UNDERSTANDING THE COMMITMENT OF KEY LENDERS IN SOVEREIGN DEBT LENDING AND RESTRUCTURING INITIATIVES

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CHINA'S LOAN COMMITMENTS TO AFRICA

China's lending in Africa remained significant in 2019*

- After a decade of rapid growth, Chinese lending to Africa peaked in 2016 at $28 billion out of an estimated total commitment ranging from $153 billion to $160 billion made between 2000 and 2019
- Roughly 80 percent of these loans financed or were committed for **economic and social infrastructure projects: mainly transport, power, telecoms and water**
- The briefing note indicates that if one African country which has received most of Chinese's loans is excluded from the data, Chinese lending peaked sometime in 2013 – the year the Belt and Road Initiative (BRI) was launched
- The decline since 2013 reflects China's concerns about **debt sustainability** as well as **structural transformation** including planned shifts in the **composition of Chinese lenders**
- While in year 2000, only 3 Chinese lenders financing 14 projects at an average value of $10 million were recorded, in 2019 data included well over 30 banks and other lenders
- This signify the planned evolution of China's lending in Africa as reflected in the changing composition of Chinese creditors
- China's Export Import (Exim) Bank, which is China's official Export Credit Agency and the lender with the greatest exposure and experience in Africa committed $10.4 billion in 2013 alone*
- However, since 2014 Eximbank only averaged $6.4 billion in annual loan commitments, dropping further to $4.0 billion average loan commitments in 2019
- On the other hand, an increase in the commercial bank loans from China Development Bank (CDB), Industrial and Commercial Bank of China (ICBC), Bank of China (BOC), Syndicated Loans have been observed.

*Deborah Brautigam, Kevin Acker.2021.*Twenty years of Data on China Africa's lending. Briefing Paper No.4.* China Africa Research Initiative (CARI)

CHINA'S LOAN COMMITMENTS TO AFRICA 2000-2019*

Sector	Committed $	Number of loans	% of committed $
1. Transport 2. Power	46.8 billion 40.5 billion	288 176	29.25 25.31
3. Mining 4. ICT	18.0 billion 13.5 billion	11 148	11.25 8.44
5. Water 6. Other social services	7.4 billion 5.6 billion	93 64	4.62 3.50
7. Multisector 8. Industry	3.8 billion 3.6 billion	21 27	2.37 2.25
9. Defence 10 Government	3.5 billion 3.5 billion	27 24	2.19 2.19
11. Banking 12. Unallocated	2.5 billion 2.5 billion	14 143	1.56 1.56
13. Agriculture 14. Budget	2.2 billion 2.1 billion	41 24	1.37 1.31
15. Education 16. Business	1.7 billion 1.5 billion	33 12	1.06 0.94
17. Health 18. Trade	1.0 billion 139 million	31 7	0.62 0.09
19. Other commodities 20. Food	100 million 46 million	1 2	0.06 0.03
21. Environment	38 million	1	0.02
TOTAL	$160 billion	1188	100%

* *Source: Boston University Global Development Policy Centre/China Africa Research Initiative - March 2021*

CHANGING COMPOSITION OF CHINA'S LENDERS

Four Chinese Lenders have participated in Debt Restructuring*

1. The Export-Import Bank of China (Exim-bank)
   - The only bank offering government subsidized foreign aid concessional loans and China's official Export Credit Agency
   - The largest since 2000 and accounts for 56 percent of all loans
   - Between 2000 and 2009, it committed 71 percent of all loans to Africa
   - However, Exim-bank's share of total loan commitments decreased to 53 percent (US$67 billion) over the past decade
2. China Development Bank
   - Reported to be a "hybrid" combining policy bank and commercial bank characteristics and accounts for 24 percent of all loans since 2000
   - Between 2010-19, CDB accounted for 30 percent (US$37 billion) of Chinese loan commitments
3. Industrial and Commercial Bank of China (ICBC) Bank of China (BOK)
   - These are strictly commercial and between 2015-19, both have signed US$6.5 billion of loan commitments in Africa, compared to US$ 3.9 billion between 2010-14

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CHINA’S DEBT RELIEF IN AFRICA

Debt Relief* can involve:

1. Debt Renewal/Refinancing
   - Outstanding balance of the loan is transferred to a new loan agreement
2. Debt Reprofiling/Rescheduling
   - Extending the repayment time, but not reducing the net present value of the debt
3. Debt Restructuring
   - Changes in the terms that result in a reduction in the net present value
4. Debt Forgiveness
   - Reductions in the principal, which can be partial or complete

**Source: China Africa Research Initiative (CARI)*

CHINA'S DEBT RELIEF IN AFRICA

Four categories of China's debt relief - according to China Africa Research Initiative (CARI):

1. G20 Debt Service Suspension Initiative (DSSI)
   - Exim-bank and CIDCA - reported to have suspended $1.3 billion of debt service in 23 countries worldwide under DSSI, of which 16 countries are from Africa
2. Debt cancellation under the Forum on China Africa Cooperation (FOCAC)
   - China claimed to have cancelled interest-free loan debt due to mature at the end of 2020 for 15 African countries
   - Cancellations in 7 African countries amounted to $113.8 million
3. Ad hoc Debt Relief
   - One African country is reported to have received repayment deferrals from China Development Bank (CDB) and Industrial and Commercial Bank of China for a total of $4.9 billion
4. Contributions to IMF's Catastrophe Containment and Relief Trust
   - China is said to have contributed roughly $8 million to this Trust Fund

SUGGESTIONS FOR DEBT RESOLUTION

A Renewed International Debt Restructuring Initiative*

1. Build on the current Common Framework and expand it to include all heavily indebted countries while suspending debt service when countries are undergoing debt treatment
   - This will give an incentive to the creditors to participate and stick to the timelines of the restructuring plan while resolving rating fears for debtor countries
2. Realistic assumptions about a country's debt dynamics should anchor Debt Sustainability Analysis
   - Diagnose correctly whether a country's debt is sustainable within robust macroeconomic parameters, spending priorities and revenue mobilization – also considering the country's vulnerability and exposure to economic shocks and climate change
   - This is done in order to estimate the size and type of debt treatment that will be needed to restore debt sustainability
   - If DSA has established debt sustainability concerns, focus should be on face-value reduction over maturity extensions, grace periods and rate-reductions to avoid subsequent round of restructuring
3. Policy conditionalities should be considered carefully
   - Conditionalities imposed such as country commitments to reforms through the IMF-supported country program, should guard against the negative impact of such imposed reforms on the low-income and vulnerable groups, especially when fiscal adjustments relies on spending cuts
   - The multitudes of debt for development swap proposals at a global level are geared towards the climate, nature and the environment – hence, it makes more sense to offer debt relief to poorer countries to enable them to invest more in climate adaptation and mitigation
   - Above all, these countries contribute the least to but bear the highest cost of climate
4. Participation of private creditors should be incentivized
   - While it is the legal duty of the creditors to coopete in good faith in a CF restructuring where debt has been found to be unsustainable and the creditor has been invited to participate on comparable terms with other creditors, some credit enhancements (e.g., guarantee funds), buy-back or debt-exchange funds and value recovery instruments (VRIs) can be encourage
5. Encourage the development of State Contingent Debt Instruments and expand use of CACs
   - While the market for SCDIs has been slow to take off, with more frequent climate and external shocks – the more vulnerable countries to these shocks can really benefit from the nature of these instruments
6. Prioritise the most vulnerable countries if funding remains a constraint
   - International debt restructuring offer will require additional funding from the official sector in the form of concessional loans, grants and guarantees
   - It is recommended to start with the most vulnerable countries and then expand eligibility criteria based on additional funding

*Jensen, L..2022. *Avoiding "Too Little Too Late'' on International Debt Relief.* UNDP – Development Future Series Working Paper

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Thank you

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