The Washington Post

The pandemic has worsened Africa's debt crisis. China and other countries are stepping in.

Chinese banks have been restructuring African debt for the past two decades

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Feb. 26, 2021 at 3:00 a.m. PST

With the coronavirus crisis exacerbating economic crisis in Africa's low-income countries, economists and other experts argue that debt relief is essential. While the Trump administration and others have been skeptical about China's willingness to offer debt relief, our research shows that these fears may be overblown.

Chinese banks offered African countries significant debt restructuring before the pandemic and have continued to do so. On Capitol Hill, the idea of cooperation with China remains unfashionable. Yet on U.S. policymaking related to Africa, understanding how Chinese financial institutions operate in Africa may help inform the debate on the ways to help Africans recover from the economic fallout of the pandemic.

The G-20 suspended debt payments

The Group of 20 of the world's largest economies, including China, moved quickly in April and again in November to suspend debt service on all official bilateral lending for low-income countries. This means that those countries, including many in Africa, temporarily do not have to pay principal or interest on those loans.

But the debt relief program lasts only through June 2021. Many borrowers will recover with temporary help, but others are now essentially bankrupt. In November, the G-20 launched a special program to manage these cases.

What is the scope of the G-20 effort in Africa?

In total, 38 African countries are eligible for G-20 debt relief. Altogether, they owe $25 billion in 2021 repayments alone. So far, 31 have requested relief.

The G-20 effort marks the first time China is participating in multilateral debt relief. As Africa's largest bilateral creditor, China holds at least 21 percent of African debt — and payments to China account for nearly 30 percent of 2021's debt service, as shown in the figure below. Angola alone accounts for almost a third.

Africa's 2021 debt payments

But that's not all of Africa's debt trouble. Multilateral lenders — the World Bank, International Monetary Fund, and others — constitute 20 percent of Africa's debt service this year. While these lenders are undertaking some efforts to help countries repay their own loans, they are not relaxing repayment requirements. Likewise, bondholders, who are responsible for 19 percent of 2021's debt service, have held back from providing any debt relief. For many African countries, the combined effects of these debt burdens are disastrous.

How China has been restructuring African debt

Our research at the Johns Hopkins SAIS China-Africa Research Initiative (CARI) suggests that China has played a significant role in helping African countries to manage their debt. We documented 16 cases of debt restructuring worth $7.5 billion in 10 African countries between 2000 and 2019. China also wrote off the accumulated arrears of at least 94 interest-free loans amounting to at least $3.4 billion. However, interest-free loans make up less than 5 percent of China's lending to Africa.

In China, debt cancellation for overdue, interest-free loans follows a standardized process, but our research found that other debt restructurings tend to be ad hoc. Over 30 Chinese financiers — policy banks, commercial banks and Chinese companies — lend to African governments, and each institution handles its own debt negotiations.

Most cases of prior debt relief involved only one or a selection of loans from a country's Chinese debt portfolio. Debt restructuring usually involved extending the repayment period. In a handful of cases, the interest rate changed. Chinese lenders focused on the cash flows of the underlying loan-financed projects as well as the country's overall payments position.

Here's an example: In 2012, Niger asked China Eximbank to lower the interest rate for a Chinese-built refinery that was having difficulty repaying its loan because the high price of its crude input and the low price of its products — two prices controlled by the Nigerien government — caused the refinery to lose money. The bank refused. Yet when low global commodity prices later caused problems for Niger, China Eximbank rescheduled the last chunk of the refinery loan.

Our research found that Chinese lenders have not pursued lawsuits in cases of debt default. We also found no asset seizures.

What's happened since the pandemic?

Since the launch of the G-20 program in April 2020, official bilateral creditors have suspended at least $5 billion of debt service payments. As of February 2021, Chinese financiers had finalized debt service suspensions for 16 African nations.

Before the pandemic, China negotiated debt relief bilaterally, without consulting the IMF or other creditors. Now, the G-20, including China, are jointly setting the terms of debt relief, and moving forward, the G20's Common Framework will coordinate the joint negotiations of official bilateral creditors.

However, controversially, China has designated two financiers as "official" creditors: its new aid agency CIDCA (China International Development Cooperation Agency) and the official export credit agency, China Eximbank. Beijing considers state-owned China Development Bank, a significant lender to Angola (but not elsewhere in low-income Africa), to be a commercial lender that participates in debt relief voluntarily. Germany has taken the same stance on its state-owned bank KfW-IPEX.

Still, China Development Bank and at least one commercial lender, Industrial and Commercial Bank of China, have provided post-pandemic debt relief. As Zambia became the first country to default on its Eurobonds in November, China Development Bank agreed to defer debt service for six months for its Zambian debt. And China Eximbank suspended its debt payments via the G-20 plan.

In Angola, China Eximbank is also providing debt relief under G-20 terms. But Angolans negotiated longer-term debt relief treatment with China Development Bank and the Industrial and Commercial Bank of China. Between 2020 and 2022, Angola will get $6.9 billion in debt relief, mostly from China.

Chinese banks have offered significant debt restructuring both before and during the coronavirus era acting within and outside of the G-20 arrangements. Yet with multiple Chinese stakeholders, debt relief takes time. Nevertheless, African nations may see faster debt relief from China than the West. Bondholders and private Western creditors have yet to join the G-20's debt relief efforts.

Editors' note: This article is part of a new series exploring Chinese investment in Africa, along with activities related to debt relief, infrastructure and other critical issues across the continent. See below for the contributions from the Johns Hopkins School of Advanced International Studies China Africa Research Initiative (SAIS-CARI) workshop; new articles will be added as they are published.

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