ODI Think Change

odi.org

China’s approach to sovereign lending and debt restructuring

Yunnan Chen

6 October 2021

CABRI workshop

Roadmap

- Patterns of lending and key institutions
- China’s approach to debt restructuring
- Current developments and opportunities in debt restructuring

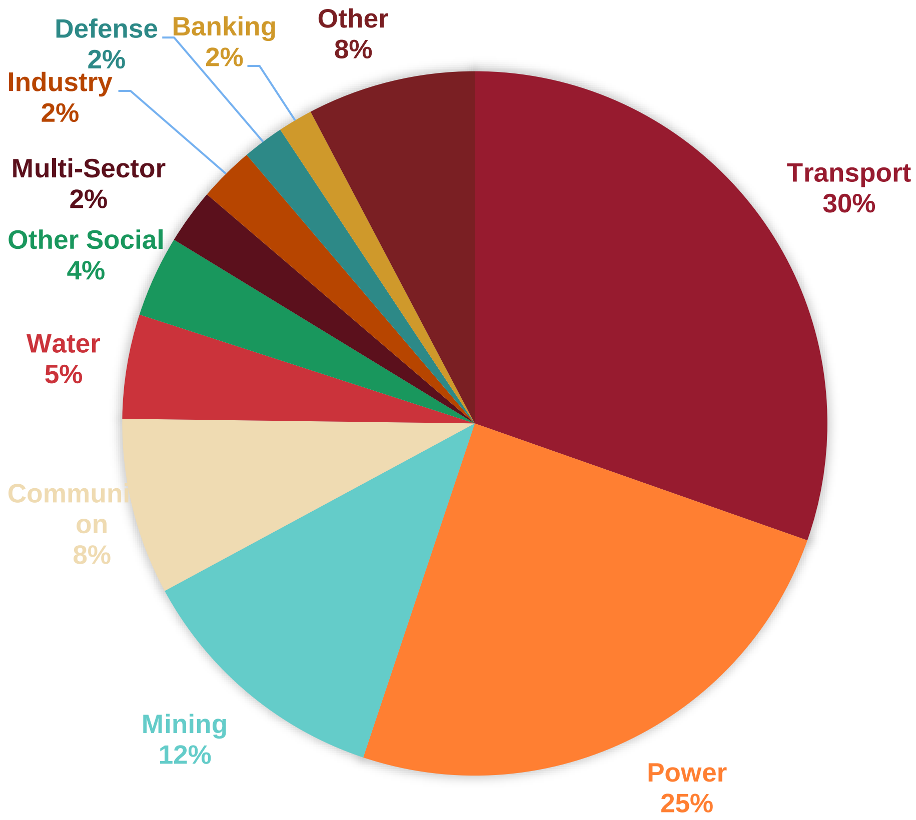
Patterns of lending and key institutions

ODI Think Change

Chinese lending in Africa

- 152bn USD from 2000-2018, peaking around 2013-5 and showing signs of decline
  - Top recipients: Angola, Ethiopia, Zambia, Kenya

- Announcements during Forum of China African Cooperation (FOCAC), last held in 2018
  - Africa tied to Belt and Road Initiative



Sectoral distribution of Chinese loans to Africa, 2000-2019

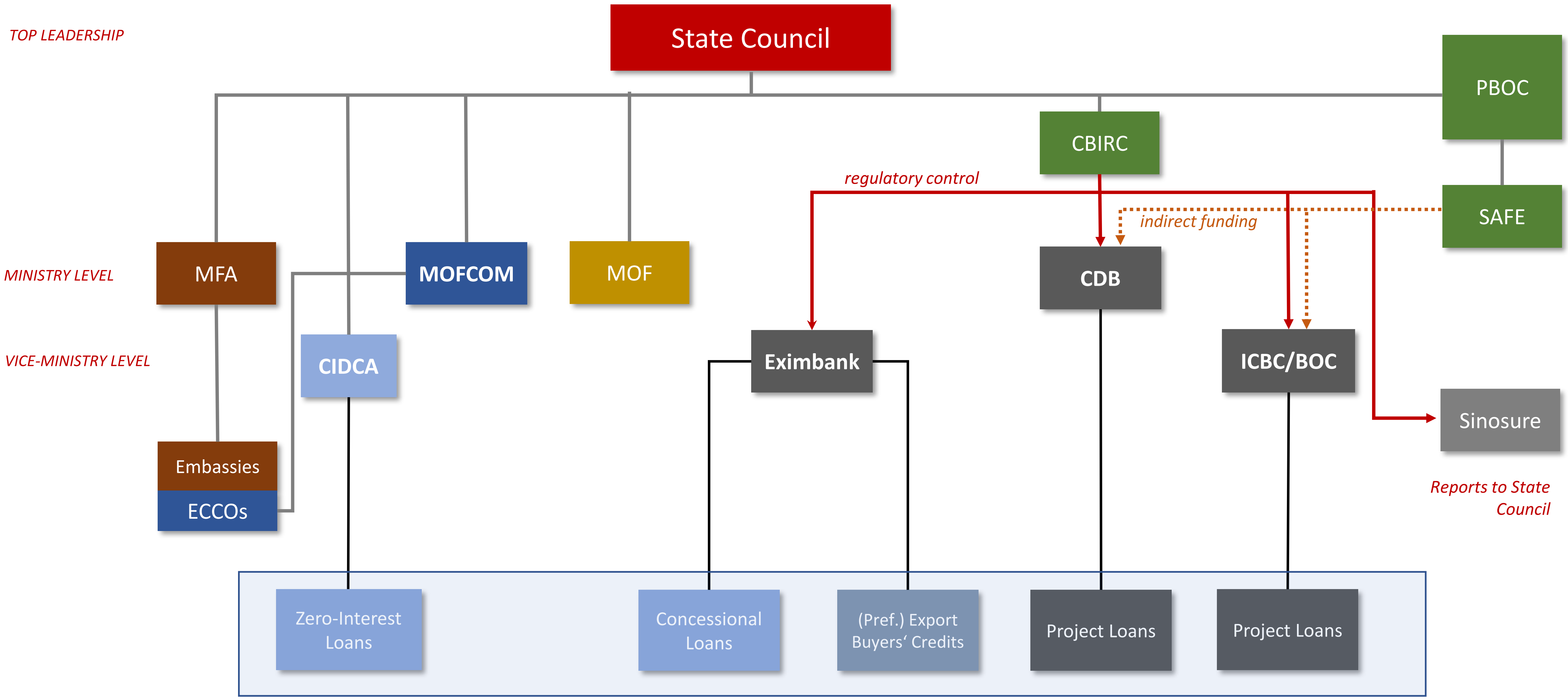
Terms and conditions of Chinese loans

- China as a new creditor: more commercial, more secretive compared to other OECD lenders.
  - Concerns over special clauses around collateral, ‘no-Paris Club’ and confidentiality clauses

- Limited debt forgiveness
  - Most ‘loan forgiveness’ has been of zero-interest loans (ZILs), which are 5% of overall lending portfolio

- Debt negotiations and decision-making structures will vary by the type of loan and the creditor involved.

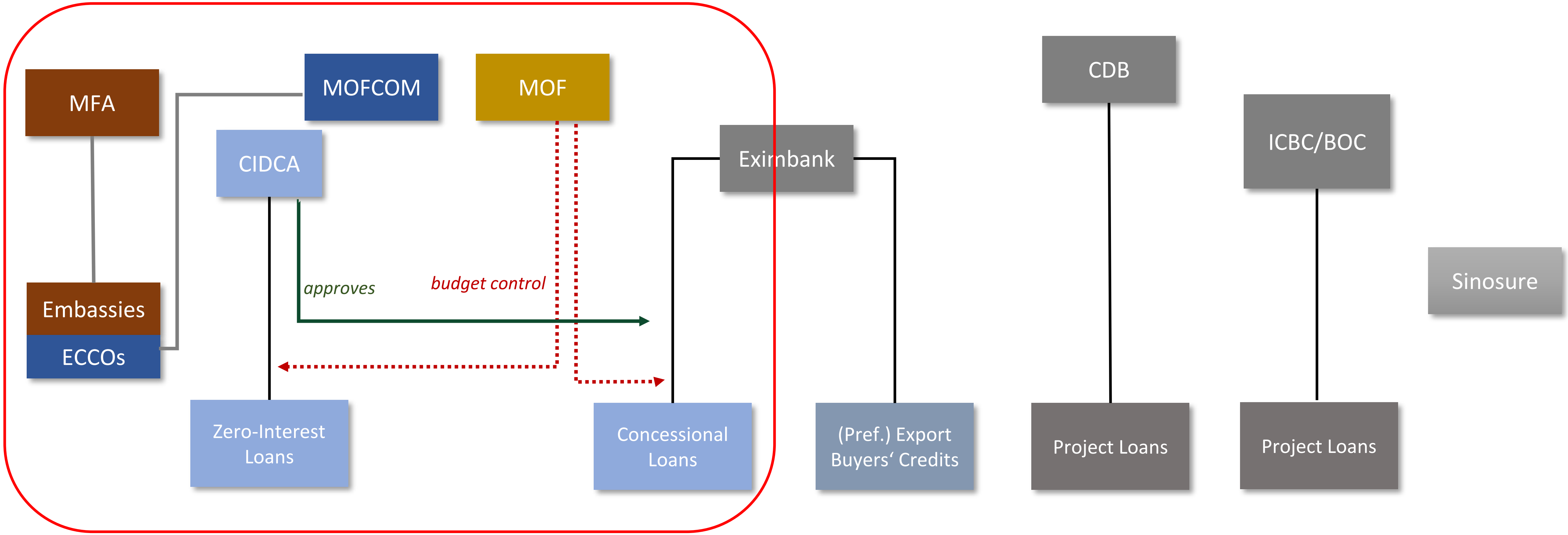
Type	Lending institution	Lending instrument	
Foreign aid loans	CIDCA/ MOFCOM	Zero-interest loans (ZILs)	RMB-denominated, typically 0% interest rate, 20-year maturity and 10-year grace period
	Eximbank	Concessional Loans (CL)	RMB-denominated, typical interest rate of 2-3%, 15-20-year maturity and 5-year grace period
Non-foreign aid official loans	Eximbank	Export Buyer's Credits (EBCs); Preferential Export Buyer's Credits (PEBC)	USD-denominated, loan terms vary. PEBCS have a slightly subsidised interest rate, maturity typically 15 years
	CDB	Middle-and long-term project loans	USD or EUR- denominated, floating rate set to LIBOR at typical rate of 4.5-6%, varying maturity and grace periods
Commercial loans	ICBC, Bank of China, China Construction Bank, Agricultural Bank of China	Middle-and long-term project loans	USD or EUR- denominated, floating rate set to LIBOR at typical rate of 4.5-6%, varying maturity and grace periods



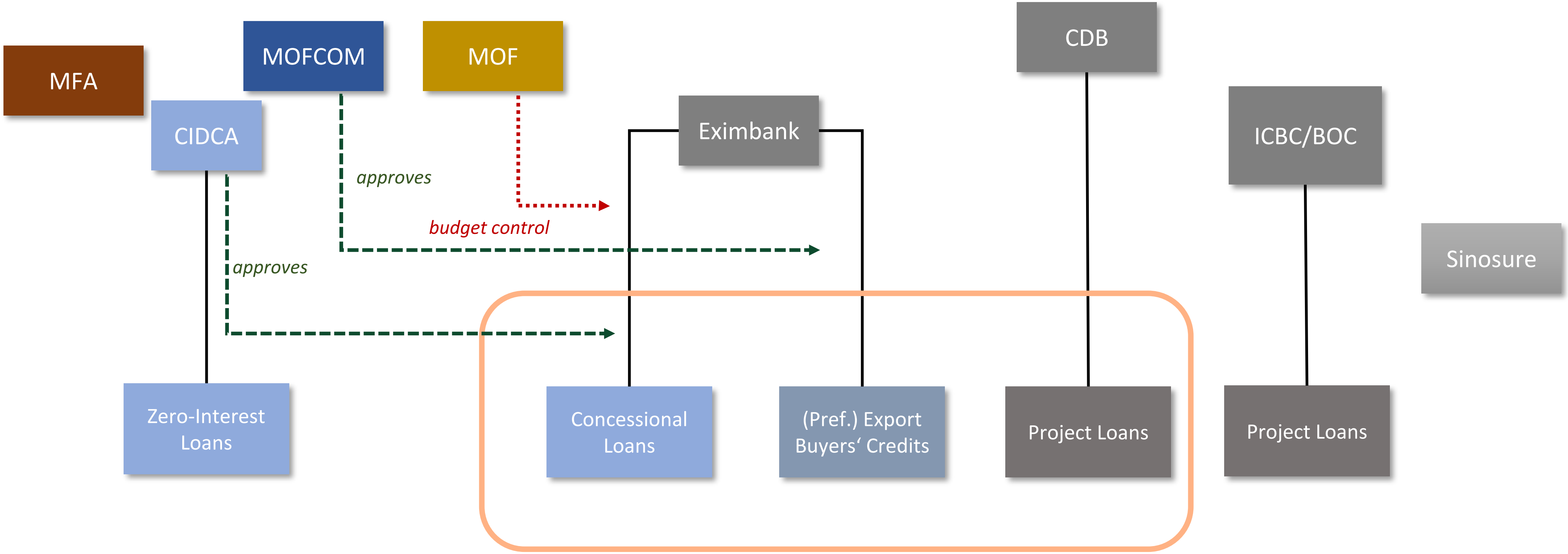
TOP LEADERSHIP
MINISTRY LEVEL
VICE-MINISTRY LEVEL
State Council
PBOC
CBIRC
SAFE
regulatory control
indirect funding
MFA
MOFCOM
MOF
CDB
CIDCA
Eximbank
ICBC/BOC
Sinosure
Embassies
ECCOs
Reports to State Council
Zero-Interest Loans
Concessional Loans
(Pref.) Export Buyers' Credits
Project Loans
Project Loans

China’s approach to debt restructuring

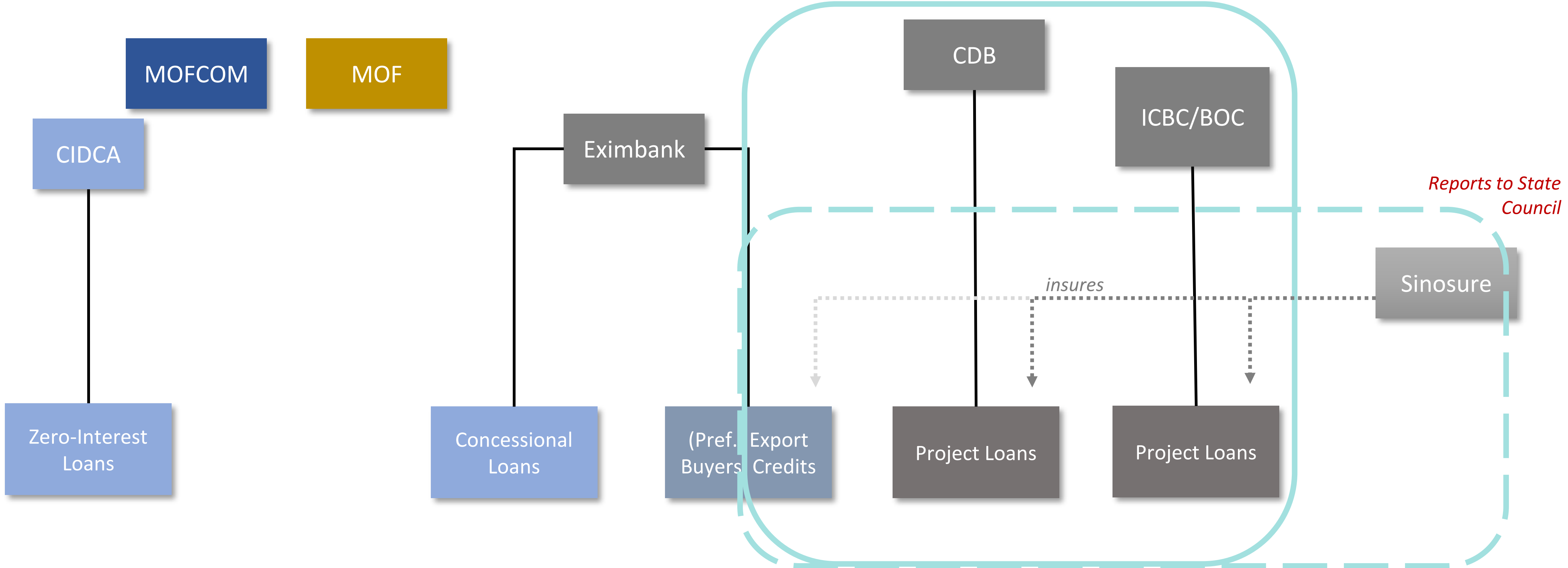
Zero-interest loans (ZILs)



Policy Bank Loans



Commercial loans



Lenders are conservative

- The more commercial in nature the loan, the more narrow the scope of possibilities for debt relief

- Political economy factors:
  - Personal Liability – *will the decision-maker be personally accountable?*
  - Past Precedent – *is there a past example of this occurring?*

- → can lead to a prolonged negotiation process

Political Pressures matter

- Debt relief for commercial loans is easier with top-down pressure
  - High-level strategic relationship in critical in borrowers' ability to change the terms of their Chinese loans

- International pressures – IMF and involvement of other actors also generate pressures on China to respond.

- Negotiation capacity and transparency of borrowers

Current debt relief initiatives

China’s participation in COVID-19 debt relief

- White Paper (2021) maintains an insistence on bilateral debt negotiations, while supporting multilateral initiatives
  - 13 countries in ongoing negotiations.

- First time participating in a multilateral debt initiative
- → G20 Debt Service Suspension Initiative (DSSI)
- → Common Framework for Debt Treatment beyond the DSSI

DSSI and Common Framework

- G20 Debt Service Suspension Initiative (DSSI) – limited by lack of private sector participation
  - Only China Eximbank participated as an 'official' creditor, other banks encouraged on "voluntary" basis
  - Debt suspension in line with practice of Chinese banks

- Common Framework for Debt Treatment beyond the DSSI (CF)
  - Comparability of debt treatment
  - Ministry of Finance driving collaboration, working with IMF

Prospects for Common Framework and other debt initiatives

- Chinese lenders constructively participating in CF
  - Questions around private sector participation and CDB

- Uptake of initiative is low, and lack of clarity around procedures and negotiations

- New Proposals: linking debt and climate
  - debt-for-nature/debt-for-climate swaps
  - Brady-type bonds and commodity linked bonds

ODI Think Change

Conclusions

Take aways

- China's lending system is fragmented and different banks face different incentive structures
- Outcomes and possibilities for debt relief vary – but there are structural and political constraints to debt relief
- Political signals matter, as does a good bilateral relationship
- China is committed and collaborative with the G20 DSSI and CF, but they still face many challenges

Recommendations

1. Understand the terms and details of loan in terms of their lending institution and the horizon of debt restructuring possibilities
2. Maintain bilateral relationships and credibility. Chinese lenders may be more flexible, but timely notification and coordination is important – esp. regarding actors like Sinosure.
3. Strengthen domestic frameworks around debt transparency – greater information sharing can be advantage to bargaining power
4. Carefully evaluate new debt relief instruments (CF, brady bonds, debt swap) and consider potential opportunities to align debt and other agendas

Thank you

y.chen@odi.org.uk