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Debt Relief with Chinese Characteristics

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Debt Relief with Chinese Characteristics

Kevin Acker, Deborah Brautigam, and
Yufan Huang



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ABSTRACT

**SAIS-CARI WORKING PAPER
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“Debt Relief with Chinese
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Huang

As China is poised to become the world’s largest creditor, concerns about debt sustainability have grown. Yet considerable confusion exists over what is likely to happen when a government runs into trouble repaying its Chinese loans. In this working paper, we draw on data from the China Africa Research Initiative (CARI) to review evidence on China’s debt cancellation and restructuring in Africa, in comparative and historical perspective. Cases from Sri Lanka, Iraq, Zimbabwe, Ethiopia, Angola, and the Republic of Congo, among others, point to debt relief patterns with distinctly Chinese characteristics. In nearly all cases, China has only offered debt write-offs for zero-interest loans. Our study found that between 2000 and 2019, China has cancelled at least US\$ 3.4 billion of debt in Africa. There is no “China, Inc.”: for interest-bearing loans, treatment for inter-governmental debt and Chinese company loans are negotiated separately, and often loan-by-loan rather than for the entire portfolio. While rescheduling by increasing the repayment period is common, changes in interest rates, reductions in principal (“haircuts”), or refinancing are not. We found that China has restructured or refinanced approximately US\$ 15 billion of debt in Africa between 2000 and 2019. We found no “asset seizures” and despite contract clauses requiring arbitration, no evidence of the use of courts to enforce payments, or application of penalty interest rates. Although Chinese lenders have applied Paris Club terms to some rescheduling, on the borrower’s request, Chinese lenders prefer to address restructuring quietly, on a bilateral basis, tailoring programs to each situation. Yet the lack of transparency fuels suspicion about Chinese intentions. These patterns are likely to play out as Chinese lenders and African borrowers grapple with the impact of COVID-19.

INTRODUCTION

In December 2019, a Zambian economist commented: “Chinese debt can easily be renegotiated, restructured, or refinanced.”¹ Is this true? As China becomes one of the world’s largest creditors, concerns about debt sustainability have grown. In 2020, a freefall in commodity prices and the economic fallout from the COVID-19 crisis heightened the salience of these issues. Yet considerable confusion exists over when, how, and why the Chinese government cancels or reschedules debt, how much debt has been cancelled or rescheduled, and what is likely to happen when a government runs into trouble repaying its Chinese loans.

Debt relief can take a number of forms. *Debt cancellation* is when part or all of a debt is written off. *Debt restructuring* (including “rescheduling”) is when the terms (e.g. interest rate, grace period, maturity, or various fees) related to a disbursed, or partially disbursed, loan are renegotiated. Reductions in the face-value of the principal (also known as “haircuts”) can be contrasted with *debt reprofiling*, a relatively recent term used to describe a restructuring that extends the maturity of a debt for several years without reducing the principal and often without much, if any, interest rate reduction. *Refinancing* can also offer debt relief: a new loan is issued to pay off an old loan, extending the amount of time a borrower has to pay the debt, possibly with a lower interest rate.

The Chinese government provides overseas loans to developing country governments and their state-owned enterprises using a variety of instruments: interest-free foreign aid loans (offered by the central government), concessional foreign aid loans and preferential export buyers’ credits (only offered by China Eximbank), export buyers’ credits, and other commercial loans. China has three policy banks that operate as official creditors (China Eximbank, China Development Bank, and China Agricultural Bank), but these banks also provide commercial loans that are not government-to-government. Chinese companies and commercial banks also provide supplier’s credits and commercial loans.

In this paper, we draw on data from the China Africa Research Initiative (CARI) and our research on Chinese lending to review the evidence on China’s debt cancellation and restructuring. Between 2000 and 2018, we estimate that Chinese lenders signed US\$ 148 billion in loan commitments to African sovereign borrowers and their state-owned enterprises.² Our cases come primarily from Africa, but we situate them in comparative and historical perspective.

The paper has three goals. First, by collecting and analyzing data and case studies on Chinese treatment of sovereign borrowers, we aim to provide a base of factual evidence that can enhance public understanding of China as a global lender. Second, by documenting cases where Chinese lenders provided debt relief, we hope to uncover patterns that can help us predict what Beijing might do in the COVID-19 crisis. Finally, by reviewing the evolution of China’s treatment of borrowers over time, we contribute to the question of how China’s rise is affecting, and being affected by, existing norms and rules, particularly as practiced in multilateral institutions such as the Paris Club.

Our findings suggest that as an official creditor, China is roughly following the path laid out earlier by the Paris Club. Between the 1970s and 2000, when Chinese lending was mostly limited to interest-free foreign aid loans, Beijing's first response to debt distress was to lengthen the repayment period, without a face-value reduction in the principal. In 2000, the Chinese government began offering write-offs of interest-free loans that had gone into default in the debt crisis of the 1980s and 1990s. This program parallels the World Bank and IMF Highly Indebted Poor Countries (HIPC) Initiative. More than US\$ 4 billion has been written off globally, involving more than 376 individual projects. Our study found that between 2000 and 2019, China has cancelled at least US\$ 3.4 billion of debt in Africa. In almost all of the countries where Chinese debt was cancelled (aside from high profile cases in Iraq and Cuba), the cancelled debt was limited to mature, interest-free foreign aid loans that had gone into default. The vast majority of China's recent lending in Africa – concessional loans, preferential buyer's credits, and commercial loans – has never been considered for cancellation.³

Our data records more than 1,000 Chinese loan commitments in 49 African countries since 2000. Between 2000 and 2019, Chinese lenders restructured or refinanced at least 26 individual African loans. We found that China has restructured or refinanced approximately US\$ 15 billion of debt in Africa between 2000 and 2019. Refinancing is rare, limited to one transaction in Angola by China Development Bank. Unlike the Paris Club, Chinese lenders have tended to treat restructuring or cancellation loan-by-loan, not on the basis of the entire debt portfolio in that country. This parallels an earlier emphasis on “development sustainability” (looking at the future contribution of the project) rather than “debt sustainability” (looking at the current state of the economy) as the basis of project lending decisions.

While China Eximbank is the lender in most cases of restructuring, there is no “China Inc.” when it comes to debt relief. More than 30 Chinese banks and companies have provided credit to African governments. Debt relief for different creditors needs to be negotiated separately with the companies and banks involved. While cases differ in the treatment of the debt, we note a trend toward real net present value (NPV) reductions, mainly through lower interest rates, longer grace periods, and substantially longer repayment periods.

Moreover, despite critics' worries that China could seize its borrower's assets, we do not see China attempting to take advantage of countries in debt distress. There were no “asset seizures” in the 16 restructuring cases that we found. We have not yet seen cases in Africa where Chinese banks or companies have sued sovereign governments or exercised the option for international arbitration standard in Chinese loan contracts. Restructuring a loan is only one of a menu of options for an underperforming project. Other options might include public-private partnerships (PPPs) involving equity injections from Chinese companies. Yet, although Chinese firms participated in some African debt-equity swaps in the 1990s, we have not yet seen this happening in the new millennium.

China's participation in the G-20 agreement on a debt moratorium marks the first time China has joined in a multilateral commitment to provide debt relief on government-to-government lending.⁴

We expect China to honor this commitment for countries that request a moratorium, although we also expect this process to lack transparency, except as announced by the borrower.

In the next section we explore the issue of sovereign debt relief, looking closely at media and academic debates on how Chinese practices fit into evolving official creditor norms. Section 3 draws on cases in Indonesia, Iraq, Cuba, and Sri Lanka, establishing a comparative context for our extensive Africa data and case studies. Section 4 analyzes debt restructuring in China-Africa loans, and Section 5 addresses debt cancellation. Section 6 concludes.

2. CHINA AS A GLOBAL CREDITOR: DEBATES

As the world grapples with the economic fallout from the COVID-19 pandemic, China's role as a global creditor has come under increased scrutiny. Information about borrowers' debt burdens, and China's lending and debt relief practices, is scarce, and speculation rife. In this section, we first outline the existing institutions for debt relief: the evolution of the Paris Club, a multilateral forum for restructuring bilateral official debt, and the rise of the G-20 as a rule-maker. We then turn to some of the debates in the media and in a handful of recent studies about how Chinese lenders handle debt distress.

2.1 THE PARIS CLUB AND THE G-20

The Paris Club, with 22 permanent members, is an informal group founded in 1956 to provide an orderly process of treating sovereign debt for countries on the brink of default.⁵ Between 1956 and 1987, the Paris Club offered only so-called "classic terms" extending repayment periods. In 1988, for the first time, the Paris Club agreed that bilateral debt could be reduced in net present value terms (NPV) by 33.3 percent for the poorest countries. Reducing the face value of debt (also known as a "haircut") required official lenders to set aside budgetary resources. The percentage of debt stock that could be cancelled, and the group of eligible countries, increased over time. In 1996, Paris Club creditors also agreed to finance the cancellation of multilateral debt through the HIPC Initiative, and the 2005 Multilateral Debt Reduction Initiative deepened this process, using resources from the international financial institutions.

Some have called the Paris Club a creditors' cartel.⁶ Borrowing countries are expected to have an IMF program in place. The borrower delegation appears before the Paris Club to present their request, and then withdraws from the room, while the members negotiate a unified offer. Creditors agree to share information with other members on the full extent of their lending in a debtor country. A central concern of Paris Club members has been to avoid a situation where debt relief granted by their members allows a borrower to repay loans to non-Paris Club lenders, including private creditors.

Paris Club members usually imposed punitive penalty charges on arrears. Between 1985 and 1991, Nigeria accumulated US\$ 4 billion in "interest arrears, late interest charges, and penalty charges," on a Paris Club debt of US\$ 17.8 billion.⁷ The Center for Global Development pointed out in 2010 that Sudan (which has not yet benefited from HIPC) owed Austria, Denmark, and Belgium US\$ 4.5

billion, only 20 percent of which was principal.⁸ Kuwait exacted even harsher terms: Sudan owed US\$ 2.8 billion on just one US\$ 130 million loan issued in the late 1970s.⁹

From time to time the Paris Club has offered a moratorium on debt service in the wake of a natural disaster. For example, Honduras and Nicaragua received a three-year moratorium in 1998 after Hurricane Mitch. The Paris Club also gave a one-year moratorium to Sri Lanka and Indonesia after the 2004 tsunami. Yet as the COVID-19 pandemic spread around the globe in early 2020, the decline in new lending from Paris Club members meant that the Paris Club accounted for less than a third of the estimated US\$ 14 billion in annual official bilateral debt service owed by the 72 least-developed countries, plus Angola.¹⁰

The G-20 was founded in 1999 to provide a forum for a small group of countries representing much of the global economy to more efficiently cooperate to address emerging financial crises.¹¹ In 2017, as debt once again began to build up in the developing world, the G-20 issued guidelines on sustainable borrowing. These guidelines endorsed a set of principles on information-sharing and transparency, and support for the debt-sustainability policies of the international financial institutions.¹² On April 15, 2020, this prior work discussing and developing the G-20's joint position on debt allowed the G-20 to quickly endorse a COVID-19 moratorium until the end of 2020 on official bilateral creditor debt service for the 77 least developed countries (as defined by the World Bank and the United Nations).¹³ The suspension of payments would be NPV neutral, i.e. no "haircut" or reduction in principal. Suspended payments would be repaid over three years, after a one-year grace period, and countries participating in the suspension agreed not to take out new, non-concessional borrowing during this period.

China's Minister of Finance confirmed that China would implement debt service payment suspension, on a bilateral basis.¹⁴ Yet a rumor quickly spread that China had "added caveats that make a mockery" of its commitment, and that it planned to exclude hundreds of large Belt and Road Initiative (BRI) loans.¹⁵ This rumor was a misreading of an article by Song Wei, a researcher at a Chinese think-tank, who writes frequently on African issues. Song noted that only interest-free loans were eligible for debt write-offs, and that "preferential loans are not applicable for debt relief." Here, it appears that she was using "debt relief" to refer to debt-write offs (a common mistranslation).¹⁶ As the article clearly noted, rescheduling and payment delays (the G-20 pledge) were among the many non-write off measures available for China's preferential loans. She also noted that China generally preferred to create custom plans for each troubled project:

If any debtors encounter difficulties to pay on time, there may be tailored plans including rescheduling... adding grants to help bring projects back to life, conducting debt-equity swaps, or hiring Chinese firms to assist operations. Just like repairing and enhancing a patient's hemopoietic system, adopting such measures to help the projects get back on track and gain profit has advantages over simply offering write-offs which may only solve issues on the surface and are unsustainable.¹⁷

While the G-20 proposal addressed bilateral creditors, many low-income developing countries had also become heavily indebted to private creditors. According to the World Bank, in sub-Saharan Africa in 2017, bondholders accounted for 31 percent of public and publicly guaranteed debt, while

China accounted for around 17 percent, and the Paris Club only 5 percent.¹⁸ Concerned that accepting the G-20 proposal would result in a downgrading of their credit ratings, many countries decided to negotiate separately with their major bilateral creditors. By late May, only 22 out of 77 eligible countries had started the G-20 debt relief process.¹⁹ As David Dollar noted, many of these countries “have worked hard to get market access and it would be a set-back to give that up.”²⁰

2.2 HOW DO WE THINK CHINA BEHAVES IN DEBT DISTRESSED COUNTRIES?

As debt problems became more prominent in developing countries around 2016, China’s role as an international lender rose into headlines, most prominently with the accusation in early 2018 that the Chinese government had “seized” Hambantota Port in Sri Lanka as collateral when the government ran into difficulties repaying a loan. Although this was a misreading of the Sri Lanka case, apprehension rose among other borrowers. The rating agency Moody’s warned that countries “rich in natural resources, like Angola, Zambia, and Republic of the Congo, or with strategically important infrastructure, like ports or railways such as Kenya, are most vulnerable to the risk of losing control over important assets in negotiations with Chinese creditors.”²¹ These assumptions of a malign China were repeated in publications like *The New York Times*, which contended that Chinese loans “frequently use national assets as collateral” and require refinancing “every couple years” (our Africa data supports neither of these statements).²²

On the other hand, some media reported that China is an exceptionally benign lender. For example, an article in *Forbes* concluded that China was a, “Free money machine [...] Between 2000 and 2018, 57 percent of China’s recipients saw their debt slate wiped clean.”²³ A common misconception is that China’s debt write-off program, launched to address the overhang of old, zero-interest loans from the 1980s crisis, is part of the 2013 BRI. For example, the *South China Morning Post* wrote: “From Kenya to Ethiopia, Botswana to Cameroon, belt and road developments have seen write-offs of hundreds of millions of dollars.”²⁴ None of these write-offs were for BRI lending. Yet the assumption that Chinese debt relief is generally easy has clearly influenced some observers, like the Zambian economist quoted in the introduction to this paper.

Our paper explores some of these implicit hypotheses. We also build on a number of reports published in 2018 and 2019 that attempted to collect and analyze cases of Chinese debt relief. In a March 2018 paper examining the overall debt implications of China’s BRI, Hurley, Morris, and Portelance included a list of 84 debt relief actions, including 64 in Africa (four of the African cases being debt restructuring).²⁵ China’s approach to managing its claims was ad hoc, they noted, speculating that China was reluctant to join the Paris Club because it is dominated by the G-7. Perhaps, the authors note, a new forum should be developed based on Paris Club principles, but with China and other emerging sovereign creditors as founding members.

In April 2019, analysts at the Rhodium Group established a preliminary review with 40 cases of external debt renegotiation between 2001 and 2019 in 24 countries, half of them African.²⁶ The Rhodium group found that debt renegotiations and distress were “common” among Chinese borrowers. They also concluded that “asset seizures” were rare and that China had limited leverage

in negotiations. Their analysis noted that debt write-offs were “the most common” outcome of a debt renegotiation, and that write-offs “were often accompanied by a decision on the part of Beijing to withhold further lending”. They hypothesized that factors influencing renegotiation outcomes might include the availability of alternative financing sources, and the leverage generated by leadership changes. Although resource-secured lending was intended to reduce risks, they pointed to the troubled case of Venezuelan defaults to note that it was no guarantee. Finally, they speculated that Beijing might use loan renegotiations to push its foreign policy agenda or use them as leverage to gain business for Chinese companies.

Also in April 2019, a very comprehensive report by Development Reimagined and the Oxford China Africa Consultancy analyzed 96 cases globally of Chinese debt cancellation.²⁷ Unlike the other studies, this report clearly identified China’s numerous debt write-offs as a special foreign aid program related to the HIPC debt cancellations, and not to BRI lending. Their analysis found that debt cancellation appeared unrelated to IMF current debt distress categories, and that countries with more foreign direct investment from China had less debt cancelled, but that trade had no impact. Interestingly, the study compared Chinese debt cancellations with those from the Paris Club, finding that Chinese debt cancellation levels in HIPC countries (US\$ 1.7 billion) were close to those provided by Germany (US\$ 2.2 billion) and the US (US\$ 2.3 billion), but below Japan (US\$ 4 billion) and France (US\$ 5.2 billion).

3. CHINESE DEBT RELIEF IN INDONESIA, IRAQ, CUBA & SRI LANKA 1990-2017

Before focusing on Africa, we consider four non-African countries where Chinese lenders have dealt with troubled loans. The Indonesia, Iraq, and Cuba debt relief negotiations highlight parallels between the Paris Club and the separate negotiations for Chinese governmental loans and commercial loans from Chinese companies. Finally, in recent years, concerns have arisen that if governments go into default, the Chinese government might “repossess” the projects financed by Chinese loans. Sri Lanka’s Hambantota Port has become such an iconic case of misrepresentation of Chinese lending practices that we feel it is useful to describe it in further detail.²⁸

3.1 INDONESIA

During the 1960s, China and Indonesia had a close relationship under socialist President Sukarno. Political instability in 1965 led to an anti-communist coup. The new president, Suharto, suspended diplomatic relations with China between 1967 and 1990. In 1990, as part of resuming official ties with China’s Ministry of Foreign Economic Relations and Trade (now Ministry of Commerce), the People’s Bank of China reached an agreement with their counterparts in Indonesia to reschedule six interest-bearing foreign aid loans Beijing had issued during the early 1960s, totaling about US\$ 150 million.²⁹

The agreement said China would agree to Indonesia’s request to apply Paris Club terms to the debt restructuring, which would reduce the NPV of the debt by 33.3 percent.³⁰ The rescheduling allowed

Indonesia to repay the loans between 1990 and 2000, but required Indonesia to pay 64 percent of the arrears up front. The case is significant because, as far as we know it is the only example of a formal loan restructuring agreement, because of the application of Paris Club terms, and the requirement that Indonesia pay a significant part of the arrears before the debt restructuring could be finalized.

3.2 IRAQ 2007-2010

In 2004, under US government urging, Paris Club members agreed to a reform that allowed an 80 percent write-off of middle-income Iraq's debt, a process that took four years to complete. On May 3, 2007, the United Nations sponsored a conference launching a Compact on Iraq's reconstruction. China's official media *Xinhua* reported afterwards:

The Chinese government is willing to substantially cancel the debt Iraq owes China, among which all of the governmental debt can be cancelled. The Chinese side has noticed Iraq's request to cancel debt in accordance with the Paris Club model, and we are willing to continue friendly consultation with the Iraqi side to resolve this matter.³¹

Several weeks later, China cancelled all official bilateral government debt (the amount was never made public).³² Three years later, the Iraqi government announced that China had also agreed to cancel 80 percent of the US\$ 8.5 billion debt Iraq owed to Chinese companies.³³

It is notable that "governmental debt" was considered separately from debt owed to Chinese companies. Beijing could cancel inter-governmental debt quite quickly, but the debt owed to Chinese companies took three years to write off. According to the Chinese report, the commercial debt cancellation was signed by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and required approval by China's State Council and the National People's Congress.³⁴ Upon requested by a borrower, China again applied Paris Club rules to the treatment of its debt. Beijing likely had to allocate budgetary resources to cover the write-off of company debts.

3.3 CUBA 2010

After "repeated requests" from Havana, China provided debt relief to the island nation in 2010, writing off around 47 percent of Cuba's approximately US\$ 6 billion debt and restructuring the terms of the rest.³⁵ The restructuring of Chinese government debt apparently provided a new five-year grace period and reduction in interest rates.³⁶ As with Iraq, these negotiations were conducted in two groups. While official government debt was restructured during the summer of 2010, negotiations to restructure the commercial debt owed to Chinese companies took until December of that year. The Paris Club also negotiated a historic deal for Cuban debt relief five years later, in 2015. The Paris Club deal wrote off \$8.5 billion of Cuba's US\$ 11.1 billion debt (a 76.5 percent reduction), providing a five-year period in which no interest would be charged, and then followed by an interest rate reduction to 1.5 percent and repayment over 18 years.

3.4 HAMBANTOTA PORT IN SRI LANKA 2015-2017

The Sri Lanka case has become notorious as a now widely accepted example of Chinese “asset seizure.” It is more accurate to describe the case as a money-raising, politically-fraught privatization that helped to ameliorate an urgent balance of payments crisis.³⁷ In the midst of a civil war that lasted from 1983 to 2009, the Sri Lankan government decided to build a regional growth hub in Hambantota, an underdeveloped region devastated by the 2004 tsunami. The area had long been seen to have potential for attracting global shipping. A 2006 Wikileaks report noted Sri Lankan business leaders were afraid that if the government did not build a commercial port, “opportunities would be grabbed by other ports in the region.”³⁸

In 2007, Sri Lanka’s Port Authority borrowed from China Eximbank to fund the first phase of the port, taking out a US\$ 307 million commercial buyer’s credit, at a fixed rate of 6.3 percent (payable over 15 years with a four year grace period) and a concessional loan of US\$ 147 million at 2 percent, payable over 20 years, including five years grace.³⁹ China Eximbank funded a second phase in 2012, with several concessional loans totaling US\$ 757 million at a fixed rate of two percent.

In January 2015, an upset election brought the Sri Lankan opposition party to power during an urgent balance of payments crisis. As Sri Lanka emerged from war and began a fast-paced economic reconstruction, it had entered middle income status, which meant losing access to concessional finance from multilateral development banks. Between 2007 and 2018, Sri Lanka amassed US\$ 15.3 billion in expensive eurobonds and other high interest commercial debt.⁴⁰ By 2017, these made up 39 percent of Sri Lanka’s foreign debt. China accounted for about 10 percent and 60 percent of Chinese loans were at concessional rates (usually two percent, with seven-year grace periods).⁴¹ Sri Lanka’s debt crisis was not “made in China,” as two Sri Lankan economists explain, but concerned this borrowing in a high interest international capital market.⁴²

The new government had pledged to closely examine all controversial “white elephant” projects launched by the previous government as part of its ambitious regional development strategy. One of these was Hambantota, which was located in the home district of the previous president. Port investments have lengthy start-up periods, and Hambantota had an especially bumpy launch, just as the 2008 global financial crisis unfolded. As a McKinsey study noted in 2014, “The container-shipping industry has been highly unprofitable over the past five years.”⁴³

The new government first asked China Eximbank to “restructure the Hambantota port loan terms including lowering the interest rate, extending the grace period, and increasing the maturity period.”⁴⁴ While China Eximbank was considering this request, Sri Lanka’s balance of payments worsened. As Harvard Business School scholars Rithmire and Li described the case:

When it became apparent that Sri Lanka would face difficulty repaying international bond investors, Sri Lanka decided to raise much-needed US dollars by leasing out Hambantota Port, and PM Ranil Wickremesinghe directly appealed to Chinese President Xi to either refinance the loan or to take majority equity in the port... President Xi rejected the idea of refinancing, but committed to helping Sri Lanka find an investor.⁴⁵

A Sri Lankan newspaper reported that when Sri Lanka's prime minister asked the Chinese ambassador if China would arrange a debt-equity swap for the Hambantota Port, the ambassador replied that this was "not possible according to China's laws." Instead, "it should be done through discussions with investors on commercial terms."⁴⁶

There was no international tender for the port. Instead, the Chinese asked two port management companies with extensive experience in PPPs to prepare investment proposals. The Sri Lankans chose the proposal from China Merchants Port. The decision to privatize the Hambantota Port (valued at about US\$ 1.4 billion) established a new company, which sold 70 percent of its shares to China Merchants Port for US\$ 1.12 billion. With 30 percent of shares, the Sri Lanka Port Authority remains a co-owner of the port.

However, this was not a Chinese debt-equity swap, as it is often portrayed. As the IMF noted, the loans were "reclassified" from the Port Authority to the Treasury, and remain on the Sri Lankan government books (the Sri Lankan Treasury was also the recipient of the infusion of foreign exchange that paid for the investment, and is now responsible for repaying the loan). The Sri Lankan Treasury used the foreign exchange they received from the port to strengthen their foreign reserves and plug gaps in their budget deficit. Although the loan for Hambantota was not itself the cause of Sri Lanka's debt crisis, the project itself was clearly a risky investment for the Sri Lankan government, and for China Eximbank, which financed it.

4. CHINESE DEBT RESTRUCTURING IN AFRICA

As the examples above suggest, the most common form of Chinese debt relief involves restructuring: extending the grace period or the repayment period, and/or reducing interest rates.

4.1 THE HISTORY OF CHINESE DEBT RESTRUCTURING IN AFRICA, 1980-2000

The Chinese government made its first African loan to Guinea, in 1960. Through most of the next four decades, China funded projects across the continent, using a mix of grants and loans that were usually interest-free, with a five-year grace period, and payable over 15 years. Thus, until China Eximbank began providing credits in 1995, nearly all Chinese debt in Africa was from these loans. In the many loan agreements signed in the first decades of China's foreign aid program, one can frequently find this phrase, "if there is difficulty to repay when the loan is due, the repayment period can be extended after consultation between the two governments."⁴⁸

These discussions and extensions happened often in the ensuing decades, particularly as the continent descended into the debt and economic crisis in the "lost decades" of the 1980s and 1990s. The repayment period for the Tanzania-Zambia Railway loans, completed in 1976, was extended multiple times.⁴⁹ Between 1983 and 1990, China also agreed to lengthen the repayment period for loans in Burundi, Cameroon, Chad, Ghana, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Tanzania, Togo, and possibly others.⁵⁰

The People's Bank of China repeatedly requested that countries remit the payments due on their loans. However, as one West African government lamented in 1979, "due to the unavailability of foreign exchange we have not been able to meet their requests."⁵¹ A Chinese professor who advised the Ministry of Commerce told one of the authors: "These interest-free loans were rescheduled so many times, the countries couldn't even find the agreements anymore!"⁵² A Chinese official with access to unpublished information noted in 2000 that by the end of 1998, China had rescheduled 22 billion RMB (US\$ 2.65 billion) of these loans, some of them had been rescheduled up to ten times, and only 14 percent had ever been repaid.⁵³

In the 1990s, under structural adjustment programs managed by the World Bank and IMF, a number of African governments privatized their state-owned enterprises. A small number of these had been financed by Chinese loans; China negotiated debt-equity swaps for several Chinese-financed income generating projects, such as the Friendship textile factory and the Ubungo farm implements factory in Tanzania, and the Segou textile mill and Sukala sugar complex in Mali. The hope was that under Chinese management, the investments would become more productive. This hope was rarely realized, as Chinese managers came to see that the investment environment contained enormous challenges.⁵⁴

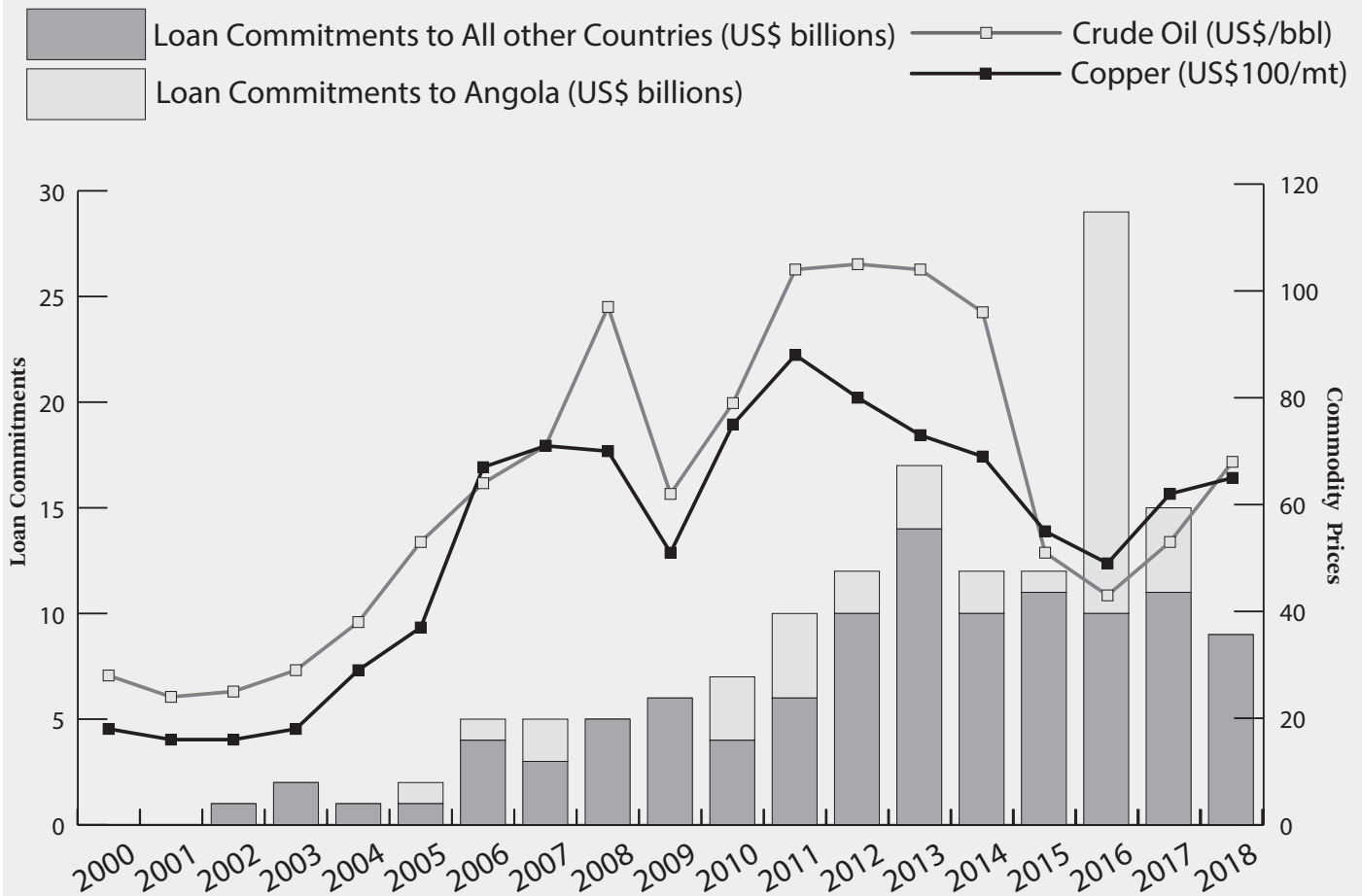
4.2 DEBT RESTRUCTURING 2000-2019

China Export Import Bank began providing loans to African governments in 1995. At first, the bank followed international practice by including clauses with large penalties, 20 percent to 50 percent interest, on loan arrears.⁵⁵ This clause disappeared in the next publication of regulations in 2000, and the modest level of arrears build-ups prior to rescheduling in Zimbabwe, the Seychelles, and other cases suggest that it was never applied. In 2000, China launched a debt cancellation program (discussed below). Rescheduling diminished, but then rose again after commodity prices began falling in 2014. As of this writing, before the impact of COVID-19, we have identified 10 African countries that have received debt rescheduling and one that has received refinancing, since 2000.

In the period from 2000 to 2012, rescheduling generally involved the same relatively small debts that were characteristic of the early years of Chinese lending, averaging US\$ 52 million per case (Table 1). We identified 9 cases of restructuring totaling US\$ 415 million in 5 countries in this period. However, after the commodity price collapse of 2015, countries' requests for restructuring have accelerated, and those that have been concluded involve far larger sums, averaging US\$ 1 billion per case. We have tracked the formal rescheduling of US\$ 7.1 billion in six countries between 2015-2019 (Table 2).⁵⁶ Angola also refinanced around US\$ 7.5 billion, as discussed below. This reflects the unfortunate confluence of two trend lines: the rapid acceleration of Chinese lending (Figure 1) during a sunnier period of the African continent's economy, and global commodity prices, which began dropping as the grace period on many Chinese loans was ending.

Restructuring cases show a wide range of treatments (Box 1). The actual number of loans rescheduled, and the value of loan restructuring, is likely to be greater than this, given the lack of publicity of such negotiations and their political sensitivity. We expect formal requests for

Figure 1: Chinese Loan Commitments to Africa and Commodity Prices



Source: SAIS-CARI and World Bank.

Box 1: Debt Restructuring cases show a wide range of treatments

Treatment	Reprofiling of debt service payments within original maturity	Short Maturity Extensions (e.g. 3-7 years)	Longer Maturity Extensions (e.g. 10-20 years)	Maturity Extension and Interest Rate Reduction	Specific Details Unknown
Cases	Mozambique (2017) Cameroon (2019)	Cameroon (2002) Zimbabwe (2007, 2010, 2012) Niger (2018)	Ethiopia (2018)	Zimbabwe (2003, 2004) Seychelles (2011) ROC (2019) Djibouti (negotiations ongoing)	Benin (2004) Sudan (2012) Chad (2017) ROC (2018)

Source: SAIS-CARI Data

Table 1: China-Africa Loans, Debt Restructuring 2000-2014

Country	Year	Amount (US\$ millions)	Loan Type/ Related Projects	Treatment
Cameroon	2002	5	MOFCOM ZIL/ Unknown	Maturity extension of 5 years
Zimbabwe	2003	42	Eximbank PEBC for ZiscoSteel Blast Furnace Number 4	Maturity extensions of 3 years; interest rate reduced from 7% to 4%
	2007	55		
	2010	55		
Benin	2004	17	Eximbank CL for textile mill	Unknown
Zimbabwe	2004	18	2 Eximbank CLs for SinoZimbabwe Cement Plant	Maturity extensions of 7 and 5 years respectively, and interest rate reductions from 4% and 3% to 2%
Seychelles	2011	24	3 Eximbank loans for 2 housing projects	Maturity extensions for all 3 loans of 16, 16, and 10 years respectively, and interest rate reductions for 2 of 3 loans from 4% to 2%
Zimbabwe	2012	200*	Eximbank EBC for agricultural machinery	Maturity extension of 3 years
Sudan	2012	Unknown	Unknown/Unknown	Reported 5-year delay to loan repayment

Source: SAIS-CARI Data

CL = concessional loan, PEBC = preferential export buyer's credit, SC = suppliers' credit, CommL = commercial loan.

*Amounts marked are taken from SAIS-CARI loan commitment data and do not necessarily represent the outstanding restructured debt.

rescheduling to increase substantially due to the impact of COVID-19 and the announcement, on April 15, 2020, that China and other G-20 countries had agreed to a moratorium on principal and interest payments for official credits.⁵⁷

4.3 RESTRUCTURING: CASE STUDIES

In this section we examine some of the cases post-2000 where restructuring has happened in more detail. This allows us to unpack some of our findings and provides depth to the simple listing of examples. For example, the first case explains why Zimbabwe has the most cases of debt restructuring with China, while the Angola case provides what we believe is the first analysis of refinancing by a Chinese bank.

CASE 1 – ZIMBABWE: MULTIPLE RESTRUCTURINGS 2003-2010

China Eximbank's first commercial buyer's credit in Africa was issued in Zimbabwe: US\$ 35 million in 1997 to finance refurbishment of the No. 4 blast furnace for the state-owned Zimbabwe Iron and Steel Company, ZISCO.⁵⁸ By 2003, Zimbabwe's economic crisis had deepened, and ZISCO's debt had

grown to US\$ 42 million. China Eximbank turned to Sinosure, which had insured the loan. Sinosure, “paid US\$ 3.9 million which was overdue.”⁵⁹ China Eximbank lengthened the repayment period, and reduced the interest rate, but by 2007, ZISCO owed China Eximbank US\$ 55 million and Zimbabwe was in a spiral of hyperinflation. In 2008, Sinosure reported that nearly six percent of its claims that year were for Zimbabwe.⁶⁰ The Chinese bank extended the maturity again, providing a new three-year grace period. In 2010, ZISCO was still unable to come up with funds and the bank agreed to reschedule the loan yet again, allowing repayment to begin in 2013. ZISCO never paid this debt. In 2016, Sinosure apparently refused to provide a new guarantee for a concessional loan for the Hwange Thermal Power Plan until Zimbabwe paid US\$ 7.5 million outstanding from earlier loans that Sinosure had covered for China Eximbank.⁶¹ And in 2018, an official report from the government of Zimbabwe stated that ZISCO still owed Sinosure nearly US\$ 48 million.⁶²

Table 2: China-Africa Loans, Debt Restructuring 2015-2019

Country	Year	Amount (US\$ millions)	Loan Type/ Related Projects	Treatment
Angola (Refinancing)	2016	7,500*	4 CDB CommLs for Sonangol Oil Projects	Refinancing with CDB line of credit with a 12-year maturity
Chad	2017	447*	2 Eximbank CLs for the Baoare Cement Plant and Telecom Network, and one Eximbank CommL for the N'Djamena Refinery	Maturity extensions of unknown length
Mozambique	2017	2,020	Unknown	Reprofiling of payments within original maturities
Niger	2018	161	CNPC SC for SORAZ Refinery	Maturity extension of 4 years
Ethiopia	2018	2,490*	Eximbank CommL for Addis-Djibouti Railway	Maturity extension of 20 years
ROC	2018	116	CMEC SC for Imboulou Hydropower Project	Arrears rescheduled, details unknown
ROC	2019	1,612	8 Eximbank loans for 8 infrastructure projects, including National Route 1	Maturity extension of 15 years for all 8 loans, interest rates reduced to 1.5% for 7 of 8 loans and 2% for 1 loan
Cameroon	2019	253	Unknown	Reprofiling of payments within original maturities
Djibouti (not finalized**)	TBD	460*	Eximbank CommL for Addis-Djibouti Railway	Maturity extension of 10 years, interest rate reduction from LIBOR + 300 bps to LIBOR + 210 bps (proposed)

Source: SAIS-CARI Data

CL = concessional loan, PEBC = preferential expoert buyer's credit, SC = suppliers' credit, CommL = commercial loan.

*Amounts marked are taken from SAIS-CARI loan commitment data and do not necessarily represent the outstanding restructured debt.

**Pending legal and administrative confirmation.

Yet, there is also a contrasting case in Zimbabwe. In 1997, Zimbabwe's state-owned Industrial Development Corporation also borrowed from China Eximbank: a US\$ 12.1 million concessional loan at a fixed rate of four percent for its 35 percent share of the SinoZimbabwe Cement Plant, a joint venture with China Building Material Industrial Corporation for Foreign Economic and Technical Cooperation. A second loan, a US\$ 5.8 million preferential buyer's credit at three percent, followed in 2000. Cement exports were supposed to earn foreign exchange to repay the loans, but the company had difficulty getting approval from Zimbabwe's central bank to do this given Zimbabwe's prolonged balance of payments crisis, and the loans went into default.

After some negotiation, in 2004 China Eximbank extended the grace period and lowered both interest rates to two percent.⁶³ At the same time, Zimbabwe's Central Bank agreed to allow the plant to export some of its product to neighboring countries and retain the foreign exchange for debt service. With this breathing space, the cement joint venture appears to have been able to produce and export enough cement to service its loans. It went on to become a relative success story.⁶⁴

Zimbabwe is unusual compared with the other cases that follow. Because of its high level of arrears in its Paris Club and multilateral loans, Zimbabwe has not been eligible for most kinds of IMF lending.⁶⁵ However, it appears that each time Zimbabwe went into default on its government loans, China Eximbank would halt disbursements on projects that were in the implementation phase. To secure new loans, China Eximbank required Zimbabwe to make arrangements to pay or reschedule its arrears, something we saw reflected in the Indonesia case, as well. For example, in 2005, the two governments, "signed a framework agreement according to which 25 percent of foreign exchange revenue from Zimbabwe's exports to China would be used to service Chinese loans," which allowed new financing to take place.⁶⁶

CASE 2 – CNPC IN NIGER, 2011-2018

In 2008, China National Petroleum Company (CNPC) established a joint venture with Niger to build and operate an oil refinery, Société de Raffinage de Zinder (SORAZ), which would process oil from CNPC's Agadem block in Niger. To finance SORAZ, CNPC borrowed US\$ 880 million from China Eximbank, a commercial loan at 6-month LIBOR plus 350 bp (3.5 percent) reportedly with a maturity of 11 years. The government of Niger provided a public guarantee for its 40 percent share of the SORAZ loan.

In November 2011, the Nigerien government commissioned the first of several audits of the upstream and downstream costs of the project. These audits, according to the IMF, revealed "inflated and undocumented costs" in the case of the oil fields, and "reasonable costs but significant space to improve efficiency" for the SORAZ refinery. Furthermore, the Nigerien authorities kept the price of gasoline in Niger artificially low, which hurt the refinery's bottom line. An IMF report concluded that the "audit findings have been critical to give leverage to the Nigerien authorities in the negotiations for the refinancing of the US\$ 880 million SORAZ loan, an essential step to ensuring the viability of the refinery."⁶⁷

Accordingly, in 2012, Reuters reported that the Nigerien authorities had announced that China Eximbank had agreed to refinance the SORAZ project with a preferential loan with a fixed two percent interest rate.⁶⁸ Yet, despite this announcement and the leverage provided by the audit report, the refinancing plan still had to be approved in Beijing, where CNPC would need to get the approval of China Eximbank.⁶⁹ This did not happen. In February 2017, an IMF report noted that “negotiations [for the refinancing] have stalled over the last two years” but that SORAZ now appeared able to service the debt “normally”.⁷⁰ Yet of the US\$ 352 million share guaranteed by the Nigerien government, US\$ 161 million was still included in the debt stock as of 2018, one year before the loan was due to reach maturity. That year, the loan was rescheduled with the maturity extended from 2019 to 2023.⁷¹

CASE 3 – CHAD’S RESTRUCTURING 2016-2017

Between 2000 and 2017, Chad borrowed US\$ 577 million from Chinese lenders for four projects: Baoaré Cement Factory (US\$ 92 million, in 2007), a telecoms network across 27 towns (US\$ 25 million, in 2007), a loan to finance Chad’s shares in the N’Djamena Oil Refinery joint venture (US\$ 330 million, in 2011), and an electrical transmission line between the refinery’s power plant and the capital (US\$ 130 million, in 2012). Loans borrowed directly by the two state-owned enterprises (cement factory and the oil refinery) were guaranteed by the government.⁷²

Chad’s largest Chinese loan was for its 40 percent share of the refinery. In what appears to have been a slightly different arrangement than in Niger, the refinery borrowed from China Eximbank in 2011, both CNPC and Chad used their shares as collateral. CNPC guaranteed 60 percent of the loan and Chad provided a sovereign guarantee for the rest. This was China Eximbank’s first preferential export buyer’s credit for an overseas joint venture. It had a five-year grace period and 15-year maturity.⁷³ Because of the collateral and guarantee, the project did not need Sinosure export credit insurance. The refinery would have been due to begin repaying this around 2016. However, the collapse of oil in 2014-2015 led to a deep recession and associated debt crisis. As an IMF member, Chad first approached the IMF for help.

In 2017, Chad entered into an assistance program with the IMF. The IMF noted that Chad was taking measures to restructure debt with its major creditors to ensure debt sustainability during the IMF program period, and had already reached an agreement with China.⁷⁴ Chad had “rescheduled arrears (accrued in 2016) and upcoming maturities with China” for three loans.⁷⁵ It appears that China Eximbank did not require the arrears to be repaid before rescheduling the upcoming maturities, most likely for the cement factory, the telecoms project, and the refinery. As in Niger, Chad simply received a lengthening of repayment periods for loans that had come under difficulty.

CASE 4 – ANGOLA, 2015-2016

Angola is China’s largest borrower in Africa, with over \$US 40 billion in loans committed by a wide variety of Chinese lenders to the Angolan government and its state-owned oil company, Sonangol

since 2000. Although not all of these commitments are secured by income from Angola's oil exports, an important share has been. All oil-secured lines of credit have offshore escrow accounts, generally with the lending bank, in which the Chinese buyer of the oil deposits a percentage of the total payment that is anticipated to cover the annual level of payment on a particular line of credit.

Between 2010 and 2014, Angola signed US\$ 11.2 billion of loan commitments with Chinese lenders, US\$ 10 billion of which was signed at commercial rates with China Development Bank (CDB) and Industrial and Commercial Bank of China by Angola's state-owned oil company, Sonangol, for oil projects. Between 2014 and 2016 oil prices fell from US\$ 100/bbl to US\$ 44/bbl, putting pressure on Angola and Sonangol's finances. In 2015, on a visit to Beijing the Angolan President, Jose Eduardo Dos Santos, requested loan restructuring.⁷⁶ However, Angola's finance minister later denied that the President had made such a request.⁷⁷ In January 2019, a CARI team visited Angola and the Angolan Ministry of Finance and Chinese officials with whom our team spoke were all consistent in denying that Angola had refinanced or restructured its bilateral sovereign government debt with Chinese banks. The escrow accounts Angola had established to provide collateral for the oil-secured lending were said to contain enough revenue to cover the annual debt repayment obligations.

However, this may not have been the case for loans borrowed directly by Sonangol. In December 2015, Angola opened a US\$ 15 billion line of credit with a 12-year maturity with the CDB. According to an Angolan bond prospectus from 2019, the facility was for "multiple purposes including financing approved projects in Angola, prepaying certain facilities between Sonangol and CDB and financing certain of Sonangol's strategic projects... In 2016, disbursements amounting to US\$ 10 billion from China Development Bank were contributed as capital by the Government to Sonangol."⁷⁸ The IMF reported that after recapitalization, Sonangol "significantly reduced its external debt, which is projected to decline to about US\$ 5 billion at end-2018, from US\$ 12.9 billion at end-2015."⁷⁹ Considering that Sonangol had borrowed around US\$ 7.5 billion from CDB by 2015, much of the US\$ 7.9 billion reduction in Sonangol's external debt would have been due to "prepaying certain facilities between Sonangol and CDB," as the bond prospectus noted.⁸⁰

Essentially, CDB refinanced the original loans to Sonangol, restructuring the Angolan state's debt profile to more favorable terms. Now, instead of having a state-owned oil company struggling to pay back loans that were coming due to the CDB, Angola had a relatively debt-free state-owned enterprise at the cost of a US\$ 10 billion increase in its external public debt to CDB with a maturity of 12 years. We expect that this was done by Angola's new leadership and under IMF advice, as Sonangol's finances over the years had become deeply entangled with those of Angola's central government. So far, Angola appears to be unique in the Africa context. It is the only case of refinancing that we have seen. This refinancing was extended by China Development Bank, not China Eximbank. And none of the Chinese commercial loans we have tracked to Sonangol were extended by China Eximbank, which lent only to the sovereign state.

CASE 5 – REPUBLIC OF CONGO (ROC) GROUP OF PROJECTS, 2017-2019

Since 2000, the Republic of Congo, Brazzaville (ROC) has signed over US\$ 5 billion worth of loans with Chinese financiers. Between 2006 and 2009, the ROC borrowed around US\$ 1.7 billion for infrastructure projects such as the construction of Oyo General Hospital and the first phase of National Route 1, a four-lane highway that would eventually extend for 535 km. After 2010, with oil prices reaching highs of US\$ 100/bbl, the ROC “ramped up spending on public infrastructure and consumption.”⁸¹ Between 2012 and 2014, the ROC signed another US\$ 2.7 billion worth of loan agreements with China, almost half of which financed the construction of the second phase of National Route 1, completed in 2016.⁸² In the same period, in much the same pattern we saw in Chad, the Republic of Congo borrowed over US\$ 1.5 billion from global commodities trading houses such as Trafigura and Glencore, secured against future oil production.⁸³

When oil prices halved in 2015, the Congolese economy crashed. By 2017, the ROC debt-to-GDP ratio had ballooned to almost 120 percent of GDP (the IMF reported that China accounted for a quarter of the debt stock).⁸⁴ The ROC approached the IMF for assistance. According to the IMF’s debt sustainability analysis, the ROC’s debt to China needed to be restructured before they could receive IMF support. Two days after the IMF’s October 2017 mission to Brazzaville, Finance Minister Calixte Nganongo told reporters that, “with its financial and legal advisers, Congo Republic is going to begin discussions with its primary lenders with the objective of streamlining or refinancing its debt.”⁸⁵

The ROC took its first step by negotiating with China Machinery Engineering Corporation (CMEC), a Chinese contractor that had been active in lending supplier’s credits for infrastructure projects such as the 120mw Imboulou hydropower station. In February 2018, the ROC succeeded in negotiating a rescheduling with CMEC, reducing its arrears by US\$ 115.8 million.⁸⁶ However, the vast majority of the ROC’s Chinese debt was to China Eximbank. In July 2018, Prime Minister Clément Mouamba flew to China as part of restructuring negotiations. Nine months later, in April 2019, the ROC and China Eximbank signed a restructuring agreement which was ratified by ROC’s parliament in May.⁸⁷ The agreement satisfied the IMF, which approved a bailout of close to US\$ 500 million in July 2019.⁸⁸

The ROC’s ministry of finance released the details: eight separate debts were restructured, amounting to about US\$ 1.6 billion of the ROC’s debt stock to China.⁸⁹ The restructuring extended the maturity of each of the loans by 15 years, but included a stipulation that one third of the debt stock be repaid over the next three years, which the IMF noted reduced debt service during their three-year program period by US\$ 370 million.⁹⁰ China Eximbank also reduced the interest rates: seven of the loans were reduced to 1.5 percent and another to 2 percent.

The ROC also decided to concession the China-financed National Route 1 in a toll-operate-transfer (TOT) privatization. The concession was won by a Chinese-French-ROC consortium, which, as of March 2019, operates the highway with a 30-year franchise. The Chinese company, CSCEC, who happened to be the builder for the road, reached out to the ROC for this deal because the road had

been left unmaintained since its construction finished in 2016, according to Li Jiqin, Chairman of CSCEC International.⁹¹ In the new arrangement, CSCEC will maintain the road while the French company, EGIS, will manage toll collection. ROC will receive an unknown amount of concession fee plus 15 percent shares in the joint venture that operate the road. Their investment of an upfront sum for this PPP helped with ROC's balance of payments crisis. The ROC also tried to convince the CSCEC to invest in a similar TOT privatization of National Route 2, but the company declined as it believed the deal wouldn't generate enough profit.⁹²

CASE 6 – ETHIOPIA AND DJIBOUTI: THE ADDIS-DJIBOUTI RAILWAY

In 2013, Ethiopia and Djibouti agreed to construct a modern electrified railway that would connect the capital of land-locked Ethiopia to the sea. The US\$ 4.2 billion project was financed by China Eximbank, with Ethiopia borrowing US\$ 2.49 billion and Djibouti US\$ 492 million, both at 6m LIBOR + 300 bp. The two loans covered 70 percent of the cost of the Ethiopia section and 85 percent of the Djibouti section, respectively.⁹³ Both loans had a six-year grace period, with a ten-year repayment period due to begin in 2019 for Ethiopia and 2020 for Djibouti. Delays in getting the railway up and running efficiently led to lower revenues, and shortfalls in both governments' ability to service these commercial loans.⁹⁴

During the September 2018 FOCAC meetings in Beijing, the new Ethiopian prime minister met with Chinese officials to discuss rescheduling the loan. Reportedly, the Ethiopians prepared a very professional and convincing analysis of the reasons why the project had not performed as expected. China Eximbank agreed to extend the repayment period of the railway loan (and possibly others, not specified) from 10 to 30 years, substantially reducing the annual payment burden.⁹⁵ Wang Wen, an economist for Sinosure, claimed that his company had lost close to US\$ 1 billion in the Ethiopia railway restructuring.⁹⁶ Under generous assumptions, changes in the railway loan alone would have created a loss of only US\$ 230 million, so it is possible that other significant loans were also restructured.⁹⁷

In 2019, Ethiopia announced a program to begin partial privatization of many of the country's state-owned companies, including some that had been funded by Chinese lenders: railways, sugar complexes, and telecoms. National Bank of Ethiopia Governor, Yinager Dessie, told a Bloomberg reporter that Ethiopian Telecoms was also discussing rescheduling payments on loans from Chinese companies in order to recapitalize the company.⁹⁸

In 2019, according to the IMF, Djibouti negotiated an agreement to extend the grace period for its share of the railway a further five years, and to extend the loan's maturity by 10 years, while reducing the interest rate to 6m LIBOR + 210 bp.⁹⁹ Arrears that had already accumulated would be folded into the principal. However, as of this writing, this agreement has not yet been finalized and implemented. Djibouti has also indicated interest in privatization of the railway. Reportedly, the Chinese companies that built the railway and have a contract to operate it are interested.¹⁰⁰

CASE 7 – CAMEROON

Between 2000 and 2018, Cameroon signed US\$ 5.6 billion of loan commitments with Chinese financiers for infrastructure projects, financing water supply, roads, hydropower, and telecoms. After the economy contracted 12 percent in 2015 due to a twin shock of the oil price crash and terrorist threats, Cameroon's debt-service to revenue ratio grew. In addition, Cameroon has had difficulty fulfilling pre-disbursement conditions for some of the projects, which has slowed disbursement of loans from Eximbank to implementing firms and caused construction delays.¹⁰¹

In September 2018, Cameroonian media reported that President Biya had requested debt restructuring from China on the sidelines of FOCAC in Beijing.¹⁰² In January 2019, Cameroon stopped servicing debt due to China Eximbank, and planned to include these arrears in restructuring negotiations. Eximbank halted loan disbursements to the Chinese contractors.¹⁰³ In early April, a delegation from Eximbank visited Cameroon to discuss restructuring. The two sides reached an agreement in principle: Cameroon would make the debt service payments it had withheld to that point, and Eximbank would grant a reprofiling and resume disbursements.¹⁰⁴ By July 2019, the agreement was finalized. Cameroon would only pay one third of the debt service payments due over the next three years, with the remaining two thirds (approximately US\$ 250 million) “reprofiled to be paid in the following years within the remaining maturity period.”¹⁰⁵

CASE 8 – MOZAMBIQUE

Between 2000 and 2018, Mozambique signed over US\$ 2.3 billion in Chinese loans. More than half of this was signed between 2012 and 2014. Notable loans (all from Eximbank) include US\$ 686 million for the Maputo-Catembe Bridge (2012), US\$ 300 million for the Maputo Ring Road (2012), US\$ 416 million for the Beira-Machipanda road (2013 and 2014), and another US\$ 120 million for the Beira Fishing Port (2014).

As of 2017, the Mozambican state was in default on its external public debt. The IMF reported that arrears had accumulated on both private and bilateral debt.¹⁰⁶ According to the same IMF report, in 2017 “an agreement was reached with China and India on the rescheduling of debt service payments on several bilateral loans.”¹⁰⁷ According to comments from Mozambique's deputy director of economy and finance, “China has extended the grace period granted to Mozambique for the payment of a debt in the amount of US\$ 2.02 billion,” but that “the original amortization period of the capital was maintained.”¹⁰⁸ We don't know which debts were restructured, but Bloomberg reported that US\$ 2.02 billion was the entirety of Mozambique's outstanding debt to China in 2018.¹⁰⁹

4.4 HOW ARE THE DEBTS RESTRUCTURED

During the debt crisis of the late 20th century, we saw that many sovereign borrowers simply did not service the interest-free loans lent by the Chinese government. Because the interest-free loan program was diplomatic in nature, a core part of China's foreign aid, pressing hard for loan

repayment was simply not done. As of 2019, with a much wider variety of loans in play—many commercial—rescheduling is no longer so easy, although it is happening. Beijing’s main tool to press for payments when a country goes into arrears is to suspend disbursements on projects currently being implemented (which slows their completion but also hurts Chinese contractors), and to withhold approval of new loans. Zimbabwe’s case shows that Sinosure also acts as a break, refusing to guarantee new loans until some portion of arrears have been paid on previous loans.

As with the debt cancellations discussed below, it is important to note that so far, restructuring generally happens loan-by-loan, not on the basis of the entire portfolio. At this point in our research, Mozambique appears to be the only exception to this principle.¹¹⁰ Most of the restructuring cases we have identified have happened in countries facing an acute balance of payments crisis. However, modest restructuring can happen (lengthening of the loan maturity) in a relatively healthy economy, if projects are not making the cash flows needed to service the loans that financed them.

This second situation becomes clearer when we consider the Niger Soraz refinery restructuring case. Here, although the repayment period was lengthened, China Eximbank did not change the interest rate or refinance the loan, precisely because the project was making money and Niger’s economy was doing relatively well. The bank believed the borrower was able to service the debt or would be able to on a lengthened time frame. Similarly, the Addis-Djibouti railway restructuring happened while Ethiopia’s economy was growing at eight percent, and Djibouti’s restructuring was negotiated while its economy was growing at about 7.5 percent. Although both countries had severe balance of payments issues, these were not linked to a general economic crisis. The entire portfolio was not restructured, just the “problem projects,” which required a much longer repayment period.

In some, but not all, of the cases, restructuring happened after the country had approached the IMF for assistance. If a country is in arrears to a bilateral creditor and its debts are unsustainable according to the IMF’s Debt Sustainability Analysis, the IMF requires the country to negotiate restructuring.¹¹¹ The ROC is a good example of this. Leveraging the IMF’s demands may help countries negotiating with lenders in Beijing, but it isn’t a necessary precondition.

The cases also show that it is important to disaggregate “China” into the various lenders, as they do not operate in unison. In Africa, China Eximbank is the lender in most of the restructuring cases of we found. In some countries (ROC, Niger, Ethiopia), borrowers have also negotiated separately with Chinese companies that supplied commercial credit. China Eximbank follows the pattern established by China’s earlier government loan program: the first step is usually to lengthen the repayment period. In a small number of cases, the Chinese bank also cut the interest rate. The contrast between the terms agreed upon for Djibouti’s railway loan restructuring and those for Ethiopia’s also shows that there is no “one size fits all” restructuring formula.

China Development Bank’s US\$ 15 billion loan to Angola, disbursed in 2016, was the only case we saw of refinancing. Although Niger requested refinancing, it did not happen. While China

Eximbank can lower interest rates or extend payment periods on an existing loan, refinancing would involve providing a new loan. Since China Eximbank is an export credit agency, and usually disburses directly to exporting companies (including those exporting construction services), it is possible that they do not actually have loan instruments that would allow them to provide new loans for projects that no longer involve an export contract.¹¹²

While the evidence is thin, it also appears to us that loans that are *not* secured by a commodity export and escrow account tend to be the ones getting restructured. This is because the commodity-secured loans become, in effect, more senior than other debts. Angola, where the central government has apparently been making regular payments on its oil-secured Chinese loans, provides some evidence to support this. A Chinese source with experience in ROC commented to us that he did not think the eight loans that were restructured were oil-secured, although we do not have concrete evidence of this.

When countries initiate debt restructuring negotiations with non-Chinese private creditors, such as bondholders and commodity traders, alongside China Eximbank, agreements seem to be reached more quickly with China than with the private creditors, suggesting that Chinese debt is not necessarily senior to private debt.¹¹³ Mozambique announced debt restructuring efforts in October 2016 when its public debt reached 128.3 percent of GDP.¹¹⁴ Mozambique reached a restructuring agreement with China in 2017, while they only reached an agreement, in principle, with eurobond holders in 2018.¹¹⁵ In the ROC case, debt restructuring negotiations with the Chinese Eximbank initiated in 2018 were concluded in April 2019. Negotiations with commodity trading houses, including Glencore that had lent to the ROC, were initiated in the same year and were only concluded in April 2020.¹¹⁶

When debt distress strikes, we do not see Chinese banks attempting “asset seizure,” and so far, no cases in Africa of international arbitration or involvement of courts, either. Instead, Chinese officials are trying to develop tailor-made solutions to address debt (and development) sustainability, case by case. For example, although most restructuring simply lengthened repayment periods, in at least one case, the ROC, the borrower turned one major infrastructure project, National Highway No. 1, into a public-private toll road partnership. The partnership brought in a Sino-French consortium, on a commercial basis, to inject new equity into the project and ensure the road would be maintained for a period of at least 30 years.

Along with other foreign investors, Chinese companies have started to invest in PPPs in Africa, although the numbers are still quite limited. As in the ROC and Sri Lanka, in some cases, the projects where Chinese companies are now investing were financed by Chinese banks. By bringing infusions of foreign exchange to pay for shares in these projects, Chinese companies are helping countries ameliorate urgent balance of payments crises. This reflects the kind of advice that Washington institutions have long been promoting to Africa through the so-called “Washington Consensus”: privatize loss-making state-owned enterprises. We see Ethiopia and Djibouti also expressing interest in the PPP approach with or without Chinese firms. We are likely to see more privatization in the future. Rather than seeing this as proof that Chinese banks were conspiring in

a complicated “loan-to-own” plan to seize assets, we should see this as another example of Chinese practice converging with global lending norms.

5. CHINESE DEBT CANCELLATIONS

As the impact of the COVID-19 pandemic unfolded across Africa, calls for debt cancellation increased sharply. Yet historically, aside from the Iraq and Cuba examples, China’s experience with debt cancellation is quite limited, as we explain here.

5.1 INTEREST-FREE LOAN DEBT CANCELLATIONS

China’s first debt cancellation pledge in 2000 dealt only with Africa. Specifically, Beijing pledged to write-off all of the backlog of interest-free African loans that had gone into default or been restructured over the previous three decades. Subsequent pledges sometimes focused on Africa, and sometimes on low-income countries in general, depending on the forum where the pledge was being made (Box 2). After 2000, China’s debt cancellation pledges generally promised to cancel only the overdue part of governmental interest-free loans that were maturing in a particular year, but not any future outstanding payments (although the English language translation is sometimes unclear, as Box 2 illustrates).¹¹⁷

Interest-free loans (IFL), unlike concessional and commercial loans from Chinese banks, are administered by the Ministry of Commerce (who also administers China’s grants). First provided by China to North Korea in the 1950s and to African countries in the 1960s, interest-free loans are “mainly used to help recipient countries construct public facilities and launch projects to improve people’s livelihood.”¹¹⁸ They are included in their entirety in China’s annual budget, just like grants, which makes them less complicated to write off as no new budgetary resources need to be allocated. This is unlike loans from China’s policy banks where funds for new loans depend in part on repayments of old loans. Debt cancellation therefore quickly affects a bank’s bottom line.

Our data shows that IFLs to Africa average US\$ 10 million per loan.¹¹⁹ Interest-free loans make up a small fraction (probably under 5 percent) of China’s overall lending to Africa from 2000 to 2018. In the early 2000s, IFLs made up a significant percentage of Chinese loans. However, as other sources of financing from China started to increase, in particular, China Eximbank loans, IFLs became a smaller and smaller proportion of China’s total lending to Africa.

Although nearly all of the loan cancellations under China’s pledges have been foreign aid interest-free loans, a China Eximbank official confirmed to one of the authors that “one or two” low-interest concessional loans in default in Africa had been written off after 2000. At least one other concessional loan, made to Afghanistan, was turned into a grant.¹²⁰ These loans had been made in the mid-1990s, very early in China Eximbank’s experience in Africa. “But if they don’t pay us, we still have to pay our bondholders!” the official added.¹²¹ At the end of 2018, China itself owed US\$ 1.96 trillion in foreign debt.¹²² From all indications, Beijing is not yet considering cancellation of any loans other than the traditional, interest-free foreign aid loans.

Box 2: All Chinese Official Pledges for Debt Cancellation

Date of Pledge	Occasion	Pledge (Official Language)
October 12, 2000*	FOCAC First Ministerial Conference Beijing, China	1. “reduce or cancel debt amounting to 10 billion RMB yuan [US\$ 1.2 billion] owed by the heavily indebted poor countries and least developed countries in Africa in the coming two years...through bilateral channels”
September 14, 2005	High-Level Meeting on Financing for Development at the UN Summit New York, United States	2. “working through bilateral channels, write off or forgive in other ways, within the next two years, all the overdue parts as of the end of 2004 of the interest-free and low-interest governmental loans owed by HIPCs having diplomatic relations with China.”
November 4, 2006	Beijing Summit of the FOCAC Beijing, China	3. “cancel debt in the form of all the interest-free government loans that matured at the end of 2005 owed by the heavily indebted poor countries and the least developed countries in Africa”
September 25, 2008	UN High-Level Meeting on the MDGs New York, United States	4. “cancel the outstanding interest-free loans extended to least developed countries that mature before the end of 2008.”
November 8, 2009	FOCAC Fourth Ministerial Conference Sharm El Sheikh, Egypt	5. “For the heavily indebted poor countries and least developed countries in Africa having diplomatic relations with China, we will cancel their debts associated with interest-free government loans due to mature by the end of 2009.”
September 22, 2010	UN High-Level Meeting on the MDGs New York, United States	6. “least developed countries (LDCs)...We will cancel their debts associated with the outstanding governmental interest-free loans that mature in 2010.”
September 26, 2015	UN Sustainable Development Summit New York, United States	7. “write off the debt on outstanding intergovernmental interest-free loans due by the end of 2015 owed by designated least-developed countries, landlocked developing countries, and small island developing countries.”
December 4, 2015	Johannesburg Summit of the FOCAC Johannesburg, South Africa	8. “cancel outstanding debts in the form of bilateral governmental zero-interest loans borrowed by the relevant least developed African countries that mature at the end of 2015.”
September 3, 2018	Beijing Summit of the FOCAC Beijing, China	9. “for those of Africa’s least developed countries, heavily indebted and poor countries, landlocked developing countries and small island developing countries that have diplomatic relations with China, the debt they have incurred in the form of interest-free Chinese government loans due to mature by the end of 2018 will be exempted.”

*For 2000, the RMB amount is converted into US\$ at a rate of 1 RMB = US\$ 0.12081

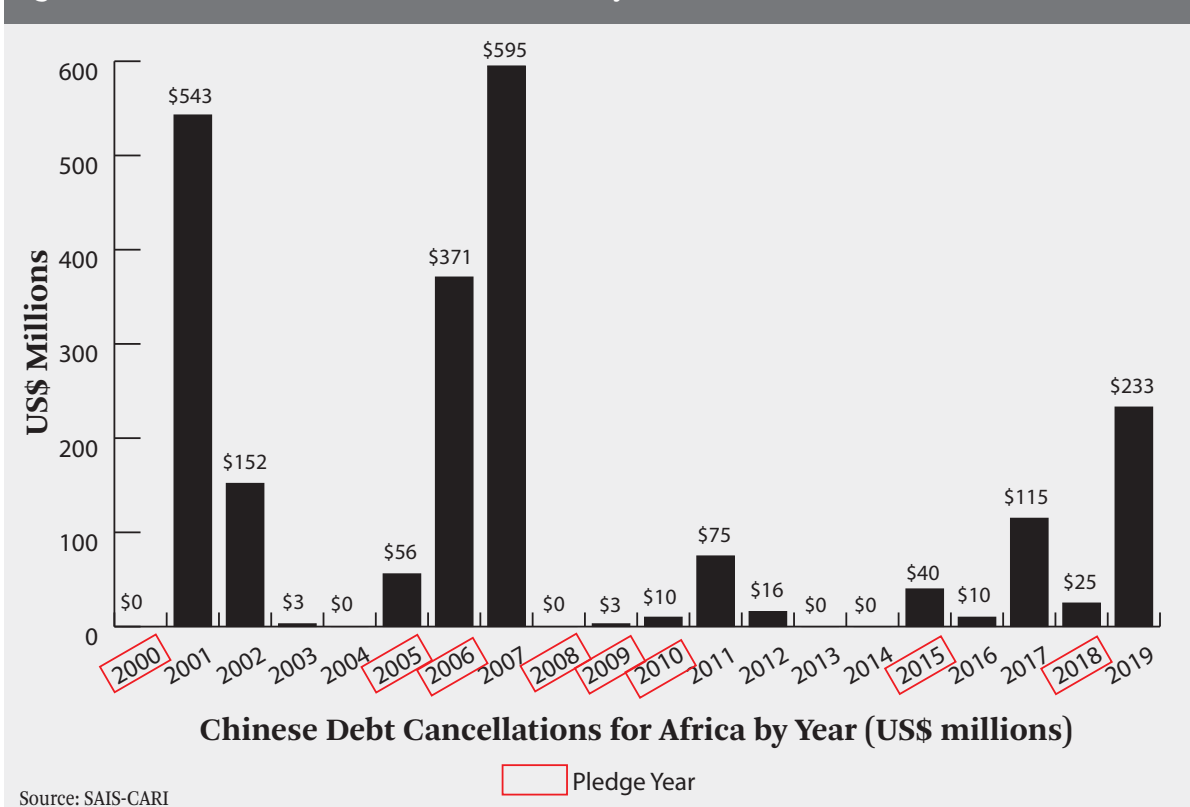
Sources: Compiled by authors from *Xinhua*, *Chinese Daily*, and Chinese Foreign Ministry website.

5.2 HOW MUCH DEBT HAS CHINA CANCELLED IN AFRICA?

As seen in Box 2, since 2000 China has made nine pledges to cancel debts for its borrowers but has provided a value for its pledge only once. Unlike the Paris Club, China does not regularly publish its debt cancellation statistics, and there is no official breakdown of the numbers by year or country. A widely circulated myth is that China had cancelled US\$ 10 billion in African debt by 2005.¹²³ This is not the case. According to China's 2011 and 2014 Foreign Aid White Papers, China cancelled a total of 20.38 billion RMB (US\$ 3 billion) for Africa from 2000 to 2012 (with a worldwide total of 27 billion RMB, i.e. US\$ 3.99 billion).¹²⁴ There are no official figures for total debt cancellation after that date.

SAIS-CARI data on loan cancellations only captures about 60 percent of the total reported in Chinese official figures for 2000 to 2012 (US\$ 2.2 billion). Adding up China's official figure of US\$ 3 billion with our estimate of US\$ 422 million cancelled between 2013 and 2019, we estimate China has cancelled at least US\$ 3.4 billion of debt in Africa. Our data includes 94 cases of debt cancellation in Africa (each case can represent multiple loans).¹²⁵

Figure 2: Chinese Debt Cancellations for Africa by Year



Two thirds of the debt cancellation cases were from 2000 to 2007, with distinct peaks in 2001 and 2007 (Figure 2). These peaks follow the only two pledges that included a time frame for cancellations. Among the nine pledges China made to cancel debts, only the first two designated a time frame (i.e. to cancel 10 billion RMB by 2002 and to cancel an unknown amount by 2007). The

debts cancelled in these years represent the “mopping up” of old debts that had accumulated in the 1980s and 1990s. Although China never formally coordinated its debt relief with the programs negotiated by the Paris Club, the World Bank, and the IMF, the timing of China’s early 2000s cancellations roughly parallels the HIPC Initiative, which began in 1996 and entered a second phase in 2006.

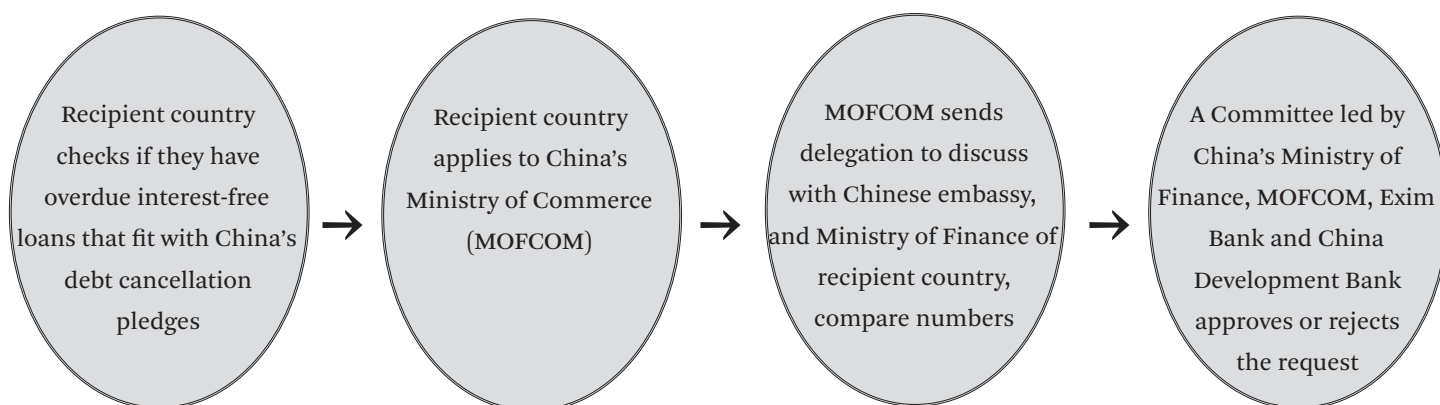
The Chinese government made no loan cancellation pledges at the 2012 FOCAC. However, in 2015, when commodity prices began to tumble, Beijing pledged again to cancel overdue IFLs in Africa (Box 2). This was repeated in 2018. Both pledges underpin all of the debt cancellations we show here between 2016 and 2019.

5.3 HOW DOES CHINA DECIDE WHICH DEBTS TO CANCEL?

The Chinese pledges listed in Box 2 usually note specifically that debt cancellation will be handled through “bilateral channels”, signaling China’s unwillingness to sit down with the IMF or the Paris Club to discuss debt treatment for the loan recipient countries. Given its (evolving) concern with non-interference in the domestic affairs of partner countries, China has not applied the kinds of highly contested economic austerity and structural adjustment conditions imposed by the HIPC process. Yet, there is always one political condition: countries need to have diplomatic relations with Beijing (instead of Taipei) (Box 2). There is also a process (Figure 3). The regularly repeated pledges captured in Box 2 start the process by announcing which group of loans will be available for cancellation. Countries have to apply first to China’s Ministry of Commerce (MOFCOM). Countries whose debt problems are most pressing are handled first. MOFCOM sends a delegation to discuss the application with the Chinese embassy in the country and the Ministry of Finance of the recipient country. This is not a “stroke of the pen” cancellation program. As one of the authors of this paper noted in 2009: “Figures on overdue debts were carefully compared and reconciled, loan by loan.”¹²⁶

A committee led by China’s Ministry of Finance (which has overall authority for debt relief), with delegates from MOFCOM, China’s Exim Bank, and China Development Bank will approve or reject

Figure 3: Process of Interest-Free Loan (IFL) Debt Cancellation

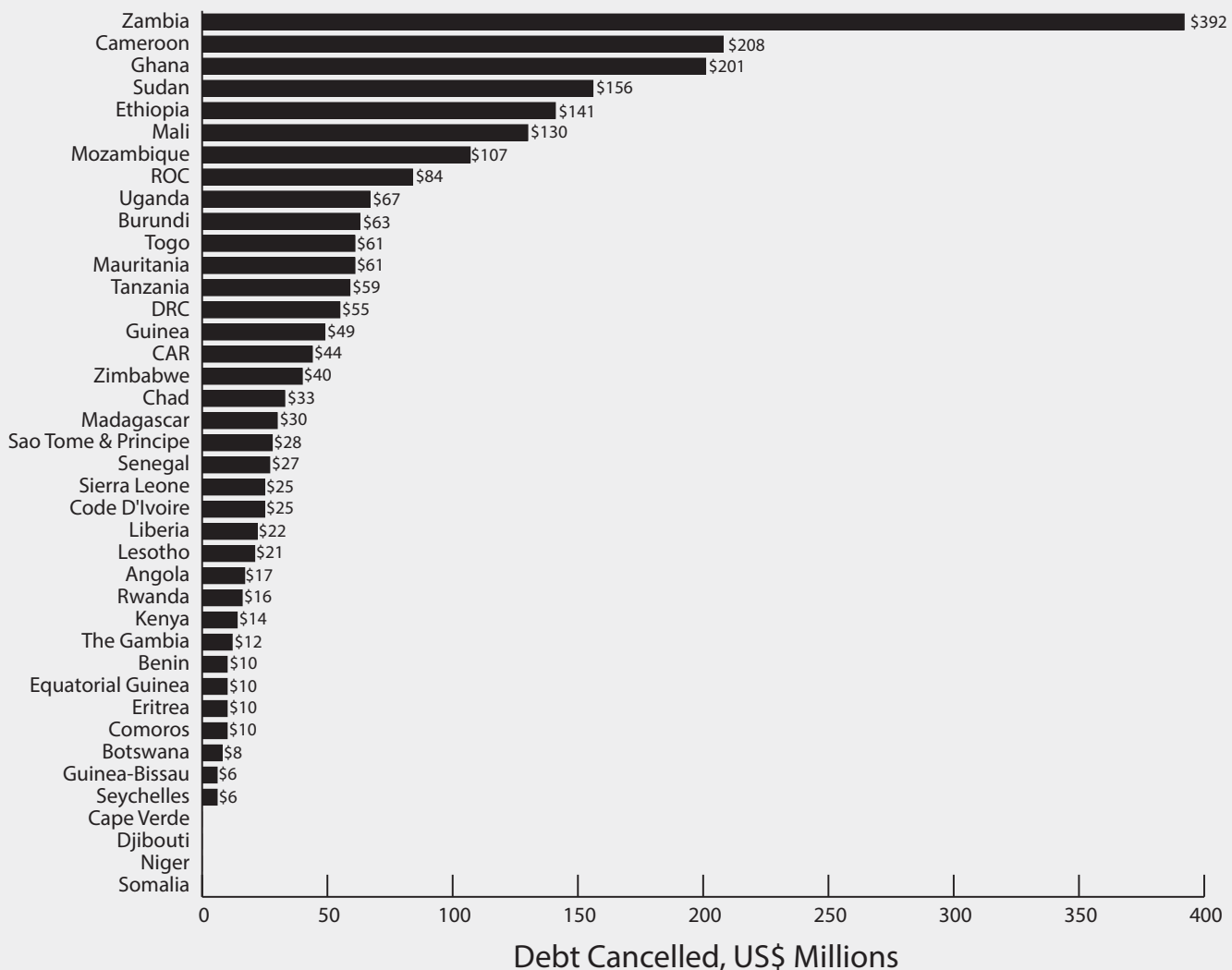


the debt cancellation request.¹²⁷ “The Chinese government will see how the money was used. They will consider this thoughtfully. They will refuse applications from some whose economy is doing well. They don’t need debt relief,” a Chinese official told one of the authors.¹²⁸

5.4 LOAN CANCELLATIONS: WHO?

Which countries are receiving loan cancellations? As noted in Box 2, certain groups of countries have been targeted for debt cancellation, including HIPC countries, but also including landlocked developing countries and small island development states – groups that have lobbied the United Nations for special status. All of the African countries that have received debt cancellation from China fall into one of the above groups. Furthermore, China has also cancelled debts for Eritrea, Somalia, Sudan, and Zimbabwe – countries that qualified for the HIPC Initiative because of their high levels of debt and poverty, but which as of 2019 had failed to follow the HIPC program requirements.¹²⁹

Figure 4: Chinese Debt Cancellation (US\$ Millions)



Source: SAIS-CARI

These figures account only for amounts we have been able to confirm and are an underestimate of Chinese debt cancellation for Africa.

Figure 4 shows CARI data on the value of debt cancellation by country. Our data includes 94 cases of debt cancellation in Africa. We have data on the value in 77 of these cases. Zambia, Cameroon, Ghana, Sudan, Ethiopia, Mali, and Mozambique received the most debt cancellation in value terms. Zambia (6), Cameroon (5), Ghana (4), Sudan (4), Mali (4), Mozambique (4), and Comoros (4) received the highest number of separate debt cancellations.¹³⁰

To check whether the countries with the most debt cancellations were also the countries with more loans, we consulted data collected in Brautigam (2011) which charts instances of Chinese loan commitments to individual African countries between 1960 and 2007.¹³¹ Indeed, all of the countries listed above, with the exception of Mozambique, were among the earliest and most frequent borrowers from China between 1979 and 1999. In some cases, such as Mali, China made 14 separate loan commitments during this period. Cameroon had nine, Benin and Zambia seven, Equatorial Guinea five, and so on.

5.5 THE PARIS CLUB AND CHINA: EVOLUTION

Although the Paris Club first met in 1956, it took many years before Paris Club members agreed to cancel debt for low-income countries (Table 3). Between 1975 and 1988, Paris Club lenders rescheduled debt, but did not cancel it or reduce its present value. It was only in Toronto in 1988 that the Paris Club agreed to cancel up to a third of poor countries' bilateral debt, in NPV terms. This gradually increased. A significant obstacle had been the budgetary resources required for debt cancellation. In 1988, the Paris Club was wealthy enough to start to cover these costs more comfortably. The average GDP per capita of Paris Club members by then was US\$ 34,012 (2010 US\$).¹³² China's GDP per capita as of 2018 was approximately one quarter of that: US\$ 7,753 (2010 US\$).¹³³

Table 3: Evolution of Paris Club Debt Relief and China

Paris Club Evolution	China Evolution
<ul style="list-style-type: none"> • 1956-1988 Classic terms: non-concessional rescheduling. No debt relief in NPV terms. • 1988 Toronto terms: NPV debt reduction allowed, 33.3% • 1991 London terms: 50% • 1996 Naples terms: 67% and HIPC begins; bilateral reduction up to 80%; multilateral debt reduction • 2005 MDRI: multilateral debt cancellation 	<ul style="list-style-type: none"> • 1975-2000 rescheduling maturities, mainly interest-free government loans (IFLs) • 2000-2019 begin regularly announced write-offs of accumulated arrears of IFLs, for HIPCs/LDCs • 2000-2019 maturity rescheduled for some Ex-imbank and company loans, occasional interest rate reduction • 2020 joins G-20 for debt moratorium

6. CONCLUSION

Chinese debt relief for Africa has been going on for many decades, following the ups and downs of Africa's economic recessions, recoveries, and booms. Until 2000, this debt relief nearly always involved lengthening the repayment period. In 2000, China began debt cancellation, but only for interest-free foreign aid loans. When commodity prices sank around 2015, many African exporters began experiencing wide-scale balance of payments problems. More loans have come up for restructuring, but, apparently, relief is still granted on the basis of individual loans where it is clear that income is insufficient for repayment.

The only recourse that Chinese lenders realistically have in a default situation is to refuse to disburse money for ongoing projects, and, in the face of arrears, to impose a moratorium on new lending, as we saw in the Zimbabwe case. As Zhou Yuyuan, a researcher with the Shanghai Institute for International Studies, noted in a recent article: "the cost for violating the contract is actually quite low for the borrowers."¹³⁴ Furthermore, Beijing is concerned with its international reputation and its long term political and diplomatic relationship with individual countries. In addition, Chinese contractors, who usually advance their own money to get a project launched before being reimbursed through Chinese bank disbursements, suffer from project suspensions. Although loan contracts provide for arbitration in case of default, there is no evidence that Chinese banks have ever used this option, or that a judgment could actually be enforced, were it to be in their favor. We also see no evidence of penalty interest rates.

China prefers to negotiate debt relief bilaterally. From a Chinese perspective, this allows the borrower to save face, yet the lack of transparency arouses suspicions that something untoward is going on. Yet, at the same time, the larger-scale debt relief pledges and cancellations China has made globally have not been implemented in isolation. They were done parallel to similar debt relief programs negotiated by other countries. For example, in Africa, ongoing cancellations of debt from IFLs between 2000 and 2019, parallel the HIPC Initiative launched by the World Bank and IMF in 1996. In one case, outside of Africa, high-profile, substantial Chinese debt cancellations in Iraq were done bilaterally, but under a United Nations framework. Although China has not joined the Paris Club, when countries request restructuring on Paris Club terms (Indonesia, Iraq), China obliges.

Now, as the COVID-19 pandemic unfolds, China has joined other G-20 countries in pledging a coordinated moratorium on principal and interest payments for official lending between May 1 and the end of 2020, for eligible low-income countries. The G-20 agreed to "a common term sheet providing the key features for this debt service suspension initiative, which is also agreed by the Paris Club."¹³⁵ These suggest that in this round of debt relief actions, China will not be operating parallel to accepted global agreements on international debt management, but within them.

We started this paper with a quote from a Zambian economist. A fuller version of that quote is: "It's the US\$ 3 billion worth of eurobonds that are the problem, not the Chinese loans...with eurobonds, you don't play around when the payments are due. Chinese debt can easily be

renegotiated, restructured or refinanced.”¹³⁶ Since Zambia issued its first eurobond in 2012, yields have climbed from 5.65 percent to over 20 percent.¹³⁷ While Zambia has not been able to obtain rescheduling of its Chinese loans as of the time of this writing, the cases in ROC and Mozambique do suggest that agreements have been easier to reach with Chinese lenders than with private creditors. It remains to be seen how the Chinese position on debt relief will evolve when faced by new global developments such as the 2020 COVID-19 crisis. As an IMF official told us: “they’ll have to walk the road that other countries have walked before them.” ★

ENDNOTES

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2. China Eximbank accounts for 56% and China Development Bank, 25%. All aggregate CARI loan figures refer to commitments, not debts. However, we do have data on outstanding debts in many cases, and in individual cases when projects were completed and we have this data, we use the debt outstanding.
3. The Chinese term "concessional loan" (youhui daikuan) refers to a specific foreign aid loan instrument managed by China Eximbank. These loans are always denominated in Chinese yuan, have low, fixed interest rates that are subsidized by the Chinese aid budget, and usually mature over 20 years.
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