

Table 1: Lending volumes by creditor and by sub-region in Sub-Saharan Africa,2000-2019

Sub-regional share in total lending to Africa	China		Multilateral lenders		Other bilateral lenders	
	Lending volume ($m)	Share in Africa	Lending volume ($m)	Share in Africa	Lending volume ($m)	Share in Africa
Middle Africa	62,439	44%	11,740	8%	5,616	19%
Eastern Africa	53,755	38%	72,117	51%	10,143	34%
Western Africa	19,284	14%	54,603	39%	9,341	32%
Southern Africa	5,401	4%	1,743	1%	4,321	15%
Total	140,878	100%	140,203	100%	29,422	100%

Source: OECD, DACt, 2020.
Note: Multilateral and bilateral lending volumes correspond to gross ODA lending, as classified by the DAC. Per the OECD's country classification, Angola is included in Middle Africa.

China's loans are mostly concentrated among seven countries, which together account for 67.1% of Chinese lending over the period (see Chart 1): Angola, where China represented 91% of the country's bilateral external debt in 2019 and 43% of its total external debt; Ethiopia (77% and 24%); Zambia (83% and 27%); Kenya (73% and 25%); Nigeria (82% and 11%); Cameroon (66% and 34%); and Sudan (16% and 8%). At sub-regional level, excluding Angola (which accounts for 30.3% of Chinese lending in Africa), Eastern Africa comes in on top with $53.8bn (38.2% of Chinese lending over the period).

Over the past 20 years, the leading Chinese bank behind these loans has been EximBank (57%), followed by CDB (23%). Nearly half of EximBank's African loans are concentrated in Eastern Africa, and 78.1% of CDB's African lending is in Angola.

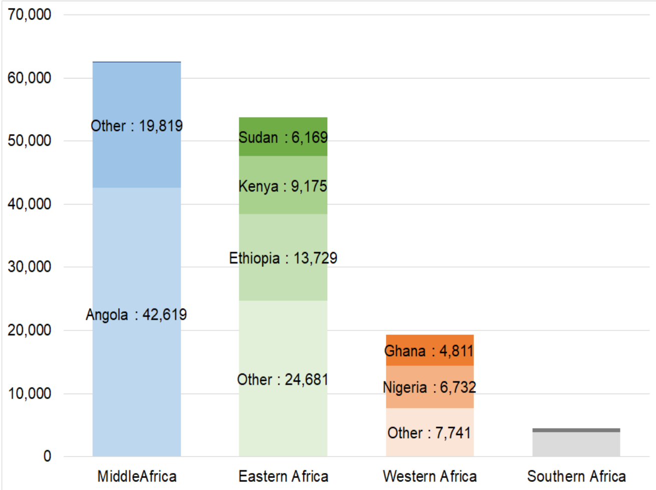
The concentration of EximBank's loans in Eastern Africa can be explained by the region's integration in

(8) Toulemonde and Marbot (2021), "En Afrique, l'image de la France se dégrade, celle de la Turquie, du Qatar et des Émirats s'améliore", *Jeune Afrique*.
(9) Servant (2019), "China Steps In as Zambia Runs Out of Loan Options", *The Guardian*.
(10) Selormey (2020), "Africans' Perceptions About China: A Sneak Peek From 18 Countries", *Afrobarometer*.
(11) Gross ODA lending.

the new Maritime Silk Road, which has entailed a great need for infrastructure development. This has given rise to numerous projects, such as Uganda's Entebbe-Kampala Expressway in 2011, the Kenya Standard Gauge Railway (SGR) in 2014, the Addis Ababa-Djibouti Railway in 2013, and a stretch of SGR under construction in Tanzania. These projects are located in areas with an already strong Chinese presence, for example government agencies (several Chinese media outlets have their African bureaus in Nairobi) or telecommunications infrastructure built by Chinese companies, such as the undersea fibre-optic cable linking Asia to Europe and Africa from Pakistan via Djibouti.[12]

The main recipient sectors of Chinese loans in Sub-Saharan Africa are transportation (31.2%), energy (25.5%) and mining (12.7%). Transportation accounts for some 40% of Chinese loans in Eastern and Western Africa, and only 20% in Middle Africa, where the mining sector takes top spot (28.8%), primarily in Angola's oil sector (the country accounts for 98.7% of Chinese lending in the African mining sector).

Chart 1: Breakdown of Chinese lending volumes by sub-region and by country (2000-2019, $m)



Source: AidDATA, CARI (2021), DG Trésor calculations.

2. Hybrid methods used to secure Chinese loans

2.1 A complex and ever-evolving institutional framework

Over the past two decades, China has been gradually reorienting its lending activities, transitioning away from donations and interest-free loans toward concessional and primarily commercial lending. It tends to use a mix of measures, combining donations, concessional loans, export credit and direct investment, which complicates the task of analysing its overall development assistance programme and comparing it to the practices of other lenders. It is therefore difficult to determine whether to classify loans granted by Chinese lenders as official development assistance (ODA), under the criteria put forward by the OECD in 2019,[13] in particular due to the number of different Chinese lending institutions.

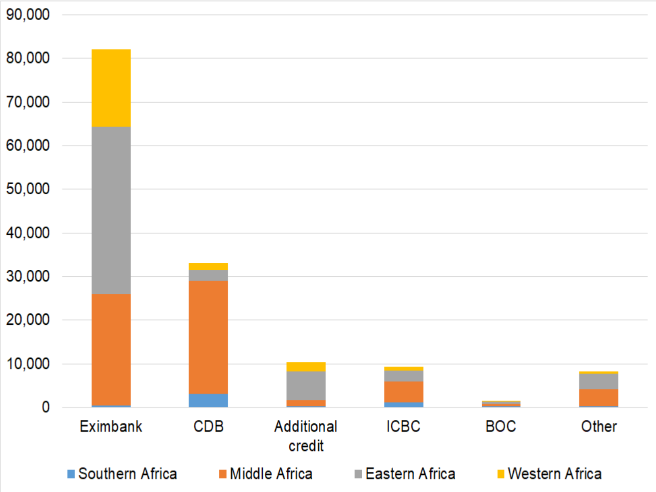
Most Chinese lending activity is concentrated among four commercial banks (the China Construction Bank, the Bank of China, the Agricultural Bank of China, the Industrial and Commercial Bank of China) and two policy banks (EximBank and CDB), overseen by the State Council. EximBank grants concessional loans and preferential buyer's credits (see Charts 2 and 3). Along with the four commercial banks, CDB grants commercial loans.[14]

Since 2018, the China International Development Cooperation Agency (CIDCA) has been coordinating with China's Ministry of Foreign Affairs, its Ministry of Commerce and, when necessary, its Sectoral Ministries concerning EximBank's activities. Despite its limited budget ($18m in 2019, versus $2.6bn allocated to the Ministry of Commerce for foreign aid), the CIDCA has come to play a key role in the coordination of China's development policy.[15]

Although it is not yet issuing loans (concessional lending is orchestrated by EximBank and multilateral financing is overseen by the Ministry of Commerce), in the summer of 2020 the CIDCA signed development cooperation agreements with 29 countries, alongside memoranda of understanding with the Swiss Agency for Development and Cooperation, the Bill and Melinda Gates Foundation and the Ford Foundation.

(12) Congressional Research Service (2019), "China's Engagement in Djibouti".
(13) The OECD's Development Assistance Committee (DAC) defines ODA as "government aid that promotes and specifically targets the economic development and welfare of development countries", is concessional in character and conveys a grant element of at least 25%.
(14) Bertuzzi, Melonio, Pornet and Tremel (2019), "Towards a Sustainable Belt and Road Initiative? Paving the Way for a Common Sustainable Development Finance Framework", Policy Paper AFD, no. 2, November.
(15) Lynch, Andersen and Zhun (2020), "China's Foreign Aid: A Primer for Recipient Countries, Donors, and Aid Providers", Center for Global Development, July.

Chart 2: Breakdown of Chinese lending volumes by bank and by sub-region (2000-2019, $m)



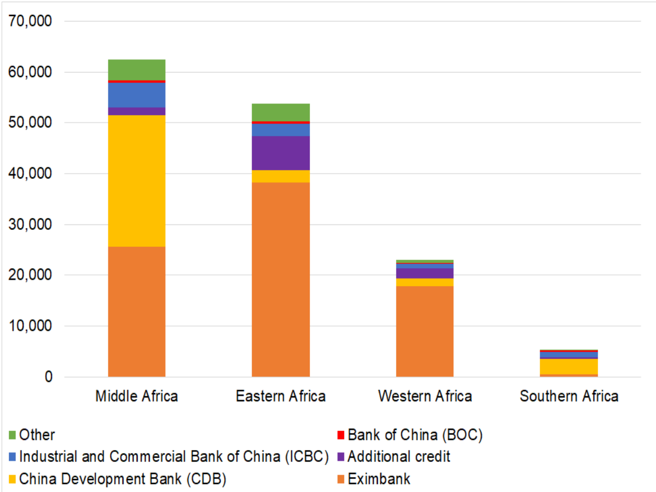
Source: AidDATA,CARI (2021), DG Trésor calculations.

On 1 October 2021, the CIDCA replaced the Ministry of Commerce in managing the distribution of China's international aid (formulating international aid policy, drafting budgets, coordinating between Chinese public entities, organising international cooperation on aid). The Ministry of Commerce remains responsible for negotiating and implementing specific projects with recipient countries.

China also participates in multilateral initiatives. The Asian Infrastructure Investment Bank, founded in 2014 and headquartered in Beijing, is beginning to expand its activities in Africa (nearly a dozen African countries are members), although 85% of its activity remains in Asia. There has also been an increase in Chinese shareholding in establishments with a long-standing presence in Africa. Between 2001 and 2021, China's IMF quota grew from 6.4 billion special drawing rights (SDRs) to 30.5 billion SDRs. In 2019, China was the International Development Association's sixth largest contributor at $1.2bn (up from 19th place in 2016). China's contribution to the African Development Bank (AfDB) grew from $17m in 2009 to $40m in 2019. China has also moved further into the sector-specific financing space, increasing its contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria from $6m for 2001-2005 to $18m for 2017-2019.

Regional development banks have also seen an increase in Chinese contributions. In 2004, China became the seventh non-African shareholder in the West African Development Bank, and the People's Bank of China was the number-two shareholder in the Eastern and Southern Africa Trade and Development Bank with 7.6% of shares.

Chart 3: Breakdown of Chinese lending volumes by sub-region and by lender (2020-2019, $m)



Source: CARI (2021), DG Trésor calculations.

2.2 Chinese-style lending

The hallmark of a Chinese loan in Sub-Saharan Africa is a lack of transparency as to how the loan operates and who is involved. Horn et al. (2019) estimate that 50% of China's lending to developing countries is not reported to the IMF or World Bank.[16] What is typically behind this "hidden" debt are "circular lending" strategies,[17] where loans are directly disbursed to a project's Chinese contractor, circumventing the borrower. However, the IMF[18] and CARI[19] consider the 50% figure to be an overestimate. As for AidData, in a recent report it stipulates that all lending to companies in countries benefiting from explicit or implicit forms of host government liability protection, even if it does not appear on government balance sheets, could be considered "hidden" debt.

In terms of sovereign loans, in April 2021 the Center for Global Development analysed the contents of 100 debt contracts between Chinese lenders and borrowers in 24 countries, of which 84% originated from ExImBank and CDB.[20] The authors found that Chinese lenders use standardised contracts, which vary from institution to institution, categorising them into three main types:

(16) Horn, Reinhart and Trebesch (2019), "China's Overseas Lending", Kiel Institute for the World Economy, June.
(17) Mathonnat (2020), "La Chine, la dette, le Covid et les motivations de l'aide chinoise à la santé en Afrique sub-saharienne : où est l'arbre, où est la forêt ?", FERDI, August.
(18) IMF (2020), "The Evolution of Public Debt Vulnerabilities in Lower Income Economies".
(19) Brautigam (2020), "Is China Hiding its Overseas Lending? Horn, Reinhart and Trebesch's 'Hidden Loans' and Hidden Data", *China-Africa Research Initiative*, April.

(i) the CDB loan contract, (ii) the EximBank concessional loan contract and (iii) the EximBank non-concessional loan contract.

Chinese policy banks use lending terms similar to standard European or American terms, but also introduce novel ones to maximise commercial leverage over sovereign borrowers and secure repayment priority over other creditors. This includes confidentiality clauses and, in 30% of contracts analysed, an obligation to maintain a special bank account to serve as security for debt repayment, funded with project revenue, kept outside the borrowing country and under Chinese control – an unusual arrangement among other creditors.

Chinese policy banks favour Chinese strategic interests. All contracts signed with CDB or EximBank include a cross-default clause: China can terminate the loan and demand immediate full repayment if the borrower defaults on its other creditors. This type of clause is only found in 10% of multilateral loan contracts.

In the event of a dispute, EximBank's contracts usually specify arbitration in China (most other creditors similarly insist on domestic governing law), whereas CDB appears to follow commercial practice, with contracts governed by English or US laws.

CDB stands out for some of its more political clauses. Half of its contracts include cross-default clauses that can be triggered by actions ranging from expropriation to actions adverse to the interests of "a PRC entity". All CDB contracts analysed as part of the study also include the termination of diplomatic relations between China and the borrowing country among the events of default, entitling the lender to demand immediate full repayment.

It was under such a contract that Sri Lanka transferred the operations of Hambantota Port for 99 years to the China Merchants Port Holdings Company Limited, which paid only $1.12bn to purchase it after Sri Lanka was unable to honour its debt service obligations to China. Across Africa, the event stoked fears of infrastructure seizures; in Kenya, multiple media outlets reported that the Port of Mombasa could be seized. But so far there have been few examples of these clauses being exercised; they appear to serve more as a deterrent.

Furthermore, EximBank generally operates on a "tied aid" basis, which means that its loans are to be used in part to cover costs with a Chinese component (e.g. project ownership, project equipment). For export credit, for example, the Chinese share of the project (i.e. that which is carried out by a wholly Chinese owned company) must represent at least 50% of materials/equipment, or 15% for construction projects. This means that Chinese financing is almost always tied to Chinese firms, giving them a winning edge in international tenders, particularly infrastructure projects (ports, roads, railways, etc.).

China also takes an idiosyncratic approach to debt renegotiation. According to a Rhodium Group study,[21] one in four dollars extended by China through overseas lending to date has come under renegotiation (amounting to $94bn, of which 43% is from CDB) – even before the pandemic. A study of these renegotiations reveals certain features of China's strategy: for large loans, write-offs and asset seizures are unlikely, with deferrals being the preferred option. However, in many cases, only the loan principal is rescheduled, with interest payment obligations maintained, which leads to an increase in debt costs for the borrowing country.

3. Possible consequences and forms of influence

3.1 How and with whom China might leverage its African lending to wield clout

The growth in loans extended by China between 2000 and 2016 represents an opportunity for the country to exert an economic and normative influence on African countries and traditional creditors, who have been forced to reassess the overall development assistance framework and multilateral renegotiation models for African debt.

Use of Chinese loans varies among African countries, depending on their needs and financial position, but also their relationships with traditional lenders. Several

(20) Gelpern, Horn, Morris, Parks and Trebesch (2021), "How China Lends: A Rare Look Into 100 Debt Contracts With Foreign Governments", Peterson Institute for International Economics, Kiel Institute for the World Economy, Center for Global Development, and AidData at William & Mary.

(21) Kratz, Mingey and Drew (2020), "Seeking Relief: China's Overseas Debt After COVID-19", *Rhodium Group*.

countries subject to international sanctions (Sudan, Zimbabwe) turned to Chinese loans after European and American lenders suspended their activities there.

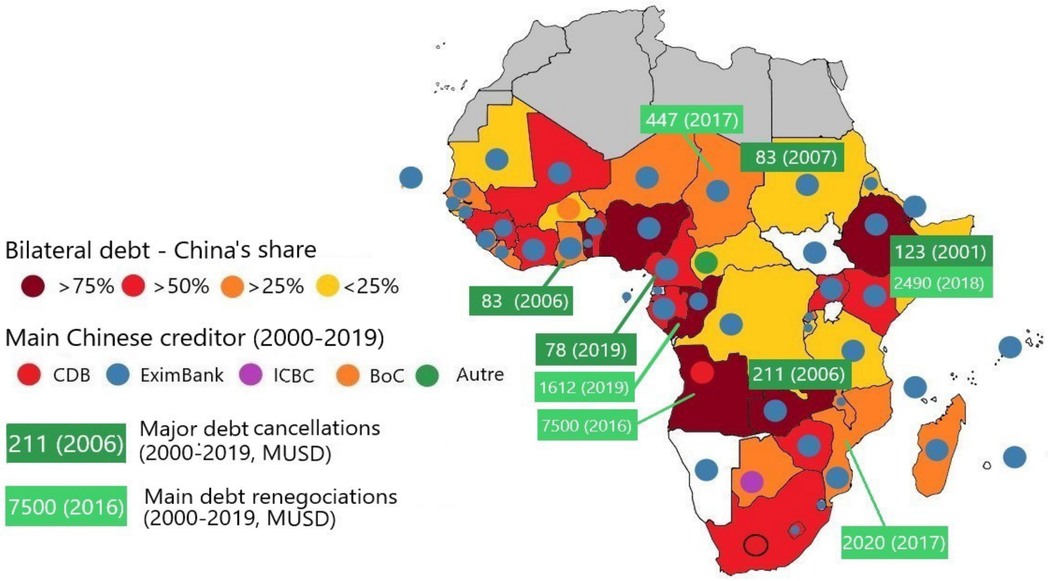
The differing norms of Chinese lenders has also allowed them to gain the upper hand over other creditors with some African governments, particularly in cases of loans extended to state-owned oil companies.[22]

The use of a "build and operate" model for the financing of numerous infrastructure projects (SGR in Kenya, Ethiopia and Djibouti, light rail system in Addis Ababa, etc.) has also influenced development assistance norms, by offering "all in one" solutions to governments eager for speedily delivered infrastructure projects, which can sometimes be more appealing than projects financed by traditional lenders to address short-term political issues. For African countries, these offers can supplement other financing options,[23] or allow them to play competing lenders off against each other.[24] Conversely, taking a bilateral approach to loan negotiations for large infrastructure projects has helped China strengthen its State-to-State relations, sometimes at the expense of borrowing countries' regional integration.[25]

Within African countries, Chinese lenders can be used as political leverage by local governments. Such was the case of the Lamu Port project in Kenya,[26] where the China Communications Construction Company dealt directly with the local government and promised to give jobs to local residents.

Furthermore, China's influence in Sub-Saharan Africa is not limited to cases where the country is the leading lender. Although other large bilateral creditors appear to have limited their partnerships with China's policy banks, the projects they finance often use Chinese contractors, which account for half of Sub-Saharan Africa's infrastructure projects.[27] These contractors sometimes partner with European firms to submit joint bids to lenders' calls for tenders, as was the case with Brazzaville airport. Additionally, several multilateral lenders have allowed Chinese banks into their shareholding, causing friction with long-standing shareholders.[28] Still, co-financing arrangements remain rare.

Map 1: Chinese loans (flows) and FDI (stock) to Sub-Saharan Africa (2000-2020, base year 2000 = 100)



Source: CARI (2021), DG Trésor layout.

(22) Alves (2013), "Chinese Economic Statecraft: A Comparative Study of China's Oil-backed Loans in Angola and Brazil", South African Institute of International Affairs.
(23) Chaponnière (2008), "L'aide chinoise à l'Afrique : origines, modalités et enjeux", *L'Économie politique*, no. 38.
(24) Nantulya (2021), "Reshaping African Agency in China-Africa Relations", *Africa Center for Strategic Studies*, March.
(25) Otele (2020), "China, Region-Centric Infrastructure Drives and Regionalism in Africa", *South African Journal of International Affairs*.
(26) Gambino (2020), "Chinese Participation in Kenyan Transport Infrastructure: Reshaping Power-Geometries?", *Critique Internationale*.
(27) Sun, Jayaram and Kassiri (2017), "Dance of the Lions and Dragons. How Are Africa and China Engaging, and How Will the Partnership Evolve?" McKinsey & Company.
(28) In May 2020, tensions arose between the US government and AfDB management. The US, the AfDB's second-largest shareholder at the time (6.5%), was opposed to its president's partnership policy with China.

As for US and European firms involved in projects financed by Chinese banks, such arrangements have remained rare due to the preferential conditions granted to Chinese firms, particularly for building and operating infrastructure projects.

The impacts of Chinese policy bank projects on development are mixed. There is evidence that large infrastructure projects flatten spatial inequalities and contribute to sub-national growth: according to a study by Cooper (2019),[29] a 10% increase in Chinese aid increases regional GDP by 0.24%. Of course, these estimates vary from country to country and should be interpreted with caution, particularly with regard to impacts on the environment and employment.[30] These projects, some of which are for building key infrastructure, are part of the development theory upheld by numerous African countries,[31] even if they do not conform with international development norms.

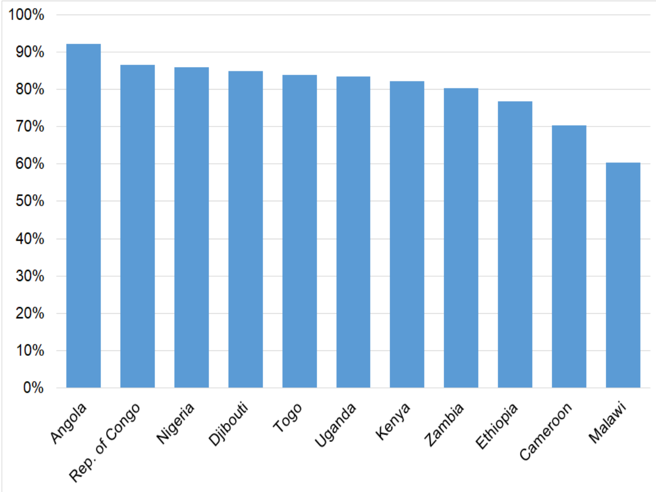
3.2 Limited debt renegotiation to date

The flow of Chinese loans to Africa has made China a heavyweight in the African debt landscape: over the 2020-2022 period, there are nine countries for whom China accounts for more than 75% of total annual bilateral debt service (see Chart 4), 16 countries at 50% and 28 countries at more than 30%.

Classifying policy bank loans as commercial debt allows China to show flexibility in bilateral negotiations when deciding whether loans should qualify for debt service suspension. Multilateral renegotiations are more likely to concern public sector loans.

Due to the size of its debt share in several countries that have restructured their debt in recent years, China has been able to influence debt restructuring norms, particularly with regard to the inclusion of private creditors, which is a prerequisite for the restructuring of loans issued by CDB and EximBank.

Chart 4: Chinese share in bilateral debt service, 2020-2022



Source: International Debt Statistics, World Bank.
How to read this chart: The ten countries shown here are those eligible for the Debt Service Suspension Initiative with the highest share of Chinese debt in their bilateral debt service obligations.

However, China's involvement in multilateral initiatives has been relatively rare in the history of Sub-Saharan debt renegotiations. In fact, most of China's debt renegotiations tend to occur during bilateral meetings.[32] Over the 2000-2019 period, China forgave $3.4bn in African debt and restructured $15.0bn, out of respective global totals of $9.3bn and $39.7bn. Forgiven debts were limited to non-EximBank interest-free concessional loans,[33] and although in 2020 Xi Jinping announced his intention to cancel sovereign concessional loans due to mature by end-2020, these only account for 5.0% of the total volume of Chinese lending in Sub-Saharan Africa.[34] In most cases, debt has been renegotiated during bilateral visits or FOCAC summits. In January 2021, Tanzania requested the cancellation of $167.7m in debt incurred to finance the TAZARA railway, a textile mill and a police housing project. The request was made during a visit from China's Foreign Minister, shortly after the announcement of debt write-offs in the Democratic Republic of the Congo and after the China Railway Construction Corporation was awarded a $1.32bn contract for the construction of a railway linking Lake Victoria to the town of Isaka.

(29) Cooper (2019), "The Development Impact of Chinese Development Investments in Africa", *UK Institute of Development Studies*.
(30) Ibid.
(31) Fourie (2015), "A New Map for Africa? Ethiopian and Kenyan Responses to the 'Chinese Model' of Development", *Afrique contemporaine*.
(32) Shen, Vasse and Barisone (2020), "Africa's Solvency Crisis: China's Participation in G20 Debt Relief a Sign of Multilateralism, but a "DSSI+" Framework Is Required", *Scope Ratings*.
(33) Acker, Brautigam and Huang (2020), "Debt Relief With Chinese Characteristics", China Africa Research Initiative.
(34) Shen, Vasse and Barisone (2020), op. cit.

Box 2: Debt renegotiation case study: Djibouti and Ethiopia

In 2013, the governments of Ethiopia and Djibouti began construction on a standard gauge railway between Addis Ababa and Djibouti, a project totalling $4.2bn. EximBank had extended loans of $2.5bn to Ethiopia and $492.0m to Djibouti, covering 65% and 85% of the costs of their respective sections. The interest rate at the time was LIBOR plus 3.0% for both countries, and both loans included a six-month grace period and a ten-year payment period, scheduled to begin in 2019 and 2020 respectively. During FOCAC 2018, in view of the limited revenue generated by the railway, Ethiopia's prime minister secured an extension of the repayment period, from 10 years to 30 years. In 2019, Djibouti was granted a five-year extension from EximBank and had its interest rate lowered to LIBOR plus 2.1%, and also considered privatising the Djiboutian section of the line and placing it in the hands of a Chinese firm.[a] For what was a single cross-border infrastructure project, Ethiopia and Djibouti both ended up conducting bilateral negotiations with EximBank for the renegotiation of their respective loans.

a. Acker, Brautigam and Huang (2020), op. cit.

Additionally, it seems that 75% of Chinese loan contracts contain "no Paris Club" clauses, forbidding borrowers from restructuring their debts to Chinese creditors under Paris Club terms or including Chinese debts in restructuring operations with other bilateral creditors.[35] Such clauses may only serve as a deterrent, but they illustrate Chinese creditors' reluctance from the outset to participate in multilateral initiatives.

Furthermore, the inclusion of specific clauses, similar to those included in private lending contracts, is part of an underlying trend[36] that, while more prevalent in Chinese loan contracts, is becoming increasingly common among hybrid lenders in Africa. Such is the case of the Eastern and Southern Africa Trade and Development Bank, which is 95% State- and semi-State-owned but operates like a commercial bank and offers similar products.

3.3 Geographic repositioning of Chinese lending in Africa

Between 2015 and 2020, the number of African countries classified by the IMF as being at high risk of debt distress rose from 9 to 15, and the number in debt distress grew from 4 to 8. In light of these risks, Chinese lending practices are in line with a global trend of private and semi-public lenders securing repayments.

Debt distress in African countries has led Chinese creditors to adopt a more cautious approach in recent years, with lending volumes decreasing after peaking in 2016 (down 50.1% in 2019 compared with the decade average). Excluding Angola, Chinese lending to Africa peaked in 2013, the year the Belt and Road Initiative was launched.

According to a Rhodium Group study,[37] China tends to extend loans to countries with weaker macroeconomic fundamentals than countries where other lenders are active, and some Chinese loans had become unsustainable even before the pandemic. According to the study, in September 2020, Chinese loans that had been or were being renegotiated amounted to $94bn, a quarter of China's total worldwide lending since the early 2000s.

Between the historically risky nature of Chinese loans, the financial instability of many African countries and the prudential regulations governing Chinese banks,[38] Chinese lenders have been redirecting their activities to less high-risk countries in Africa. The top five African loan recipients in 2019 were countries that have yet to request debt relief from Chinese lenders.

Several large infrastructure projects financed through Chinese lending have been cancelled or downsized, due to both the risk run by banks in terms of non-repayment and the risk run by African governments of falling into debt distress. This was the case with the

(35) Gelpern, Horn, Morris, Parks and Trebesch (2021), op. cit.
(36) Ibid.
(37) Kratz A., Mingey M. and D'Alelio D. (2020), op. cit.
(38) Since 2017, policy bank supervision, via capital ratio requirements and portfolio risk analysis, has become a focus of Chinese financial regulators, resulting in increased pressure on policy banks to better cover losses on their foreign portfolios due to restructurings. The China Banking Regulatory Commission published regulations for three public banks (CDB, EximBank and the Agricultural Development Bank of China) to improve management of country risk, compliance risk and foreign lending risk.

Mombasa-Nairobi SGR, which was initially supposed to extend to Uganda, before work was stopped in April 2019. In addition to financial issues, there have also been implementation problems for Chinese-financed projects.[39]

After hitting their prudential exposure limits in several countries, EximBank, CDB and the China Export & Credit Insurance Corporation (CECI or Sinosure) have been dialling back their loans and guarantees in Africa over the past few years. As a result, Chinese firms have increasingly been turning to European banks and export credit agencies, mostly in the UK and Sweden, even to finance projects with significant Chinese involvement.[40] In June 2021, the Nigerian government announced it was in talks with Standard Chartered to finance rail projects totalling $14bn being managed by Chinese firms.

Consequently, the share of projects being financed every year by Chinese lenders in Eastern Africa[41] fell from 20.9% in 2019 to 13.6% in 2020.[42] In Southern Africa, the share has declined significantly – from 28.3% to 19.6% – but remains high, attesting to the repayment capacity of countries in the sub-region.

In summary, the geographic reorientation of Chinese lending in Sub-Saharan Africa over the past several years has coincided with a recalibration of lending volumes. While this can be explained by prudential regulations and payment issues encountered by Chinese creditors, a number of African governments also appear to be seeking to limit the proportion of Chinese-financed projects, due to both increased budget constraints and a desire to diversify their partners.

3.4 Toward a diversification of financing methods

Although Chinese lending has been declining in recent years, the volume of Chinese FDI to Sub-Saharan African has increased, with FDI stock growing from $8.2bn in 2009 to $40.9bn in 2019 (after peaking at $42.1bn in 2018).

According to a report from the China-Africa Business Council published in August 2021, China's FDI stock in Africa stood at $47.4bn at end-2020, making China the continent's fifth largest investor. Assuming the trend holds true, China is set to become the top investor in terms of stock by 2024. While foreign investment in Africa declined by 16% in 2020, Chinese FDI flows increased to $3.0bn, up from $2.7bn in 2019. Private Chinese investment is distributed unevenly across the continent, with 12 countries[43] accounting for two-thirds of current stock.

Some of the largest Chinese firms operating in Africa include Huawei, Holley, Jiangsu Yongyuan, King Deer and China-Africa Cotton. Whereas 2019 data shows heavy investment in the mining sector (25% of flows), Sub-Saharan Africa is also a draw for its consumer goods production potential, particularly in the telecommunications and textile sectors: Chinese firm Transsion Holding has set up several production facilities in Ethiopia. The arrival of Chinese firms in Africa has coincided with the creation of several special economic zones (SEZs) in recent years. Some of these SEZs, whether wholly Chinese-owned (Mauritius, Ethiopia) or joint ventures (Nigeria, Zambia), have been set up by Chinese firms.[44] McKinsey estimates that in 2017 there were 10,000 Chinese firms operating in Africa, primarily in manufacturing (31%), services (25%) and construction (15%), with locations concentrated in Nigeria (920), Zambia (861), Tanzania (825) and Ethiopia (689).[45]

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(39) An estimated 23% of Chinese-financed projects worldwide have run into problems, broken down into four types: scandals and controversies (10.6%), financial wrongdoing (4.6%), community or ecosystem harm (2.3%) and underperformance (e.g. defaults, lower profits than expected, 17.8%). Source: "Banking on the Belt and Road: Insights From a New Global Dataset of 13,427 Chinese Development Projects" (2021, AidData).
(40) Global Trade Review (2021), "Chinese Contractors in Africa Turn to Europe for Financing", September.
(41) Region where Kenya and Ethiopia are considered at high risk of debt distress by the IMF.
(42) Ibid.
(43) Egypt, Nigeria, South Africa, Angola, the Republic of the Congo, the Democratic Republic of the Congo, Zambia, Ghana and Algeria.
(44) Brautigam D. and Xiaoyang T. (2011), "Shenzen africain : les zones économiques spéciales de la Chine en Afrique", *Outre-Terre*.
(45) Yuan Sun I., Jayaram K. and Kassiri O. (2017), op. cit.

The private-sector boom appears to be part of a global trend driven by several economic operators, those both long-established and newly invested in Sub-Saharan Africa.[46] The 2019 Russia-Africa Summit in Sochi ended with promises of investment, as did the Foco África 2023 summit held in Madrid in March 2021 and the Dubai Africa Trade Expo in October 2021. Furthermore, the Belt and Road Initiative now finds itself rivalled by the European Union's new Global Gateway Initiative and the Build Back Better World Initiative launched by the G7 countries in June 2021, both of which will also support private-sector infrastructure financing in developing countries.

The rise in foreign investment also reflects an appetite among African governments that are facing increasing debt burdens and are having to reappraise their long-term development models, with many of them no longer able to finance their infrastructure needs with public debt. Evidence for this is the uptick in public-private partnerships across Africa, even if we have yet to see private financing take the place of Chinese loans.

(46) Fiess N. and Gautier A. (2021), "Development Finance in Sub-Saharan Africa in the Time of COVID-19", *Trésor-Economics* 278.

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