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PRC Lending in Africa

IMPACTS IN A TIME OF GLOBAL SHOCKS

Tim Ditter, Pamela G. Faber, Tsun-Kai Tsai, Kaia Haney, and Benjamin DeThomas

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Abstract

This report is part of a series that considers trends in People's Republic of China (PRC) activities across sectors in Africa in the context of global shocks. In this report, we identify trends and effects of PRC economic lending practices in nine African countries after the economic shock of the COVID-19 pandemic and the Russia-Ukraine war. The countries of focus are Angola, Chad, Djibouti, Ethiopia, Ghana, Kenya, Nigeria, Uganda, and Zambia. Through our examination of nine cases of PRC lending across Africa, we found that PRC lending practices are characterized by opaque and problematic loan terms and that PRC behavior has rendered fragile economies at risk of default. We found that post-pandemic widespread shocks to the global financial system have significantly reduced PRC lending across Africa and that the PRC model of investment has shown inherent flaws over time that create risk for African countries. We conclude that decreased PRC lending across Africa has created opportunities for African nations to explore new lenders.

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Maryanne Kivlehan-Wise
Research Program Director
China and Indo-Pacific Security Affairs

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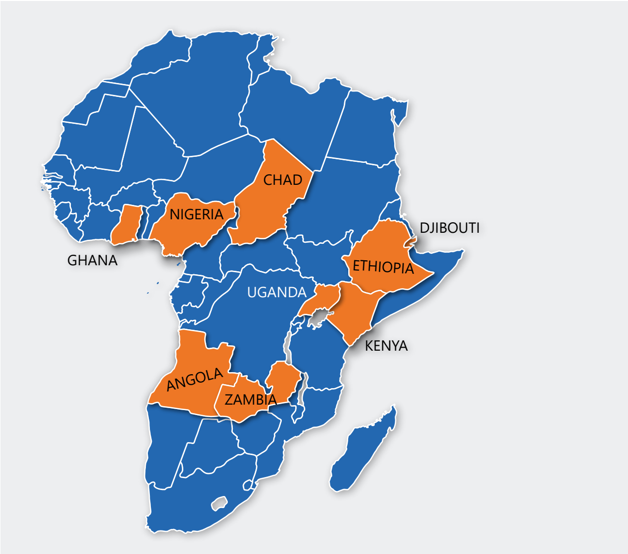
EXECUTIVE SUMMARY

We found that the PRC's lending practices are characterized by opaque and problematic loan terms and that PRC behavior has contributed to the risk of default in fragile economies.

This report is part of a series that considers trends in People's Republic of China (PRC) activities across sectors in Africa in the context of global shocks. In this report, we identify trends and effects of PRC economic lending practices in nine African countries after the economic shock of the COVID-19 pandemic and the Russia-Ukraine war. The countries of focus are Angola, Chad, Djibouti, Ethiopia, Ghana, Kenya, Nigeria, Uganda, and Zambia.



We found that PRC loan amounts to African nations have fluctuated over the last two decades, peaking in 2016, and are not monolithic in purpose and structure. Loans have been given for infrastructure projects, such as the PRC-Nigeria "oil for infrastructure" oil-backed lending project, or to solidify strategic political relationships. In some cases, PRC loans have helped African nations to build or upgrade much-needed infrastructure or transportation projects, and in other cases the projects were never completed.

From 2001 to 2022, PRC financial institutions provided more than $170 billion in credit, loans, and grants to African nations, primarily to fund infrastructure projects across the continent tied to the launch of the PRC's 2013 Belt and Road Initiative. Although not solely responsible, PRC loans have contributed to Africa's ballooning external debt.

This lending, however, has declined sharply since 2016 and declined even further from 2020 through 2023 as global economies and financial institutions were ravaged by the COVID-19 pandemic. As African nations begin to reassess and reevaluate their past decades of debt burden and economic distress, PRC lenders are simultaneously trying to restructure their loans and reconsidering their overextended global balance sheets. We found that PRC loan practices have contributed additional distress to countries experiencing severe economic effects from the pandemic and war.

Through our examination of nine cases of PRC lending across Africa, we found that the PRC's lending practices are characterized by opaque and problematic loan terms and that PRC behavior has contributed to the risk of default in fragile economies. Specific findings include the following:

- **Widespread shocks to the global financial system after the COVID-19 pandemic have significantly reduced PRC lending across Africa**, causing PRC lenders to call in debts and seek bilateral renegotiation for terms more favorable to the PRC.

- **The PRC model of investment has shown inherent flaws over time**, such as lack of transparency in negotiations, higher costs for contract implementation by PRC state-owned enterprises, limited hiring of local workers, exclusion of private sector entities and other international investors, and incentivization of rapidly acquired massive loans for relatively fragile African economies, leading to risk of intensified debt distress.
- **We identified numerous problematic trends in PRC lending**, including reluctance of PRC lenders to accept principal reduction, preference for bilateral negotiation, and diversion of government resources. China's insistence on full repayment makes it difficult for other lenders to provide debt relief or offer low-interest loans to debtor countries because the money would simply flow back to China.
- **These characteristics create risk for African countries**, including unclear collateral terms that can risk loss of ownership over strategic assets, ballooning costs over the lifetime of a project, and opaque business dealings that facilitate corruption.
- **As PRC lending has decreased across Africa, the types and amounts of loans have changed, creating opportunities for African nations** to explore new lenders and smaller, more efficient infrastructure projects.

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INTRODUCTION

PRC lending practices are characterized by opaque and problematic loan terms that have rendered already fragile economies at an increased risk of default.

This report is part of a series that considers trends in People's Republic of China (PRC) activities across sectors in Africa in the context of global shocks or shifts. In this report, we identify the effects of PRC economic lending practices in nine African countries after the COVID-19 pandemic and the Russia-Ukraine war. We found that PRC loan practices have contributed additional financial distress to countries experiencing severe economic effects from the pandemic and war.

PRC lending practices are characterized by opaque and problematic loan terms that have rendered already fragile economies at an increased risk of default. These lending practices are particularly damaging at a time when global economies are extremely vulnerable after suffering the shocks of a global economic downturn after the COVID-19 pandemic and rising commodity prices from the war in Ukraine. Furthermore, we found concerning trends around the PRC's potential use of infrastructure projects as collateral on loans and the incentivization of unfair and corrupt business practices by PRC lenders.

African economies are in an unparalleled moment of need. As economic shocks undermine pandemic recovery, economic growth in Africa is projected to weaken in 2023 before a predicted 2024 rebound because of decreased investment and exports. This situation led to the emergence of calls for debt relief and restructuring to aid African economic recovery, which, as multiple case studies demonstrate, is being hampered by PRC activities.

African economies are in an unparalleled moment of need. As economic shocks undermine pandemic recovery, economic growth in Africa is projected to weaken in 2023.

Key findings

Decades of PRC lending to African nations for large-scale infrastructure projects, resource-backed loans often with unfavorable terms, and massive lending to relatively small economies have led to widespread indebtedness and debt distress across the continent. The global economic downturn combined with rising commodity prices have only worsened economic distress globally, hitting African nations' economies particularly hard.

As the PRC faces its own mounting domestic financial issues and pressure from overextended global infrastructure projects under the Belt and Road Initiative (BRI), PRC lenders are calling in debts from African recipient nations and renegotiating the terms of these loans. PRC state-backed lenders to African nations prefer to conduct these negotiations bilaterally and behind closed doors, with a relative amount of secrecy. Bilateral negotiations often result in terms that are unfavorable for the African recipient nation, increasing economic distress while benefiting the PRC lenders. PRC lending has also declined across the continent, in both the number of loans and the value of each loan, forcing African leaders to reevaluate the decades-long model of free-flowing PRC loans to their countries.

We found the following **trends in PRC lending** to African nations:

- **Reluctance of PRC lenders to accept principal reduction.** When negotiating (or renegotiating) loan terms, PRC lenders rarely offer an overall debt reduction, unlike international multilateral institutions.
- **Preference for bilateral negotiations.** The PRC does not follow typical debt negotiation protocol used by multilateral institutions. Instead, the PRC prefers to enter into bilateral negotiations, often behind closed doors.
- **Problematic loan terms.** PRC loans are generally for a period of less than 10 years and have a higher interest rate than loans from multilateral institutions.
- **Diversion of government resources.** African governments are often required to spend a significant percentage of their revenue paying back PRC loans, leaving fewer resources for spending on social services.
- **Facilitation and incentivization of corruption and unfair business practices.** Lack of stringent lending practices, lack of oversight, inadequate enforcement, and poor business practices make PRC loans and construction deals particularly prone to misuse and corruption.
- **Risk to infrastructure or resources as collateral.** African countries at risk of default on PRC loans show an increased risk of PRC state-owned enterprise (SOE) takeover through majority ownership over strategic assets or infrastructure.
- **Limited local benefits.** PRC lending for both the construction and management of many of Africa's largest infrastructure projects goes to PRC SOEs and firms, which undercut local competition.

These trends have the following **implications for African nations:**

- **Unclear collateral terms can risk loss of ownership over strategic assets.** There is evidence of increased risk of PRC SOE majority ownership over strategic assets or infrastructure if a country defaults on a loan. In addition, the general lack of transparency around collateral in PRC contracts renders ultimate ownership of strategic infrastructure unclear.
- **Loans can balloon in cost over time.** Massive loans have the potential to continue to grow over time, rendering African governments increasingly in debt to PRC lenders.
- **Opaque business dealings facilitate corruption.** PRC lenders appear to take advantage of preexisting corruption in business and government through opaque lending and unethical business practices.
- **Ownership and control of natural resources are at risk.** Natural resource–dependent loan repayments, such as oil for infrastructure (OFI), are particularly prone to corruption and exploitation.
- **Relationships with other lenders are at risk.** Bilateral renegotiations, which are often demanded by PRC lenders, make integration with multilateral lenders, such as the International Monetary Fund (IMF) and World Bank, significantly more challenging during times of debt restructuring.
- **Reduction in loan volume and amounts provides an opportunity for diversification.** The decline in PRC lending in recent years is an opportunity for African nations to consider new economic partnerships with more favorable terms.

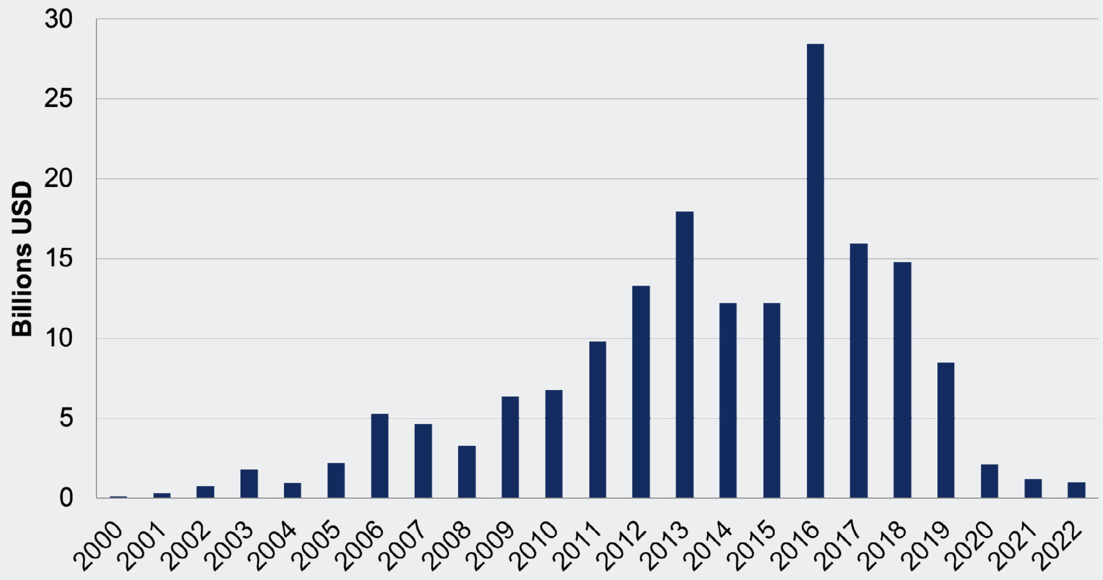
PRC LENDING IN AFRICA

The BRI increased the PRC's focus on investment in Africa as PRC leaders sought to outsource excess savings and domestic construction capacity to developing nations.

Beginning in the early 2000s, the PRC began lending African nations billions of dollars. A substantial increase in this lending was tied to the launch of the PRC's BRI. The BRI was billed as PRC President Xi Jinping's grand plan for reinvigorating development and economic engagement with countries spanning the historic trade corridors of the Silk Road and across maritime trade routes. The BRI increased the PRC's focus on investment in Africa, particularly in infrastructure development, as PRC leaders sought to outsource excess savings and domestic construction capacity to developing nations.[1]

From 2001 to 2022, PRC financial institutions provided more than $170 billion in credit, loans, and grants to African nations, primarily to fund infrastructure projects across the continent, with loan amounts peaking in 2016.[2] See Figure 1 for an illustration of PRC lending totals to Africa from 2000 through 2022.

Figure 1. PRC loans to Africa by year, 2000–2022



Source: Boston University, Chinese Loans to Africa Database.

This lending has incrementally declined since 2016, with the volume of new PRC loans to African governments dropping from $28.4 billion in 2016 to $8.2 billion in 2019 and plummeting to $1.9 billion in 2020.[3] PRC lending declined sharply again in 2021 and 2022, corresponding directly with the global economic downturn of the COVID-19 pandemic. This overall decline in PRC lending reflects several trends:

- African nations' commodity prices and gross domestic product (GDP) growth declining
- Increasing pressure on BRI loans with many debtor countries in the developing world experiencing financial distress
- Reluctance of PRC lenders to continue funding African governments at risk of or defaulting on loans
- A slowdown in China's domestic economic growth forcing PRC leaders to rethink external lending
- An overall global economic contraction resulting from the COVID-19 pandemic and rising interest rates and commodity prices driven by the war in Ukraine

PRC lending model amplifies economic shocks

PRC LOANS TO AFRICAN NATIONS NOT MONOLITHIC

In some cases, PRC loans have helped African nations build or upgrade much-needed infrastructure or transportation projects. The PRC has given loans across Africa for various projects, such as Chad's Rônier oil pipeline project, the PRC-Nigeria OFI deal, and Djiboutian infrastructure projects. These loans have had different purposes—some for infrastructure projects and oil-backed lending but others for building strategic political relationships.

However, as outlined in our nine case studies in the appendix, many of the infrastructure projects funded with PRC loans under the BRI have been criticized by their African recipients. Some of these cases include recipients complaining about a lack of project completion, PRC entities being contracted through closed-door and secret dealing, and quality issues with costs spiraling out of control.

US-based research group AidData reported in 2021 that from 2013 to 2017, approximately 35 percent of BRI projects solely operated by PRC entities had "implementation challenges," including environmental incidents, corruption scandals, and labor violations.[4] BRI-related infrastructure projects in Africa face unsurmountable debt repayment issues, such as Kenya's Standard Gauge Railway (SGR) and Uganda's Kampala-Entebbe Expressway.

In addition, although not solely responsible, PRC loans have contributed to Africa's ballooning external debt. Between 2000 and 2020, Africa's debt increased more than fivefold to $696 billion, with PRC lenders accounting for 12 percent of the total amassed debt.[5] Twenty-two low-income African countries are either already in debt distress or at a high risk of defaulting on their debts, with PRC lenders owning 15 percent of that debt.[6] Debt distress has become a particularly serious problem for countries with a higher percentage of Chinese loans comprising their total external debt stock, such as Angola, Djibouti, Ethiopia, and Kenya.[7]

Debt distress increases a country's risk of defaulting on its loans and can risk a country's economic growth, development, and climate investments.[8]

AFRICAN DEBT DISTRESS INCREASED BY PRC LENDING PRACTICES

PRC state financial institutions follow a top-down approach that is typically politically driven (as opposed to private sector investment, which is directed by profit), an approach in which high-level policy agreements are bilaterally negotiated with an African nation or occasionally coordinated through multilateral channels such as the Forum on China-Africa Cooperation. Subsequently, a contract will be signed by PRC SOEs, with oversight by state-owned policy and commercial banks and SOE implementation of the contract.[9] Over time, inherent flaws in the PRC model have become apparent, such as the following:[10]

- Lack of transparency in negotiations
- Higher costs for contract implementation by PRC SOEs
- Fewer hirings of local workers
- Exclusion of private sector entities and other international investors
- Rapid acquisition of massive loans for relatively small African economies to build single projects, leading to intensified debt distress

ECONOMIC EFFECTS OF COVID-19 AND WAR IN UKRAINE AMPLIFIED BY PROBLEMATIC PRC LOAN PRACTICES

According to the United Nations (UN), economic growth in Africa is projected to weaken in 2023 before a predicted 2024 rebound because of decreased investment and exports because of "a confluence of shocks, comprising weaker external demand, a sharp uptick in global inflation, higher borrowing costs and adverse weather events" that are "undermining its full recovery from the pandemic."[11] Prices have risen because of the effect of the war in Ukraine, national currencies have weakened, and, according to the UN Development Programme, the "long-term effect of the economic downturn will lead to an erosion of the gains made to human development over the previous decades by increasing mortality, increasing child mortality and pushing more people into poverty."[12] These global shocks have led to calls for debt relief and restructuring to aid African economic recovery, which, as multiple case studies demonstrate, is being hampered by PRC activities.

SUMMARY OF CASE STUDIES

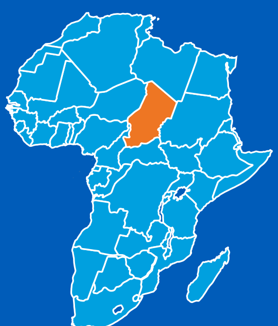
These case studies demonstrate several common techniques that the PRC uses in developing economic relationships in Africa, such as opaque contracting and resistance to standard loan forgiveness practices.

We identified nine case studies of PRC lending to African nations in which PRC activities have had a significant effect on the financial security of the country. These case studies demonstrate several common techniques that the PRC uses in developing economic relationships in Africa, such as opaque contracting and resistance to standard loan forgiveness practices. Summary findings of the case studies, which can be found in full in the appendix, are below.

Angola

Angola faced severe economic effects from the COVID-19 pandemic. As the country sought to identify opportunities for debt relief during the economic downturn of 2020, it was forced to negotiate the terms of at least four different PRC loans independently.[13] This piecemeal approach to Angola's Chinese debt was caused by a lack of coordination between PRC lending institutions and a lack of consensus among PRC government agencies on the issue of debt relief.[14] In 2020, the World Bank listed Angola as one of seven African countries that it considered to be at high risk of debt distress.[15] Angola's debt to the PRC makes up 30 percent of its total government debt, and servicing this debt takes about half of its annual budget.[16] As of 2023, Angola holds more PRC debt than any other country in Africa, with an estimated $20 billion.[17] More than 80 percent of PRC loans to Angola are resource backed.[18] Various construction projects funded by PRC banks and tendered to PRC firms have either not materialized or ended up back in the hands of private firms instead of the state.[19] For example, it is estimated that about $1.5 billion of the PRC's payments for Angolan oil were never passed on to Sonangol, Angola's state-owned oil company, or Angola but were taken and kept by China Sonangol International Holding Limited (CSIHL).[20]

Chad



In 2021, Chad's external debt was at unsustainable levels, reaching $2.8 billion—an amount equivalent to half (55.88 percent) of its GDP.[21] According to the IMF, the PRC's debt stock in Chad totaled $264 million as of 2021.[22] According to World Bank and IMF officials, the PRC unnecessarily delayed debt negotiations to restructure Chad's debt. In the three instances in which Chad has sought debt relief from the PRC, the PRC has offered insufficient forgiveness, in two of the three refusing to take a "haircut," or write off its debt to Chad. Other concerning practices include an oil refinery being used as collateral on the loan, leaving it vulnerable to seizure if Chad defaults on the loan.[23]

Djibouti

The PRC is Djibouti's largest creditor, holding approximately $1.4 billion in debt, about 45 percent of the country's GDP.[24] The PRC has played a major role in funding Djibouti's ambitious program to become a commercial hub. In 2022, Djibouti's debt payments tripled, growing to $184 million, and were expected to rise to $266 million in 2023.[25] In January 2023, Djibouti suspended debt payments to the PRC, making it the second African nation after Zambia to do so.[26] A combination of various external factors led to Djibouti's inability to service its loans. The war in Ukraine, the conflict in neighboring Ethiopia, and a regional drought have all put pressure on food imports and raised commodity prices to unsustainable levels.[27] Several past PRC activities in Djibouti have contributed to economic insecurity. For example, Export–Import Bank of China (China Exim) provided a fully commercial rate for the loan to build the Ethiopia-Djibouti railway,[28] which is almost four times higher than the rate for the loans provided by entities such as the World Bank to developing countries in Africa.[29] In 2018, transfer of ownership of the Doraleh Port container terminal led to accusations that the PRC had pressured Djibouti's government to expel the United Arab Emirates (UAE) firm DP World from the country, facilitating the expansion of the PRC's control and influence at the key port through SOE China Merchants Group (CMG).[30] Further allegations suggest that this deal could represent a payment in-kind on debt owed to the PRC and SOEs.[31]

Ethiopia

In 2021, after the Ethiopian government agreed to be one of 73 countries eligible to renegotiate payment of loans under an international initiative spearheaded by multilateral finance institutions in response to the COVID-19 pandemic, China Exim withheld the disbursement of $339 million in loans to Ethiopia, leading to delays in eight infrastructure projects.[32] Multiple Ethiopian media outlets have reported that the reason for Ethiopia's delay in debt restructuring is the lack of transparency of loan agreements and terms between Ethiopia and China. This lack of transparency makes it difficult for Ethiopia to work with other creditors, such as the IMF or members of the Paris Club. A potential failure to renegotiate debt owed to major creditors, particularly China, could lead to the expiration of an indispensable debt relief program with the IMF and have a lasting effect on the Ethiopian economy.[33]

Ghana

In 2023, Ghana sought a $3 billion bailout loan from the IMF. However, during the process, Ghana encountered challenges from the PRC's reluctance to cooperate. In May 2023, the board of the IMF was set to approve Ghana's $3 billion bailout loan after receiving assurances from the creditor committee, which consists of Ghana's external creditors, including China, Ghana's biggest bilateral creditor.[34] The process of securing the $3 billion bailout loan was not smooth. A bilateral talk between Ghana and China regarding debt treatment was delayed, which endangered the IMF bailout deal at the time.[35] China's reluctance to work with other creditors presented difficulties for Ghana in securing the IMF bailout deal, and it was speculated that China would leverage Ghana's natural resources in return for softer loan terms.[36]

Kenya

According to the UN, by 2022, debt servicing accounted for 42 percent of the Kenyan government's budget and 57 percent of total domestic revenues, limiting the ability of the government to sustainably finance social spending programs.[37] Between 2013 and 2023, the PRC garnered a 19.4 percent share of Kenya's external debt, quickly becoming the largest bilateral holder of the country's external debt.[38] The origins of Kenya's debt distress stem from efforts to achieve national development goals articulated in Kenya Vision 2030 via large-scale infrastructure projects, many financed and constructed by entities from the PRC.[39] One of the flagship projects, the Standard Gauge Railway (SGR),[40] exemplifies Kenya's challenges with PRC loans and has been plagued with issues, including a lack of transparency and cost overruns. Without major improvements in its fiscal situation, Kenya faces potential difficulty repaying its international creditors by 2024.[41]

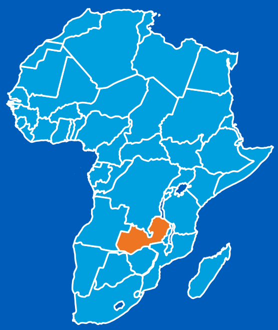
Nigeria

The PRC and Nigeria entered an OFI partnership in 2004, although not all of these deals materialized. Over the last 20 years, the PRC has cemented itself as Nigeria's largest bilateral lender, largest investor, and largest trading partner.[42] Nigeria's total borrowing from the PRC was $3.1 billion as of March 31, 2020,[43] and PRC loans account for 84.73 percent of Nigeria's bilateral debt.[44] Although the Nigerian government has promised that PRC loans and infrastructure will grow the Nigerian economy and create jobs,[45] Nigeria's economy remains weak and is currently struggling with high inflation.[46] As Nigeria's debt burden and cost of debt servicing have grown, uncertainty about the country's ability to pay these debts has increased. Nigerian media, nonprofits, and politicians have expressed concerns about a lack of transparency in investment practices for PRC OFI deals. This lack of transparency affects other sectors. For example, there have been significant concerns about irregularities in crude oil sales to the PRC, where billions of dollars are unaccounted for.[47]

Uganda

Since 2008, negotiations for the PRC's lending to Uganda have often taken place behind closed doors, with little public awareness of the terms. Unfavorable terms and back-door deals from PRC loans and aid packages have contributed to Uganda's growing debt.[48] These closed-door negotiations have allowed Chinese creditors and contractors to leverage optimal terms for the PRC, often resulting in deals with unfavorable terms for Uganda, as was the case with the terms offered by China Exim to expand the Entebbe Airport.[49] The government is forced to spend close to half of its national budget on loan repayment, leaving few funds for public services, social welfare, and national development.[50] In 2023, surveys of Ugandan citizens highlighted public concerns about PRC loans. These concerns included the high interest rates on PRC loans benefiting China more than Uganda in the long term,[51] an increasing reliance on PRC lending undermining Uganda's sovereignty, quality issues with the infrastructure work completed by Chinese contractors, and Chinese contractors failing to hire local Ugandan workers.[52]

Zambia



In November 2020, amid a global economic downturn caused by the COVID-19 pandemic, Zambia defaulted on a $42.5 million payment to international creditors.[53] By 2021, the PRC had become Zambia's largest bilateral national creditor. Loans from the PRC comprised more than 30 percent of Zambia's total external debt.[54] As Zambia's external debt increased, the portion of the government budget needed to service debt payments greatly increased. When this external debt is combined with wages and government salaries, only 30 percent of the budget was left for all remaining government programs, such as public health, education, and social protection. In 2021, Zambia began negotiations with its creditors over debt restructuring. Challenges emerged in these negotiations, primarily because of the PRC's reluctance to accept principal reductions.[55] The PRC's delay of negotiations between Zambia and its creditors had substantial effects on the country's economy. There are also accusations of PRC loans facilitating widespread corruption and unfair business practices, such as collusion among PRC SOEs, noncompetitive bidding, inflated costs, and undercutting local competition.[56]

CASE STUDY FINDINGS

PRC lending has declined across the continent, in both the number of loans and the value of each loan, forcing African leaders to reevaluate the decades-long model of free-flowing PRC loans to their countries.

Decades of PRC lending to African nations for large-scale infrastructure projects, resource-backed loans—often with unfavorable terms—and massive lending to relatively small economies has led to widespread indebtedness and debt distress across the continent. The global economic downturn of the COVID-19 pandemic combined with rising commodity prices resulting from the ongoing war in Ukraine have only worsened economic distress globally, hitting African nations' economies particularly hard.

Because the PRC faces its own mounting domestic financial issues and pressure from overextended global infrastructure projects under the BRI, PRC lenders are calling in debts from African recipient nations and renegotiating the terms of these loans. PRC state-backed lenders to African nations prefer to conduct these negotiations bilaterally and behind closed doors, with a relative amount of secrecy. Bilateral negotiations often result in terms that are unfavorable for the African recipient nation, increasing its economic distress while benefiting the PRC lenders. PRC lending has also declined across the continent, in both the number of loans and the value of each loan, forcing African leaders to reevaluate the decades-long model of free-flowing PRC loans to their countries. Within this context, we found several trends in PRC lending to African nations.

PRC lending trends

PRC LENDERS RELUCTANT TO ACCEPT PRINCIPAL REDUCTION

When negotiating (or renegotiating) loan terms to African nations in debt distress, at risk of default, or in default on loan payments, PRC lenders rarely offer an overall debt reduction. Unlike international multilateral institutions such as the Paris Club, the PRC prefers to negotiate debt relief measures that do not involve principal reduction.

STRONG PRC PREFERENCE FOR BILATERAL NEGOTIATIONS

The PRC does not follow typical debt negotiation protocol used by multilateral institutions such as the World Bank and the G20 and informal groups such as the Paris Club. Instead, the PRC prefers to enter into bilateral negotiations, often behind closed doors, and strongly resists principal reductions in favor of extended repayment terms or holding infrastructure as collateral on loans.

PROBLEMATIC PRC LOAN TERMS

PRC loans are generally for a period of less than 10 years, compared to about 28 years for concessional loans from multilateral institutions. In addition, PRC loans are often set at a higher interest rate than loans from other international lenders.

AFRICAN GOVERNMENT RESOURCES DIVERTED TO SERVICE PRC LOANS

The unfavorable terms and higher interest rates negotiated for PRC loans often require African governments to spend a significant percentage of their revenue on servicing PRC loans, leaving fewer resources for spending on social services, education, and local communities.

PRC LOANS POTENTIALLY INCENTIVIZE CORRUPTION AND UNFAIR BUSINESS PRACTICES

Lack of stringent lending practices, lack of oversight, inadequate enforcement, and poor business practices make PRC loans and construction deals particularly prone to misuse and corruption. PRC lenders have been shown to leverage loans to African nations to acquire lucrative construction deals for PRC SOEs with little to no oversight from the public over the terms and contracts.

RISKS TO INFRASTRUCTURE OR RESOURCES AS STATED OR UNSTATED COLLATERAL

African countries at risk of default on PRC loans show an increased risk of PRC SOE takeover through majority ownership of strategic assets or infrastructure.

LIMITED LOCAL ECONOMIC BENEFITS

PRC lending for both the construction and management of many of Africa's largest infrastructure projects goes to PRC SOEs and firms. These PRC entities often win lucrative contracts through noncompetitive bidding and with inflated costs while undercutting local competition.

RISKS AND OPPORTUNITIES FOR AFRICAN COUNTRIES

PRC lending practices render borrowers at risk of unintended economic consequences and should be carefully considered in weighing the implications of incurring additional PRC debt across Africa.

PRC lending in Africa is not a simple story of monolithic exploitation, and the PRC's activities do not fall into a singular narrative. The need for financial investment in Africa is vast, and some PRC loans are being used to address needs across a range of sectors, including transportation, critical infrastructure, and telecommunication. However, even in the context of these nuances, the range of African case studies demonstrates a combination of troubling factors characterizing PRC loans. These characteristics create risk for African countries. These risks include the following.

UNCLEAR COLLATERAL TERMS RISK LOSS OF STRATEGIC ASSET OWNERSHIP

There is evidence of increased risk of PRC SOE majority ownership over strategic assets or infrastructure if a country defaults on a loan. As the Djibouti Doraleh container port example demonstrates, political and economic pressure can lead to changes in control of strategic assets. In addition, the general lack of transparency around collateral in PRC contracts renders ultimate ownership of strategic infrastructure unclear if a country defaults. Such ownership could limit the freedom African countries have to maintain control over strategic infrastructure and risk seizure or nationalization of strategic assets that could deter future investment.

BALLOONING PRC LOAN COSTS OVER TIME

Multiple cases, such as the Modjo Hawassa express highway project in Ethiopia and the SGR in Kenya, point to the risk of PRC projects that are supported by PRC lending ballooning in cost over time. These rising costs may have multiple causes that are both within and not within PRC control, but the result is that massive loans have the potential to continue to grow over time, rendering African governments increasingly in debt to PRC lenders.

OPAQUE PRC PRACTICES AND CORRUPTION

In several case studies, such as allegations of PRC loans being funneled to Angolan elites and PRC-enabled bribery in Chad, PRC lenders appeared to take advantage of preexisting corruption in business and government through opaque lending and unethical business practices. These practices risk entrenching corruption and minimizing the local effect of investments.

OWNERSHIP AND CONTROL OF NATURAL RESOURCES AT RISK

Natural resource–dependent loan repayments, such as OFI in Nigeria, are particularly prone to corruption and exploitation. The PRC's participation in OFI projects puts countries at particular risk of economic instability given the vacillating price of oil. Although certain countries in Africa may not see an alternative in the short term, relying on these types of contracts opens countries up to significant risk of economic turmoil.

RELATIONSHIPS WITH OTHER LENDERS AT RISK

Bilateral renegotiations, which are often demanded by PRC lenders, make integration with multilateral lenders, such as the IMF and World Bank, significantly more challenging during times of debt restructuring, as occurred for Ghana and Ethiopia during COVID-19 debt negotiations. Demanding limitation on renegotiations has the potential to have negative consequences when restructuring or forgiveness of loans is an essential priority, for example after financial shocks.

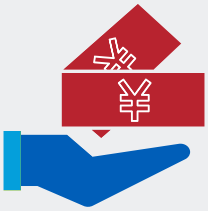
As this list demonstrates, PRC lending practices render borrowers at risk of unintended economic consequences and should be carefully considered in weighing the implications of incurring additional PRC debt across Africa. The case studies also demonstrate that the decline in PRC lending to African countries since 2016 has multifaceted implications. Although the decline in lending may lead to a reduction in practices that amplify debt distress, it also reflects a decline in investment in economies that are in a crucial moment of need. However, there is another lens to consider: the reduction in PRC loans provides an opportunity for diversification in which African countries can consider new economic partnerships with more favorable terms, without risk to strategic assets or natural resources, and with prioritization of transparency and good governance.

OPPORTUNITY IN DIVERSIFICATION

The decline in PRC lending to African countries, coupled with the growing awareness of harmful lending practices, presents opportunities for diversification of lenders and lending institutions, as seen in the G20 Forum's attempts to provide an alternative debt relief route. Diversification across investors and loan providers offers multiple benefits. Most importantly, diversification helps minimize and manage risk. For example, building a portfolio of multiple lenders through inter-African trade and strengthened domestic financial markets can make African nations more resilient to both domestic and lender economic shocks. As PRC lending declines, African countries can seek out lenders with better terms and different motivations through multilateral negotiations, which will lessen the likelihood of additional burdens. In a time of global change and economic shocks, countries have an opportunity to build domestic economic strength and resilience moving forward.

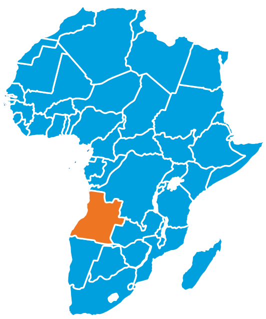
The reduction in PRC loans provides an opportunity for diversification.

APPENDIX: CASE STUDIES



In this section, we discuss nine case studies of PRC lending to African nations in which PRC activities have had a significant effect on the financial security of the country. These case studies demonstrate several common techniques that the PRC uses in developing economic relationships in Africa, such as opaque contracting and resistance to standard loan forgiveness practices.

Angola



Background

Angola holds more PRC debt than any other country in Africa, with an estimated $20 billion as of 2023.[57] The PRC's investments in Angola began after the end of Angola's civil war in 2002 as it sought financers to fund its reconstruction. The nations' relationship began with a series of relatively small infrastructure projects, including roads, railways, and power infrastructure.[58] The first significant investment was a $2 billion China Exim loan signed in 2004. It was backed by an agreement that Angola would provide the PRC with 10,000 barrels of crude oil per day for 17 years, the first of many PRC loans to Angola backed by oil. In 2006, Angola received a $2.9 billion loan from the China International Fund (CIF) and in September 2007 another $2 billion from China Exim. Loans, investment, and reconstruction accelerated from there.

In 2020, the World Bank listed Angola as one of seven African countries that it considered to be at high risk of debt distress.[59] Angola's debt to the PRC makes up 30 percent of its total government debt, and servicing this debt takes about half of its annual budget.[60]

The cost of servicing Angola's debt is only expected to increase. Standard & Poor's Global, a publicly owned financial information and analytics business, estimates that the debt will increase from $4.3 billion in 2022 to $5.6 billion in 2024 and reach nearly $7 billion in 2025.[61] Most PRC loans are from policy banks, including China Exim and the China Development Bank (CDB), but Angola has also received loans from the Industrial and Commercial Bank of China (ICBC), CIF, and other funders.

More than 80 percent of Angola's $20 billion in loans from the PRC are backed by oil.[62]

China is the largest export market for Angolan oil, and, as reported by the Angola Press Agency in August 2023, Angola is the second largest oil supplier to the PRC.[63] The country's oil reserves are closely linked to the country's history of corruption. Angola was ruled by José Eduardo dos Santos for 38 years, the head of the liberation-movement-turned-ruling-party, the People's Movement for the Liberation of Angola.[64] Dos Santos, his daughter, and his three closest advisors have all been implicated in massive corruption scandals.[65]

In 2020, amidst COVID-19, the global economic downturn, and the corresponding drop in the price of oil, Angola sought to renegotiate repayment terms on its loans.[66]

Angola participated in the G20's Debt Service Suspension Initiative (DSSI), deferring $571.5 million in debt in 2020 and 2021. The World Bank estimates that this action may have saved the country as much as $2.9 billion.[67] Given the PRC's preference for bilateral negotiation, experts were surprised to see Beijing encourage Angola to participate in the DSSI. China Exim and Angola reached an agreement to reschedule Angola's loans in August 2020.[68] However, negotiations regarding relief related to most of the PRC's loans to Angola, namely those held by CDB and ICBC, took place bilaterally and outside of the DSSI. Agreements were ultimately reached with both CDB and ICBC, and Angola had signed agreements with both funders before the end of 2020.[69] The agreement with CDB included a contingency that the suspension period would end if the price of oil reached a certain threshold. The threshold was reached in late 2021, restarting Angola's payment of the loan's principal earlier than expected.[70] No details are publicly available about the agreement with ICBC.

Although Angola has not defaulted on its debts, its debt-to-revenue ratio remains high and the country is at risk of debt distress, particularly if global oil prices drop significantly or there are other sources of external pressure.

Alleged PRC activity

RESISTANCE TO STANDARD FORGIVENESS PRACTICES

As Angola sought to identify opportunities for debt relief during the COVID-19 pandemic and economic downturn of 2020, it was forced to negotiate the terms of at least four different PRC loans independently.[71] This piecemeal approach to Angola's Chinese debt was caused by a lack of coordination between PRC lending institutions and lack of consensus among PRC government agencies on the issue of debt relief.[72] In addition, PRC banks have been unwilling to remove the oil security arrangement for Angola's oil-backed loans.[73] Although China Exim did participate in the G20's DSSI, most of these loans were also renegotiated bilaterally.[74] Without a standardized approach toward debt forgiveness, international creditors are reluctant to engage in debt forgiveness for fear that PRC lenders will receive payment in full.

RESOURCE-BACKED LOANS

More than 80 percent of PRC loans to Angola are resource backed.[75] Resource-backed loans are often particularly opaque. Contracts may include stringent confidentiality clauses, details of contractual terms are rarely disclosed, and the loans are often contracted by SOEs or other vehicles that do not publish audited financial statements.[76] The World Bank estimates that resource-backed loans are more likely to exacerbate debt vulnerabilities than to ease them. An expert with the National Resource Governance Institute notes that "oil-backed loans create stronger interdependence (between lender and borrower) than traditional financing."[77] Deals can also become substantially more expensive over time given fluctuations in the price of oil. For example, sending 10 cargo ships of oil to China as debt repayment was cheaper for Angola when the price of a barrel of crude oil was $24.76 in 2002 than when the price reached its 2022 high of $113.77.[78] The structure of these deals makes Angola unable to benefit from high oil prices. Finally, the PRC has expressed an unwillingness to renegotiate its oil-backed loans both before and during the COVID-19 pandemic.

CORRUPTION LINKED TO POLITICAL ELITES

Various construction projects funded by PRC banks and tendered to PRC firms have either not materialized or ended up back in the hands of private firms instead of the state.[79] PRC loans were funneled directly into the pockets of Isabel dos Santos by her father, the president, in the interest of building unnecessary infrastructure, which PRC firms were contracted to construct.[80] As one Angolan journalist wrote in 2011, "The ruling elite around Dos Santos can maximize their profits while allowing the Chinese to acquire core prerogatives of sovereignty."[81]

OIL SHIPMENT SCHEME

It is estimated that about $1.5 billion of the PRC's payments for Angolan oil were never passed on to Sonangol, Angola's state-owned oil company, or Angola.[82] Instead, payments were funneled to a fake holding company, CSIHL, which was based in Hong Kong and had no offices in Angola.[83] Both Angolan and Chinese citizens made millions off this scheme. A July 2022 indictment charged two of the president's closest advisors with various crimes related to corruption, money laundering, and fraud. A Chinese national, You Haming, and CIF were also charged.[84] CIF was founded by Sam Pa, who was arrested in 2015 under Xi Jinping's fight against corruption and is currently in jail.[85] Before this scandal, the president's close advisors, along with Sam Pa, were key to managing Angola's relationship with the PRC.[86] As of this writing, Angola has not been able to recover any of the $1.5 billion it is owed for its oil shipments.

CORRUPTION IN CIVIL WAR RECONSTRUCTION EFFORTS

The Gabinete de Reconstrução Nacional (GRN), a cabinet assembled to oversee reconstruction following the civil war, was chaired by then Vice President Manual Vicente.[87] Approximately $2.5 billion of funds routed to the GRN for reconstruction came from PRC loans. An Angolan investigative journalist claims that public funds earmarked for the construction of buildings by CIF were instead used for "private ends." Some buildings were paid for twice but never actually built. Several buildings intended for public housing were sold back to CSIHL by CIF, leaving the state not owning buildings that it had paid for.[88] Although this corruption may have been possible with any funding stream, the lack of transparency around PRC loans and the presence of oil-backed agreements facilitated a grand scale of corruption.

FINANCIAL WRONGDOING IN CONSTRUCTION OF CACULO-CABAÇA DAM

In January 2020, the International Consortium of Investigative Journalists released more than 715,000 documents revealing a web of corruption linked to President dos Santos and his daughter Isabel dos Santos, once Africa's richest woman.[89] Known as the "Luanda Leaks," these documents explain how dos Santos used his political power and connections to help his daughter build a multibillion-dollar empire and grow her net worth to $2 billion.[90] One example of this corruption is the Caculo-Cabaça dam and hydropower station project:

- Isabel was awarded the $4.5 billion contract to construct the dam by her father in 2015.
- The PRC construction and engineering firm China Gezhouba Group Corporation entered into an agreement with one of Isabel's shell companies to build the dam, and ICBC provided the financing in return for Angolan oil.[91]
- PRC lenders ignored various potential red flags associated with this deal, including the involvement of the president's daughter and questions over the dam's necessity.
- The dam was built only 19 kilometers away from another recently constructed $4 billion dam.[92]

In August 2023, the Chinese ambassador to Angola, Gong Tao, assured Angolan journalists of the PRC's continued funding for the construction of the Caculo-Cabaça hydroelectric dam, eight years after the initial contract and without resolving questions over the dam's necessity.[93]

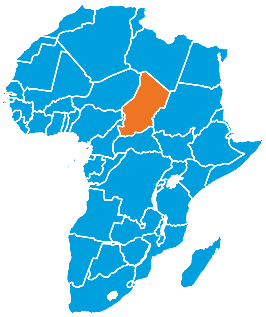
LIMITED JOB CREATION DESPITE PROMISES OF ECONOMIC DEVELOPMENT

Starting with some of their earliest loans to Angola, PRC policy banks have built conditions into their loans to benefit PRC firms. China Exim's 2004 loan included the agreement that 70 percent of tenders for construction and civil engineering contracts would be awarded to a list of Chinese SOEs approved by both the bank and PRC authorities.[94] Angolan financing agreements state that 30 percent of labor is supposed to be Angolan, but, as admitted by the Chinese ambassador to Angola, this rarely occurs.[95]

POOR CONSTRUCTION QUALITY AND DELAYS OF INFRASTRUCTURE PROJECTS

Angolans have criticized the quality of infrastructure built by PRC firms. One hundred fifty patients had to be evacuated from a newly constructed hospital in the capital of Luanda after cracks appeared in the foundations.[96] This 86,000-square-foot hospital was built by the China Overseas Engineering Group Co. and cost $8 million, which was financed by PRC loans. Individuals describe PRC-built roads washing away and the roofs of PRC-constructed buildings blowing off.[97]

Chad



Background

Chad and the PRC's economic ties are relatively small compared to the PRC's relationships with other African countries but still significant. In 2021, Chad's external debt was at unsustainable levels, reaching $2.8 billion—an amount equivalent to half (55.88 percent) of its GDP.[98] In December 2022, Chad was the first country to reach a Debt Treatment Agreement with official and private creditors under the G20 Common Framework.[99] According to the IMF, the PRC's debt stock in Chad totaled $264 million as of 2021.[100]

The PRC's "flagship project" in Chad is the Rônier project, a 311-kilometer oil pipeline that connects oil fields to a refinery near the capital of N'Djamena.[101] The Chadian state owns 40 percent of the project through its national oil company, created specifically to manage the refinery. China National Petroleum Corporation International Chad owns the other 60 percent.[102] The cost of the entire project was about $1 billion, and the project was financed through China National Petroleum Corporation (CNPC) and China Exim loans.[103]

PRC lending to Chad grew rapidly in the 2000s, increasing from $37 million in 2000 to $201 million in 2013.[104] This increase was occurring while Chad was simultaneously seeking debt relief from multilateral lenders. In 2011, Chad canceled a Master Financial Agreement in place with China Exim that allowed Chad to draw up to $2 billion in financing for infrastructure projects of mutual agreement in 2011.[105]

In 2011, IMF officials still believed the country's risk of debt distress remained high,[106] and in 2014, Chad again began seeking debt relief from both the PRC and other lenders.[107]

In 2017, talks began on restructuring PRC debt to Chad, and the two countries ultimately reached an agreement in April 2017.[108] Few details of the agreement are publicly available, but experts think that the PRC likely extended the maturity of its loans, although the number of years of extension remains unknown, and that the PRC may have canceled accumulated arrears (debt that had accumulated but had not been paid by the due date).[109]

Faced with debt burden, the pandemic-related global economic downturn, low oil prices, and shocks caused by the war in Ukraine, Chad again requested debt restructuring in January 2021.

Despite these efforts, Chad's overall debt continued to rise, reaching 55.9 percent of its GDP in 2021.[110] It would take almost two years for Chad's bilateral creditors—the PRC, Saudi Arabia, India, France, and the commercial entity Glencore—to reach an agreement to restructure Chad's debt. Ultimately, Chad's bilateral creditors thought that the country did not require debt relief because higher oil prices (oil prices had risen in the intervening months) had boosted the nation's revenue.[111] Rather than forgiving some of the principal of the loans, Chad's lenders restructured its debt, extending the length of time that the country has to repay its loans and forgiving some of the interest that had accumulated on the loans. Although Chadian officials have described this restructuring as a win, the World Bank disagrees.

The World Bank's president stated publicly that he remains "deeply concerned about Chad's longer-term ability to pay its $3 billion in external debts" and noted that the debt service burden is crowding out "priority expenditures on food, health, education, and climate."[112]

Chad's relationship with the PRC has not been without tensions. There was a dispute over the management and operation of the Rônier project, more specifically the prices of oil. To keep political promises made during his presidential campaign, the late Chadian President Idriss Déby set the price of oil at half of market value when the refinery opened. This led to $4.7 million in lost revenue for CNPC, so the firm put refining on hold in September 2011.[113] Although production restarted a month later (after Déby fired two ministers), researchers at the South African think tank South African Institute of International Affairs note that it is "rumored" that the PRC used this incident to demand a larger stake in the ownership of the refinery. In 2014, Chad's government indefinitely suspended the activities of CNPC for various environmental violations and fined the firm $1.2 billion.[114] This fine was later dropped to $400 million, and CNPC was able to resume operating in Chad, potentially because of alleged bribes of Chad's leadership.[115]

Alleged PRC activity

DELAYING CHAD'S DEBT NEGOTIATIONS

According to World Bank and IMF officials, the PRC unnecessarily delayed debt negotiations to restructure Chad's debt. The committee was first formed by Chad's five bilateral creditors in January 2021, but a deal was not reached until November 2022. The PRC's general reluctance to forgive debts, in addition to its secrecy about how much money is loaned to nations and on what terms, may have slowed the negotiation process. In other cases, the PRC demanded that the IMF and World Bank take losses on their loans, which has also delayed negotiations. These delays had direct negative effects because Chad sought debt relief partially because of low oil prices brought about by the global economic slowdown associated with the COVID-19 pandemic. By the time the deal was finally reached, the price of oil had almost doubled. Chad's bilateral creditors specifically cited the higher oil prices, which boosted revenues, as one of the reasons that the country did not require debt relief; instead, the lenders proceeded only with restructuring.

INSUFFICIENT DEBT FORGIVENESS

In the three instances in which Chad has sought debt relief from the PRC, the PRC has offered insufficient forgiveness, in two of three refusing to take a "haircut," or write off some of its debt to Chad. When the PRC agreed to contribute to the Heavily Indebted Poor Countries initiative six years after the Paris Club agreement, it agreed to cancel the outstanding principal amount under the loan plus all interest accrued on loans signed before 2001. However, because most PRC deals had been signed after 2001, the effects of this action were small. In 2017, PRC authorities rescheduled and potentially canceled Chad's outstanding payments and extended the maturity of the loans but did not change the principal of the loans. Most recently, in 2022, the PRC and Chad's other bilateral lenders agreed that Chad did not require debt relief.

USING INFRASTRUCTURE AS COLLATERAL

According to researchers who have written multiple reports about PRC debt in Africa, Chad used an asset as collateral for a PRC loan. China Exim provided Chad with a $330 million loan to finance the CNPC oil refinery, and Chad provided a government guarantee; however, Sinosure, China's export credit insurer, refused to insure the loan. CNPC arranged for Chad's shares to be collateral for the loan.[116] Although the PRC has not made any indications that it will seize the refinery, the structure of this loan means that if Chad were unable to repay China Exim, the bank could seize the refinery.

CORRUPTION

PRC-funded projects may have also fueled corruption in Chad. In 2014, Chad fined CNPC $1.2 billion for various environmental violations.[117] Patrick Ho, who in 2019 was sentenced to 3 years in prison for bribery and money laundering, was the secretary general of the now-bankrupt Hong Kong–based China Energy Fund Committee (CEFC), which described itself as a charitable non-government organization but was funded fully by CEFC China Energy, a Shanghai-headquartered multibillion-dollar energy firm.[118] According to media reporting and reports by the Federal Bureau of Investigation (FBI), after this fine and suspension of CNPC was announced, Ho contacted former Senegalese presidential candidate Cheikh Gadio, a "close friend" of President Déby, and asked him to help resolve the issue.[119] According to the US Department of Justice, Gadio offered Déby "secret or very confidential financial assistance for his political support." A short while later, Chad reduced the fine from $1.2 billion to $400 million.[120] According to emails and reports obtained by the FBI and presented in a court affidavit, Patrick Ho allegedly asked Gadio if he could help secure an oil deal for CEFC in Chad. Allegedly, Déby, Ho, and Gadio met secretly, and Chad's president offered Ho access to a large block of Chad's oil wells. Ho drafted a letter to Déby expressing the energy company's desire to make a $2 million "donation" that would be at his "personal disposal" to support "social and other programs as [he] see[s] fit]."[121]

Djibouti

Background

Djibouti's strategic location at the mouth of the Bab al-Mandeb Strait, its relative stability, and its willingness to host foreign militaries make it a hub for foreign military bases. Today, the US, Japan, France, Italy, Spain, the United Kingdom, Saudi Arabia, and the North Atlantic Treaty Organization all have some type of military installation in the country.[122] As of 2017, the PRC also has an overseas military facility in Djibouti, its first outside of mainland China. The presence of foreign militaries in the country and its proximity to a key maritime chokepoint mean that the US and its allies have been particularly sensitive to the PRC's growing investment and influence in the nation.

The PRC is Djibouti's largest creditor, holding approximately $1.4 billion in debt, about 45 percent of the country's GDP.[123] In 2022, Djibouti's debt payments tripled, growing to $184 million, and were expected to rise to $266 million in 2023.[124] In January 2023, Djibouti suspended debt payments to the PRC, making it the second African nation after Zambia to do so.[125]

Over several decades, Djibouti has pursued a capital-intensive strategy of economic growth that seeks to transform the country into a logistics and commercial hub.

The current goal of Djiboutian leaders, as explained by Djibouti's minister of economy and finance, is to make Djibouti the "Singapore of Africa."[126] This strategy has required substantial infrastructure development that has mostly been financed by foreign lenders.[127] The PRC has played a major role in funding Djibouti's ambitious program to become a commercial hub. Some of the largest projects include the $3.5 billion Djibouti International Industrial Parks Operation; a $4 billion railway line running from Addis Ababa, Ethiopia, to Djibouti City; a $340 million water pipeline; the $590 million Doraleh Multipurpose Port and Doraleh Container Terminal; and the $3 billion expansion of the Djibouti City port.

In 2017, the IMF warned that the Djiboutian government's development strategy was creating economic risks because "the financing of this strategy through a build-up of debt has resulted in debt distress."[128] In 2022, the IMF noted that this focus on capital projects means that "few jobs have been created and unemployment remains high."[129]

Despite warnings from the IMF, Djibouti continued to agree to massive new infrastructure projects that would require significant loans from the PRC. A combination of various external factors finally led to Djibouti's inability to service its loans in 2023. The war in Ukraine, the conflict in neighboring Ethiopia, and a regional drought have all put pressure on food imports.[130] Djibouti is also suffering from inflation.[131]

Actions taken by the government to deal with inflation and the drought made it impossible for the government to pay back its debts.[132]

Alleged PRC activity

LOANS PRONE TO MISUSE AND CORRUPTION

Although the PRC adopted a foreign bribery law in 2011, many observers note that little has been done to curb foreign corruption.[133] According to a Transparency International study of 100 companies in 15 emerging markets, PRC firms are among the least transparent.[134] Lack of stringent lending practices, lack of oversight, inadequate enforcement, and poor business practices make PRC loans and construction deals particularly prone to misuse and corruption. Many official PRC documents regulating overseas investments are vague and lack both legally enforceable obligations and effective monitoring mechanisms.[135] Djibouti also struggles with corruption, ranking at 130 out of 180 countries by Transparency International.[136] This combination means that the profits from PRC-funded projects may be more likely to be misused.

PROBLEMATIC LOAN TERMS

Various factors raise concerns about PRC loans compared to loans from multilateral development banks (MDBs) or other concessional loans. The first is the transparency of the loans itself. The details of many PRC loans to Djibouti are not publicly available. Second, *Africa Daily* found that the repayment period is generally less than 10 years for a PRC loan, compared to about 28 years for other concessional loans to developing countries in Africa.[137] Finally, interest rates can be much higher. According to the IMF and various media sources, China Exim provided a fully commercial rate for the loan to build the Ethiopia-Djibouti railway.[138] These commercial rates are almost four times higher than the rates for loans provided by entities such as the World Bank and other MDBs to developing countries in Africa.[139]

INCREASING CONTROL AT KEY DJIBOUTIAN PORT

In 2004, DP World, a multinational port operator owned by the government of the UAE, entered into a joint venture to develop a container terminal at Doraleh Port near the capital of Djibouti.[140] The project cost $396 million, and financing came from a variety of MDBs.[141] The terminal was initially 67 percent owned by the Djibouti Port Authority (PAID) and 33 percent owned by DP World.[142] Under the agreement, DP World had exclusive rights as the port operator at Doraleh Port.[143]

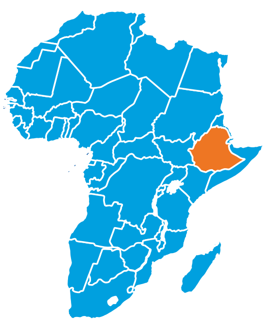
Beginning in 2012, the PRC slowly began to be more involved at Doraleh and other nearby Djiboutian ports,[144] and in 2013, the Djiboutian government sold 23.5 percent of PAID's shares in the Doraleh Container Terminal to the PRC firm CMPort.[145] In February 2018, Djibouti's government unilaterally terminated its contract with DP World, accusing the firm of corruption and taking control of the terminal.[146]

Since the termination of the contract, DP World and Djiboutian media reporting have accused CMPort's parent company, CMG, of pressuring Djibouti's government to expel the UAE firm from the country, facilitating the expansion of the PRC's control and influence at the key port.[147] Further allegations suggest that this deal could represent a payment in-kind on debt owed to the PRC and SOEs.[148] Other reports claim that Djibouti seized control of the port to give it to the PRC as a gift.[149] The Business & Human Rights Resource Centre notes that Doraleh Port is of strategic importance to CMG: "Doraleh Multipurpose Port (DMP) is the core of the extensive investment in Djibouti by China Merchants Group (CMG)."[150] The port links PRC-funded and -operated railways and international free trade zones with key global shipping lanes, making the port of likely strategic importance to the PRC both economically and geopolitically.

INVESTMENT BENEFITS NOT FELT LOCALLY

Many of the PRC's loans and projects have failed to produce a return on investment either for the Djiboutian government or for average Djiboutian citizens. The railway from Djibouti to Ethiopia opened 18 months behind schedule and was initially running only one freight a day instead of the anticipated three.[151] Similarly, because of electricity shortages, the Djibouti-Ethiopia water pipeline was not yet operational in 2019, despite promises that it would open in 2017. In addition, the contracts for both the construction and the management of many of Djibouti's largest projects go to PRC firms. China Exim generally requires borrowers to buy both goods and services from the PRC, and there is evidence that the government of Djibouti has used loans from China Exim to purchase heavy equipment from PRC companies and hire them to build infrastructure.[152]

Ethiopia



Background

According to Ethiopian media outlet *Addis Fortune*, in 2021, China Exim withheld the disbursement of $339 million in loans to Ethiopia to conduct "a review of the country's debt standing, leading to delays in eight infrastructure projects."[153] China Exim did this after the Ethiopian government agreed to be one of 73 countries eligible to renegotiate payment of loans under an international initiative spearheaded by multilateral finance institutions. These institutions took on the work of debt servicing and suspension as a result of the COVID-19 outbreak.[154]

> *A potential failure to renegotiate debt owed to major creditors, particularly China, will lead to the expiration of an indispensable debt relief program with the IMF.*[155]

Multiple Ethiopian media outlets report that the reason for Ethiopia's delay in debt restructuring is the lack of transparency of loan agreements and terms between Ethiopia and China. This lack of transparency makes it difficult for Ethiopia to work with other creditors, such as the IMF or members of the Paris Club. After the actions by Exim Bank, Ethiopian media outlet *Ethiopian Reporter* published an article in 2023 titled "Chinese Contractors Are Canceling the Project They Started in Ethiopia." The article stated that "Chinese companies that have controlled Ethiopia's infrastructure sectors for the past ten years are now canceling their projects due to the delay in debt restructuring that Ethiopia requested from foreign lenders and the worsening of Ethiopia's foreign exchange shortage."[156] PRC contractors have dominated Ethiopia's infrastructure and construction sector in recent years; therefore, canceling these infrastructure projects after they have been contracted would have a negative effect on Ethiopia's overall national development.

Alleged PRC activity

LACK OF TRANSPARENCY OF TERMS AND AGREEMENTS FROM LOANS

Because of the opacity of loan terms, determining whether Chinese loans and credits are from public or private creditors has been difficult. This opacity has caused challenges when these loans are examined during debt relief efforts under the G20 Common Framework.[157] In an article in Ethiopian media outlet *Ethiopian Reporter*, Ethiopian financial expert Getachew Tekle Mariam points out, "If we look at Ethiopia's delay problem, it is said to be related to China's credit situation. China's credit is unclear as to whether it is public or private. It is not clearly stated in what way the loan and transfer were done."[158]

CANCELING PROJECTS AND MOUNTING COSTS

According to the *Ethiopian Reporter*, the delay in debt restructuring is one of the reasons that contractors canceled their infrastructure projects in Ethiopia.[159] In addition, because PRC contractors demanded the payment for the infrastructure projects in US dollars, the Ethiopian government was put in a difficult position because of the foreign exchange shortage.[160] For example, PRC SOE China Communications Construction Company warned that it would stop building the last part of the Modjo Hawassa express highway if it was not paid $50 million USD "in a short period of time." The deputy director general of the Ethiopian Road Administration, Yetmgeta Asrat, said, "The contractor of the highway asked for the release of the payment in dollars. But the government cannot do this because it has a huge foreign exchange problem. We can make the payment only in Ethiopian Birr."[161]

According to the *Ethiopian Reporter*, the loan from China Exim was supposed to pay for the Modjo Hawassa express highway project, but the bank has now blocked the release of the loan "following Ethiopia's request to restructure its debt with China."[162] In another example from the *Ethiopian Reporter* article, the PRC SOE China State Construction Engineering Corporation (CSCEC) canceled its contract with Ethiopia's Ministry of Youth and Sport to build the Ade Ababa National Stadium. The initial cost in the contract for the construction was 5.1 billion Ethiopian birr, but CSCEC later requested the cost be revised to 17 billion Ethiopian birr, with half of the cost adjustment to be paid in US dollars.[163] The Ministry of Youth and Sport, which owns the project, agreed to the price adjustment but rejected the company's request that the payment be made in foreign currency, which led to the project's cancellation.[164]

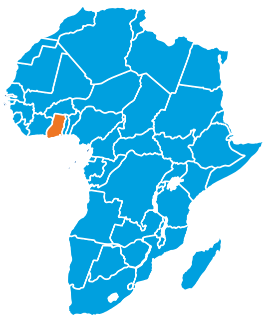
DOMINANCE IN ETHIOPIA'S CONSTRUCTION INDUSTRY

Because of PRC contractors' overall dominance of Ethiopia's construction sector, the canceling of PRC contracts has a negative effect on Ethiopia's national development. According to Ethiopian media outlet Ethiopian Business Review, "Chinese contractors run most capital and technology-intensive construction projects, from airports, highways, and railways to building construction projects above 20 storeys."[165] Ethiopian Business Review also referenced data from the report *Chinese Overseas Contracted Projects and Economic Diversification in Angola and Ethiopia 2000–2017*, a study that looked at PRC construction projects in Angola and Ethiopia by researchers from University of London's School of Oriental and African Studies.[166] According to the report, of the 32 major international contractor companies working major construction projects in Ethiopia in 2017, 80 percent were PRC contractors, far surpassing European contractors or Ethiopian domestic contractors.[167]

The dominance of PRC contractors in the construction sector also puts enormous pressure on Ethiopia's domestic contractors because it is extremely difficult for Ethiopian contractors to compete with

PRC contractors that have greater resources, better financial accesses, and technological advantage. According to Ethiopian Business Review, Ethiopian local contractors "can only commence a project if the client provides initial working capital upfront in international bids, which is impossible for local companies." In the meantime, such weakness for local contractors is an advantage for PRC contractors that have access to finances from Chinese banks in China.[168]

Ghana



Background

In 2023, Ghana sought a $3 billion bailout loan from the IMF. However, during the process, Ghana encountered challenges stemming from the PRC's reluctance to cooperate. In May 2023, the board of the IMF was set to approve Ghana's $3 billion bailout loan after receiving assurances from the creditor committee, which consists of Ghana's external creditors, including China, Ghana's biggest bilateral creditor.[169] The creditor committee released a statement on May 12, 2023, indicating that it had examined the macroeconomic and financial situation of Ghana, including its long-term debt sustainability and its formal request for a debt treatment under the "Common Framework for Debt Treatments beyond Debt Service Suspension Initiative (DSSI)" endorsed under the Saudi G20 presidency in November 2020 and the Paris Club. The committee released a statement that supports "Ghana's envisaged IMF upper credit tranche (UCT) programme and its swift adoption by the IMF Executive Board to address Ghana's urgent financing needs."[170]

With the support of the creditor committee, the $3 billion bailout loan was approved by the IMF on May 19, 2023, with $6 million for a first immediate disbursement to Ghana and the rest for later disbursement in stages.

The process of securing the $3 billion bailout loan was not smooth. A bilateral talk between Ghana and China regarding debt treatment was pushed back from February to the third week of March 2023, which endangered the IMF bailout deal at the time.[171]

For Ghana to secure the $3 billion bailout deal, it first needed to offer a guarantee to the IMF that it can pay back the bailout loan in the future, which was contingent on coming to an agreement with its creditors.[172] Ghanaian financial experts and media reporting did not consider China, Ghana's biggest creditor, cooperative because of its reluctance to work with other creditors, especially creditors from the West.[173] In addition, China is often unwilling to cancel debt and, according to Ghanaian media sources such as the *Chronicle*, has problematic lending and debt relief practices.

Alleged PRC activity

RELUCTANCE TO WORK WITH OTHER CREDITORS

China's reluctance to work with other creditors made it difficult for Ghana to secure the IMF bailout deal. During an interview with CITI FM, a Ghanaian radio station, the deputy ranking member of parliament's finance committee, Isaac Adongo, expressed frustration with China's recalcitrance:

> We need our friendly nations and the bilateral countries to come together and form a committee, but it has been difficult to get China to come to the table even though China is our biggest bilateral lender. The complexity of the China situation is that there are some bits of geopolitics involved where China does not see the Paris Club as anything other than a Western influence and would always want to have equal arrangements with individual countries.[174]

UNWILLINGNESS TO FORGIVE DEBT

In the same interview, Adongo stated, "[T]raditionally, China does not believe that a sovereign country can be poor but does believe that a country can be broke like we are broke but have assets and other means through which they can collect their money and so China is not a believer of forgiving debts."[175] Instead of the traditional debt relief mechanisms that offer coordinated debt relief to debtor countries based on negotiated terms with the creditor countries, China prefers private negotiations with countries struggling to meet their debt obligations, avoiding participation in the Paris Club. China's insistence on full repayment makes it difficult for other lenders to provide debt relief or offer low-interest loans to debtor countries because the money would simply flow back to China.[176]

SPECULATION THAT RESOURCES ARE AT RISK

In an interview with Graphic Business regarding debt negotiation with China, Professor Godfred Alufar Bokpin of the University of Ghana Business School stated that "it was likely that China would ask for some of Ghana's natural resources such as gold, oil and bauxite in return for softer loan terms" and that "caution should be taken to ensure that such decisions protected future generations." [177]

Kenya

Background

In 2020, the IMF released an assessment that elevated Kenya's risk for debt distress from moderate to high. At the time, Kenya's debt-to-GDP ratio had increased from 50.2 percent in 2015 to 61.7 percent in 2020.[178]

According to the UN, by 2022, debt servicing accounted for 42 percent of the Kenyan government's budget and 57 percent of total domestic revenues, limiting the ability of the government to sustainably finance social spending programs.[179] This increase in debt and the country's challenges with servicing these loans have resulted in a growing array of socioeconomic challenges for Kenya.

According to the National Treasury of Kenya, between 2013 and 2023, the PRC garnered a 19.4 percent share of Kenya's external debt, quickly becoming the largest bilateral holder of the country's external debt.[180]

> *The origins of Kenya's debt distress stem from efforts to achieve national development goals articulated in Kenya Vision 2030 via large-scale infrastructure projects, many financed and constructed by entities from the PRC.*[181]

PRC loans to Kenya have been used to finance numerous infrastructure projects related to Kenya Vision 2030, a Kenyan development program with the goal of raising the average standard of living to middle income by 2030. One of the flagship projects, the Standard Gauge Railway (SGR), connects Nairobi with the port town Mombasa on the Kenyan coast and the town of Naivasha in the Great Rift Valley.[182] The goal of the project was to connect the Kenyan port with the landlocked countries of Uganda, Sudan, and Rwanda via the SGR. The SGR exemplifies Kenya's challenges with PRC loans and has been plagued with issues, including a lack of transparency and cost overruns. The Mombasa-Nairobi phase of the project cost $3.8 billion, with China Exim providing 90 percent of the financing.[183] China Exim provided an additional $1.5 billion for a second phase of the railway between Nairobi and Naivasha in 2016.[184] China Road and Bridge Corporation (CRBC) was the primary PRC company contracted to construct the SGR, and Afristar, a subsidiary of CRBC, operated the railway until handing over operations to Kenya Railways in May 2022.[185]

> *Without major improvements in its fiscal situation, Kenya faces a potential difficulty repaying its international creditors by 2024.*[186]

Alleged PRC activity

PROBLEMATIC LOAN TERMS

The terms of the loans signed by the Kenyan government for the SGR include various problematic requirements. Arbitration of any disputes arising from debt service must occur in the PRC, where fairness in resolving the disagreement is not guaranteed.[187] In addition, there are requirements that the Kenyan Ports Authority feed sufficient cargo to the SGR to meet a "minimum volumes required for consignment" clause in the loan agreement.[188] Finally, the contract with China Exim stipulated that most of the construction materials for the SGR would be purchased from the PRC.[189] Although the deal was signed in 2014, these details became publicly known only in 2022, preventing oversight from Kenyan politicians or the public.

CIRCUMVENTING KENYAN PROCUREMENT LAWS

Since its inception, the SGR has been plagued by allegations that the Kenyan and PRC governments circumvented Kenyan procurement laws when planning the project.[190] Kenyan officials acknowledged that there was no public bidding, which they say was a condition of the PRC's loans to help fund construction.[191] In 2020, the Kenya Court of Appeal declared that the Kenyan government had illegally entered into a contract with CRBC by circumventing Kenyan procurement laws. However, despite numerous irregularities in the procurement process, the Kenyan Supreme Court overturned this ruling in 2023.[192]

COST OVERRUNS FOR SGR CONSTRUCTION

The SGR was also plagued by cost overruns far greater than initial estimates. In 2017, Kenyan elected officials questioned why the cost of the SGR increased from the initial Sh220 billion to Sh327 billion over a period of three years.[193] In 2020, the Kenya Court of Appeal stated that "the project's design was manipulated to inflate costs while construction and supervision charges were also overpriced."[194]

INSUFFICIENT RETURN ON INVESTMENT FROM SGR

Lower-than-expected revenues endanger the Kenyan government's expected return on investment in the project. The SGR, which was managed by a subsidiary of CRBC, failed to turn a profit in 2022 despite operating for more than five years. In 2020, a Transportation Ministry report to the Kenyan Parliament indicated that the SGR had lost Sh21.68 billion ($200 million) over three years.[195] Kenya Railways moved to take over operations from CRBC early in part because of its high monthly operating fee of Sh1 billion.[196]

THEFT OF SGR REVENUES BY PRC EMPLOYEES

In 2018, the Kenyan Ethics and Anti-Corruption Commission arrested three senior Chinese officials and four Kenyan counterparts from CRBC for theft of ticket revenue and attempting to bribe investigators.[197] During the course of the investigation, three Chinese employees reportedly attempted to bribe Kenyan law enforcement officials with Sh200,000 to Sh700,000 payments.[198] The stolen revenue is reported to have totaled in the "millions of shillings."[199]

CORRUPTION

Since its inception, the SGR has been surrounded by allegations that it enabled corruption by both PRC and Kenyan officials. Specific instances of corruption surrounding the SGR include CRBC officials offering bribes to Kenyan officials for overloaded trucks[200] and alleged kickbacks paid to Kenyan officials.[201]

MISTREATMENT OF KENYAN COMPANIES AND WORKERS

CRBC has faced multiple allegations of intransigence and worker mistreatment. Examples of CRBC mistreatment include failure to pay Kenyan subcontractors,[202] discrimination and racism against Kenyan workers,[203] and an unwillingness to let Kenyans participate in tasks that would enable professional development.

USING KENYAN INFRASTRUCTURE AS COLLATERAL

In 2019, the Kenyan newspaper the *Standard* released a leaked letter from the Kenyan Office of the Auditor General alleging that Kenya had agreed to allow the Port of Mombasa to serve as collateral related to loans it received to construct the SGR.[204] Kenyan government officials subsequently denied these claims.[205]

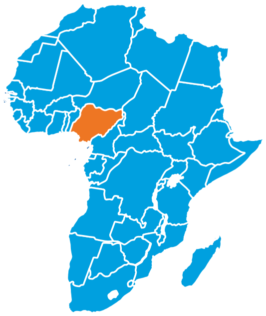
RELUCTANCE TO FORGIVE OR EXTEND KENYAN LOANS

In August 2022, as multiple African governments suffered from the economic effects of the COVID-19 pandemic, the PRC announced that it would forgive 23 loans for 17 African countries.[206] However, the PRC did not include Kenya in this list of countries. This decision took place despite multiple prolonged attempts by the Kenyan government to renegotiate its loan terms amid the pandemic, as well as relief granted by Western countries for their loans to Kenya.[207]

CYBER INTRUSIONS INTO GOVERNMENT INSTITUTIONS

In May 2023, Reuters reported that hackers affiliated with the PRC government infiltrated the networks of multiple Kenyan government ministries.[208] According to the report, the PRC-affiliated group hacked into eight Kenyan ministries over three years. The affected ministries included the office of the president; the defense, information, health, land, and interior ministries; and the counterterrorism center and National Intelligence Service.[209] The report stated that the breach was "possibly aimed at gleaning information on how Kenya planned to manage its debt payments."[210]

Nigeria



Background

Nigeria, as Africa's largest country (with a population of more than 200 million) and largest economy, represents a significant investment opportunity for any external partner.[211] In addition, Nigeria is Africa's largest oil producer, with crude oil sales accounting for about 90 percent of Nigeria's revenue.[212] The PRC and Nigeria's economic relationship began in earnest in 2004. As described by Nigeria's then Minister of Finance Ngozi Okonjo-Iweala: "They [China] want more oil and gas…we have something they want now, and they have something we want, so you have grounds for negotiations."[213]

Under the terms of the deal, Chinese national oil companies were awarded access to Nigerian oil blocks, purchasing equity in them, in exchange for investing in infrastructure projects.[214] Not all of these deals came to fruition.[215]

Over the last 20 years, the PRC has cemented itself as Nigeria's largest bilateral lender, largest investor, and largest trading partner.[216]

According to the World Bank, Nigeria-China trade in products increased from about $1.2 billion in 2003 to $13.7 billion in 2019, and PRC investment in Nigeria increased from $24.4 million to $123.27 million.[217] Nigeria's debt, both to the PRC and other lenders, has also grown significantly. As of June 2022, Nigeria's total public debt stock was $103.31 billion, making the country's debt-to-GDP ratio 38 percent, just below the 40 percent limit self-imposed by the Nigerian government.[218] Nigeria's total borrowing from the PRC was $3.1 billion as of March 31, 2020,[219] and according to data from Nigeria's Debt Management Office, PRC loans account for 84.73 percent of Nigeria's bilateral debt.[220]

Some of the major projects PRC loans have funded include sections of the Nigerian Railway Modernization Project, the Abuja Light Rail Project, Nigerian Four Airport Terminals Expansion Project, and the Rehabilitation and Upgrading of Abuja-Keffi-Makurdi Road Project.[221]

Although the Nigerian government has promised that PRC loans and infrastructure will grow the Nigerian economy and create jobs,[222] Nigeria's economy remains weak.

Nigerians are currently struggling with high inflation, with inflation reaching an 18-year high of 22 percent in March 2022.[223] As Nigeria's debt burden and cost of debt servicing have grown, uncertainty about the country's ability to pay these debts has increased among nonprofits and the public. What is certain is the amount that Nigeria will spend servicing this debt in coming years. The Nigerian government estimates that it will spend nearly 74.6 percent of its anticipated revenue of around $8.2 billion in 2023 on debt payment.[224] Nigeria did not participate in the G20's DSSI during the pandemic and has not yet sought to renegotiate loans or have debt forgiven,[225] but it is vulnerable to shifts in oil prices and other external shocks.

Alleged PRC activity

OPAQUE INVESTMENT PRACTICES

Nigerian media, nonprofits, and politicians have expressed concerns about a lack of transparency in investment practices for OFI deals. As a result, Nigeria's house of representatives unanimously decided to probe PRC loans in May 2022.[226] The Nigerian nonprofit Socio-Economic Rights and Accountability Project (SERAP) stated the reasons for skepticism:

> There is [a] lack of transparency and accountability in the spending of the loans so far obtained, and opacity around the terms and conditions in loan agreements, including repayment details for these loans. The details of the projects on which the loans are spent are shrouded in secrecy.[227]

ILLEGAL OIL SALES

Some estimates note that the country loses an alleged $700 million per month in oil theft, with the head of an Abuja-based oil and gas consulting firm noting, "Corruption has been the main factor that has hindered the growth of the [oil] sector." [228] Recent claims by a whistleblower allege that the PRC and Nigeria's national oil company may have been involved in oil theft. There have been significant concerns about irregularities in crude oil sales between 2011 and 2015,[229] and recently an unidentified whistleblower claimed that 48 million barrels, or around $2.4 billion, of Bonny Light crude oil sold illegally in China in 2015 are missing or unaccounted for.[230]

DEBARRED CONSTRUCTION FIRMS

According to one report, all the PRC infrastructure projects carried out as part of the OFI in Nigeria have been handled by Chinese state–owned engineering and construction firms and their subsidiaries.[231] This practice is in violation of Nigeria's commitment to Article 9(2) of the United Nations Convention against Corruption, and some construction companies operating in Nigeria have been debarred by the World Bank and the African Development Bank. Details of the infractions were not made publicly available, but one source claims that the debarment was because of "fraudulent or corrupt procurement processes."[232]

MISSING PROJECTS—ABUJA CLOSED CIRCUIT TELEVISION (CCTV) AND CODE OF CONDUCT BUREAU (CCB) HEADQUARTERS

The status of two projects that the PRC funded via specific loans is uncertain, despite Nigeria servicing these two loans. The first is the Abuja CCTV project. Nigeria obtained a $460 million loan from the PRC in 2010 to fund the project.[233] The project never materialized, and, as stated by Nigeria's finance minister recently, Nigeria has "no explanation on the status of the project."[234] Nigeria has paid about $2 billion for another project whose status is uncertain, the construction of the headquarters of the CCB,[235] which is described by the government as Nigeria's "pioneer anti-corruption agency."[236] The nonprofit SERAP filed a lawsuit against the government related to the status of these projects, and a Nigerian judge has ordered the government to investigate both the CCTV loan and the CCB loan. SERAP alleges that the funds may have been mismanaged or stolen.

Uganda

Background

Since 2008, PRC loans have helped with aspects of Uganda's development, including building critical infrastructure such as roads and power dams. However, negotiations for the PRC's lending to Uganda have often taken place behind closed doors, with little public awareness of the terms. These closed-door negotiations have allowed Chinese creditors and contractors to leverage optimal terms for the PRC, often resulting in deals with unfavorable terms for Uganda.

In July 2023, Ugandan media outlet the *Monitor* ran a story criticizing PRC lending to Uganda. The *Monitor* article referenced a survey conducted by a Ugandan think tank, the Sino Uganda Research Centre, that examined the satisfaction rating among Ugandans regarding PRC lending to their country. The article states that 400 Ugandans participated in the study, including politicians, journalists, academics, and people from the business community. This survey provides a data point highlighting the dissatisfaction of Ugandans with PRC lending terms. The results showed that 76 percent of the 400-plus participants in the survey believe that China has had a positive effect on easing access to credit for infrastructural development, but only 22 percent of respondents are happy with the terms and conditions of the aid and loans China has granted to Uganda.[237] According to the *Monitor*, China has provided funding to improve infrastructure and road networks and to provide employment opportunities, scholarships, training, and skills development. However, there are significant drawbacks to this lending.

Survey participants expressed concerns about PRC loans, including high interest rates on PRC loans benefiting China more than Uganda in the long term,[238] an increasing reliance on PRC lending undermining Uganda's sovereignty, quality issues of the infrastructure work completed by Chinese contractors, and Chinese contractors failing to hire local Ugandan workers.[239]

Unfavorable terms and back-door deals from PRC loans and aid packages have contributed to Uganda's growing debt. A January 2023 article from the *Independent* explains some specifics of Uganda's PRC debt:

> Uganda's public debt stock increased by 22% from Shs [Ugandan Shilling] 56.938 trillion [$15 trillion USD] two years ago to Shs69.513 trillion [$18.5 trillion USD] by end of last Financial Year. Additional data from the Ministry of Finance shared in parliament by the Committee on the National Economy shows that Uganda's public debt by June 2022 was Shs78.8 trillion [$21 trillion USD] which is a 13% monthly year-on-year increment. Up to 20% of that debt is owed to Chinese entities.[240]

This increasing national debt has negatively affected Ugandan citizens' lives. The government is forced to spend its revenue on paying back the high-interest debt, leaving very limited funding left for public services, social welfare, and national development.

Alleged PRC activity

LOAN DEALS NEGOTIATED IN SECRECY

Ugandan reporting from the *Independent* and Uganda's parliamentary committee noted that Chinese loan deals have historically been negotiated in secrecy.[241] The reports state that these loans often contain unfavorable terms for Uganda and that China often leverages loan deals to influence African countries that then allow Chinese contractors to acquire lucrative infrastructure contracts.[242] According to a 2021 article in the *Independent*, the terms for the loan agreement for the Entebbe Airport were not made public. The article claims that "keeping loans secret is standard for all Chinese loans for poor countries."[243] Such closed-door deals also make it difficult for the Ugandan parliament to conduct its oversight duty.[244]

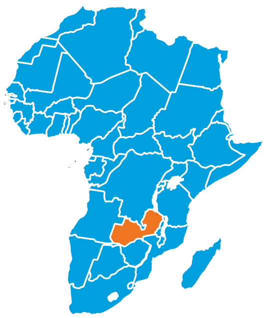
"AGGRESSIVE" TERMS LEVIED ON ENTEBBE AIRPORT

AidData, a US-based research group, highlights that China Exim imposed stringent and unfair terms on the $200 million loan to expand the Entebbe International Airport.[245] The AidData report points out more than 10 clauses that were deemed "unfriendly," such as mortgaging the airport for the Chinese loan and giving China Exim the sole authority to approve withdrawals of funds from Uganda Civil Aviation Authority's account to pay the loans, which is a violation of Uganda's sovereignty.[246] The *EastAfrican* also points out that one of the most troubling clauses from the loan agreement for the airport expansion project obliged the government to open an escrow account in Stanbic Bank where "all transactions have to be monitored and approved by Exim Bank."[247] Another clause also gave China Exim powers to approve the airport's budgets and to inspect books of accounts. In case of any dispute, the China International Economic and Trade Arbitration Commission in Beijing would resolve it under Chinese law.[248] If Uganda fails to repay the loan, China Exim can debit the escrow bank account without having to go to court.[249]

THE EFFECT OF INCREASING DEBT

As Uganda's debt grows, the country has been forced to stop investing its resources in national development as well as public spending. According to the *Observer*, in Uganda "close to half of the national budget goes into debt repayment. This makes it harder for such a highly indebted country to promote research in developmental fields." In addition, the government is forced to spend most of its revenue raised through taxes on debt repayment because of mandates from PRC creditors to prioritize debt repayment for China.[250] Another *Observer* article states that "the high cost of debt servicing suggests growing pressure on taxes to finance debt liabilities at the expense of other priority budgetary items, such as education and health." It also notes that "domestic debt has contributed to the rise of interest rate[s], which has limited access to credit to the private sector. Other impending risks include a rise in the prices of household goods and services. Therefore, Uganda risks losing development gains because of debt pressure."[251]

Zambia



Background

In November 2020, amid a global economic downturn caused by the COVID-19 pandemic, Zambia defaulted on a $42.5 million payment to international creditors.[252] Starting in 2012, the Zambian government sought external loans to finance the construction of transportation and energy infrastructure projects.[253] The Zambian government sought financing from international bond markets and financial institutions from the PRC, and by 2021, the PRC had become Zambia's largest bilateral national creditor. Loans from PRC policy banks (CDB and China Exim), state-owned banks (ICBC), and commercial entities (such as Huawei) comprised more than 30 percent of Zambia's total external debt (valued at $5.05 billion).[254]

In 2017, the IMF released a report stating that the rapid increase in external debt had placed Zambia at "high risk of debt distress."[255]

Zambia's debt stress is the result of what international finance organizations and Zambian experts label as mismanagement of the loans received from the PRC and private international lenders. As Zambia's external debt increased, the portion of the government budget needed to service debt payments greatly increased.

According to the Consumer Unity & Trust Society International's Lusaka branch, by 2018, nearly 30 percent of government revenues were dedicated solely to debt service payments.[256]

When this external debt is combined with wages and government salaries, only 30 percent of the budget was left for all remaining government programs, such as public health, education, and social protection. To cope with increasing debt service requirements, the Zambian government requested support from the IMF in 2021 and received approval for a three-year $1.3 billion loan program to support it. In 2021, Zambia also began negotiations with its creditors over debt restructuring. In 2023, challenges emerged in these negotiations, primarily because of the PRC's reluctance to accept principal reductions and unprecedented demands that debt from multilateral institutions (such as the World Bank) and foreign holders of debt denominated in Zambian currency be included in the restructuring negotiations.[257]

The PRC's delay of negotiations between Zambia and its creditors had substantial effects on the country's economy.

These demands resulted in rapid depreciation of the Zambian currency and an elevated inflation outlook for 2023. In June 2023, Zambia, the PRC, and other creditors reached an agreement to restructure $6.3 billion in outstanding debt.[258] Of the $6.3 billion, $4.1 billion belonged to the PRC.[259] Ultimately, neither MDBs nor foreign holders of Zambian local currency debt were required to take reductions in payments. However, the PRC did not forgive any of the outstanding Zambian debt, instead opting to extend repayment terms.[260]

Alleged PRC activity

DELAYING ZAMBIAN DEBT NEGOTIATIONS

According to MDBs, the US Department of the Treasury, and the Bank of Zambia, unfeasible demands from the PRC caused substantial delays to the negotiations to restructure Zambia's debt. According to Mwansa Chalwe Snr, a Zambian financial analyst, the PRC's demand for foreign investors in Zambia's local currency bonds to participate in restructuring is an "almost impractical condition" given its potential to destabilize the country's bond market and exchange rate.[261]

PREFERENCE FOR BILATERAL NEGOTIATIONS

In addition to demanding concessions from MDBs, the PRC has expressed a resistance to standard debt forgiveness practices. Specifically, the PRC prefers to enter into bilateral negotiations rather than multilateral discussions and strongly resists principal reductions in favor of extended repayment terms.[262]

INSUFFICIENT DEBT FORGIVENESS

In 2019, the PRC announced that it had forgiven a $22 million interest-free loan that it had provided to Zambia.[263] Noting that Zambia's total debt position at the end of 2019 exceeded $16 billion, Zambian President Hakainde Hichilema (then an opposition candidate) referred to the gesture as "a mockery and an embarrassment."[264]

DIVERTING GOVERNMENT RESOURCES FOR DEBT SERVICING

By 2018, nearly 30 percent of government revenues were dedicated solely to debt service payments (including PRC loans and those from commercial creditors). Increasing debt service payments drastically reduced the amount of financial resources the Zambian government could dedicate to health care, education, and social programs meant to help Zambian farmers.[265]

CORRUPTION AND UNFAIR BUSINESS PRACTICES

PRC loans have allegedly facilitated widespread corruption and unfair business practices by PRC companies throughout the Zambian construction sector. There are allegations of collusion among PRC SOEs, noncompetitive bidding, inflated costs, and undercutting local competition.[266] Speaking in 2019, before becoming president, Hichilema stated that the PRC-financed Lusaka-Ndola Road should have cost only $400 million instead of its actual cost of $1.2 billion. The inflated costs, according to Hichilema, are the result of "projects we are giving to China in the corrupt way, which is costing us too much of taxpayers' money."[267] President Hichilema also alleges that financing for PRC projects has exacerbated existing issues with corruption in his country.

ALLEGED DEMANDS FOR INFRASTRUCTURE AS COLLATERAL

There are unconfirmed reports that PRC lenders have demanded physical infrastructure as collateral for loans to Zambia. The Zambian government denied the report, labeling it "fake news."[268]

FAILURE TO PRODUCE RETURN ON INVESTMENT

Zambian researchers allege that PRC firms fail to hire local labor, fail to require 20 percent of work to be completed by Zambian companies, import materials and machinery from the PRC, and carry out "vanity projects." Together with the reduced services to the public and the economic fallout of some of the recent debt restructuring delays, Zambia has failed to gain a return on its investment in major infrastructure projects. As the Zambian financial analyst Mwansa Chalwe stated, "These billions do not seem to have made much economic impact on ordinary Zambians in terms of discernable job creation, poverty alleviation and lowering the cost of living."[269]

ABBREVIATIONS

BRI	Belt and Road Initiative
CCB	Code of Conduct Bureau (Nigeria)
CCTV	Closed Circuit Television (Nigeria)
CDB	China Development Bank
CEFC	China Energy Fund Committee
China Exim	Export–Import Bank of China
CIF	China International Fund
CMG	China Merchants Group
CNPC	China National Petroleum Corporation
CRBC	China Road and Bridge Corporation
CSCEC	China State Construction Engineering Corporation
CSIHL	China Sonangol International Holding Limited
DSSI	Debt Service Suspension Initiative
FBI	Federal Bureau of Investigation
GDP	gross domestic product
GRN	Gabinete de Reconstrução Nacional (Angola)
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
MDB	multilateral development bank
OFI	oil for infrastructure
PAID	Djibouti Port Authority (Port Autonome International de Djibouti)
PRC	People's Republic of China
SERAP	Socio-Economic Rights and Accountability Project (Nigeria)
SGR	Standard Gauge Railway (Kenya)
SOE	state-owned enterprise
UAE	United Arab Emirates
UN	United Nations

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