China’s Interest-Free Loans to Africa

USES AND CANCELLATIONS

JYHJONG HWANG, OYINTARELADO (TARELA) MOSES

EXECUTIVE SUMMARY

On August 19, 2022, China announced it would waive 23 interest-free loans (IFLs) with maturity by the end of 2021 for 17 African countries (MFA 2022). The announcement took place at the Follow-up Actions Meeting of the Eighth Ministerial Conference of the Forum on China-Africa Cooperation, and it echoed China’s commitment to forgive IFL debt during the 2021 FOCAC summit (FOCAC 2021). These announcements draw attention to IFLs in Africa and China’s debt relief practices and add to the number of Chinese actions to address debt issues and concerns since the outbreak of the COVID-19 pandemic in 2020. Under the Group of 20’s (G20) Debt Service Suspension Initiative (DSSI), China deferred the largest amount of debt repayment of all G20 countries, by suspending $1.35 billion in debt repayment for 23 DSSI countries through the Export-Import Bank of China (CHEXIM) and the China International Development Cooperation Agency (CIDCA) (MOF 2020). Additionally, China Development Bank (CDB) voluntarily signed what appears to be deferral agreements worth $748 million (MOF 2020). China’s DSSI debt deferrals add to the research findings on Chinese debt relief by the Johns Hopkins University School of Advanced International Studies China Africa Research Initiative (SAIS-CARI), which uncovers Chinese loan deferrals, restructurings, refinancing and $3.4 billion in debt forgiveness in Africa from 2000-2019 (Acker et. al. 2020).

China’s IFL provision and IFL forgiveness in Africa is not new. Including the most recent IFL cancellation, there are now ten instances of China’s IFL debt cancellation announcements for African countries.

1 The Group of 20’s (G20) Debt Service Suspension Initiative (DSSI) was launched during the COVID-19 pandemic as part of an effort to relieve the debt burdens of eligible countries. Official bilateral creditors suspended debt service payments for 48 countries of the 73 low- and lower middle-income countries (World Bank 2021).
countries at United Nations (UN) high-level meetings and FOCAC summits from 2005-2022. However, IFL provision and cancellation are important diplomatic and symbolic tools in China’s lending practices. It is challenging to determine the exact amount of the most recent round of cancellations due to lack of information. Nevertheless, the Chinese Loans to Africa (CLA) Database, managed by the Boston University Global Development Policy Center, provides an idea of the magnitude of China’s recent IFL forgiveness to Africa, which could vary from $45 million to $610 million, but overall constitutes a small portion of China’s lending to Africa.

Main findings:

- The CLA Database contains 212 IFL commitments between 2000-2020 in 38 countries. IFLs make up 18 percent of the 1,188 loans in the CLA Database, and the total value of IFL commitments is $2.22 billion, or 1 percent of the total loan commitment value of $159.98 billion in the database.

- CIDCA lends and administers IFLs since they are considered a part of China’s foreign aid funds, in addition to grants and concessional loans. IFLs accrue no interest and typically have a five- or ten-year grace period followed by five- ten-, 15- or 20-years of repayment. Since maturity is reached at the end of the grace period and the repayment term, IFL maturities can range from ten to 30 years.

- The August 19 announcement of 23 IFL cancellations does not elaborate on how much value the cancellations might represent, nor which 17 countries are involved. However, there are four potential estimations for the total canceled values based on different timeframes and country criteria if at least a ten-year maturity is assumed:

  - **Estimation 1**: Assessing IFLs signed in 2000-2012 (maturity date up to 2021) for African recipient countries shows an average loan amount of $8.38 million, making 23 loans worth an average of $192.65 million in loans canceled. The upper and lower bound of this cancellation value are estimated by summing the largest 23 and smallest IFLs in the database from 2000-2012. The smallest possible value of the cancellations is $44.76 million, and the largest possible value of cancellation is $609.57 million.

  - **Estimation 2**: Assessing IFLs signed in 2000-2012 for African country participants of the DSSI that also received deferrals from China, show an average loan amount of $10.96 million, making 23 loans worth an average of $251.99 million in loans canceled. From summing the 23 largest and smallest loans in this estimation group, the smallest possible value is $74.08 million, and the largest possible value of cancellation is $516.69 million.

  - **Estimation 3**: Considering loan cancellation announcements made during the COVID-19 pandemic, IFLs signed in 2010-2012 (maturity dates from 2019-2021) for all African recipient countries show a loan average of $11.47 million. In this case, 23 loans canceled would on average constitute $263.70 million. From summing the 23 largest and smallest loans in this estimation group, the smallest possible value of the cancellations is $132.09 million, and the largest possible value of cancellation is $402.22 million.

  - **Estimation 4**: Considering loan cancellation announcements made during the COVID-19 pandemic, IFLs signed in 2010-2012 for African recipient countries participating in the DSSI and receiving deferrals from China show a loan average of $12.17 million. In this case, 23 loans canceled would on average constitute $279.97 million. By summing the largest and smallest 23 IFLs, the smallest possible value of the cancellations is $249.54 million, and the largest possible value of cancellation is $289.94 million.

Oyintarelo (Tarela) Moses is the Data Analyst and Database Manager for the Global China Initiative at the Boston University Global Development Policy Center. Previously, she worked on the international relations team of the Export-Import Bank of the United States as a policy analyst. She has also worked at the China Africa Research Initiative at the Johns Hopkins University School of Advanced International Studies and the US Development Finance Corporation.
• Notably, the average amount in each estimation group ranges from $192.65 million to $279.97 million. The highest estimation of $609.57 million is only 1 percent of the $53.79 billion in overall loan commitments between 2000-2012. Indeed, even if all $2.22 billion worth of IFLs in the CLA Database were cancelled, it would still amount to 1 percent of the $159.98 billion of Chinese loans to Africa committed from 2000-2020.

INTRODUCTION

On August 19, 2022, China announced it would waive 23 interest-free loans (IFLs) with maturity by the end of 2021 for 17 African countries (MFA 2022). The announcement took place at the Follow-up Actions Meeting of the Eighth Ministerial Conference of the Forum on China-Africa Cooperation, and it echoed China’s commitment to forgive IFL debt during the 2021 FOCAC summit (FOCAC 2021). These announcements draw attention to IFLs in Africa and China’s debt relief practices and add to the number of Chinese actions to address debt issues and concerns since the outbreak of the COVID-19 pandemic in 2020. Under the Group of 20’s (G20) Debt Service Suspension Initiative (DSSI), China deferred the largest amount of debt repayment of all G20 countries, by suspending $1.35 billion in debt repayment for 23 DSSI countries through the Export-Import Bank of China (CHEXIM) and the China International Development Cooperation Agency (CIDCA) (MOF 2020). Additionally, China Development Bank (CDB) voluntarily signed what appears to be deferral agreements worth $748 million (MOF 2020). China’s DSSI debt deferrals add to the research findings on Chinese debt relief by the Johns Hopkins University School of Advanced International Studies China Africa Research Initiative (SAIS-CARI), which uncovers Chinese loan deferrals, restructurings, refinancing and $3.4 billion in debt forgiveness in Africa from 2000-2019 (Acker et. al. 2020).

Considering China’s history with debt relief, what does this round of IFL forgiveness mean, and what does it tell us about China’s debt relief practices?

BACKGROUND AND DATA ON IFLS

The Chinese Loans to Africa (CLA) Database, managed by the Boston University Global Development Policy Center, contains 212 IFL commitments between 2000-2020 in 38 countries (BU GDPC 2022). According to existing literature, IFLs accrue no interest and typically have a five- or ten-year grace period followed by ten-, 15- or 20-years of repayment (Acker et. al. 2020). China’s 2011 Foreign Aid White Paper states that “interest-free loans are mainly used to help recipient countries to construct public facilities and launch projects to improve people’s livelihood. The tenure of such loans is usually 20 years, including five years of use, five years of grace and ten years of repayment.” (China State Council Information Office 2011). Additionally, the shortest repayment period observed by CLA Database researchers is five years, based on an IFL for the Kenyan Kipsigak-Serem-Shamakshokho Road project (Kenya DMO 2009). Since maturity is reached at the end of the grace period and the repayment term (OECD 2003), IFL maturities can range from ten to 30 years.

Historically, the Chinese Ministry of Commerce (MOFCOM) administered these loans, in addition to providing grants, in a bundle known as the “Economic and Technical Cooperation Agreement” (ETCA) (Brautigam and Hwang 2020). In 2021, CIDCA, the Ministry of Foreign Affairs (MFA) and MOFCOM released new “Measures for the Administration of Foreign Aid” (CIDCA 2021). This document moved the administrative powers of issuing IFLs to CIDCA through Article 16. It highlighted that IFLs are considered a part of foreign aid funds, in addition to grants and concessional loans.

2 The Group of 20’s (G20) Debt Service Suspension Initiative (DSSI) was launched during the COVID-19 pandemic as part of an effort to relieve the debt burdens of eligible countries. Official bilateral creditors suspended debt service payments for 48 countries of the 73 low- and lower middle-income countries (World Bank 2021).
Article 16 also stipulated the use of IFLs for public infrastructure and industrial and agricultural production in recipient countries (CIDCA 2021). Based on this designation, IFLs in effect are loans than are not on the books of policy or commercial bank lenders, which makes them simpler to forgive.

Of the 1,188 loans in the CLA Database signed between 2000-2020, 18 percent (212) are IFLs. Moreover, IFLs constitute only a fraction of the cumulative loan commitment values in the database: the total value of IFL commitments is $2.22 billion, or 1 percent of the total loan commitment value of $159.98 billion in the database. IFLs also tend to be smaller than other loans: the average size of an IFL across 21 years is $10.49 million, compared to the database average of $134.57 million.

CHARACTERISTICS OF IFLS

In contrast to Chinese commercial or even policy bank loans, IFLs from CIDCA do not generate any interest payments, nor are they ever backed by natural resources or guarantees. This is also not the first time IFLs were canceled before repayment (see next section). Considering IFLs constitute only 18 percent of China’s loans to Africa, compared to 86 percent of the loans from policy and commercial banks, IFLs appear to be canceled frequently. This suggests that the giving and the cancellation of IFLs operate on different criteria than most other Chinese loans to Africa, with IFLs more akin to foreign policy instruments than bottom line-oriented financial instruments.

In 2015, Chinese Ambassador to Afghanistan Deng Xijun published an article clarifying that Chinese grants target “small or medium-sized social welfare projects, and to fund human resources development cooperation, technical cooperation, material assistance and emergency humanitarian aid”; interest-free loans are “mainly used to help recipient countries construct public facilities and launch projects to improve people’s livelihood”, while concessional loans are for “manufacturing projects and large and medium-sized infrastructure projects with economic and social benefits, or for the supply of complete plants, machinery and electronic products” (Embassy of China in Afghanistan 2015). In other words, IFLs are meant to fill the financing gap of medium-sized projects that are too big for grants but too small for concessional loans.

Despite these reported broad categories, the purposes of IFLs are often unknown. Sixty percent of IFLs (128 loans) have an unallocated sector and an unknown purpose. These unallocated loans are often described as finance for “mutually agreed upon projects” without further elaboration. While there is no official explanation for why so many of the IFLs in ECTAs have an unknown purpose, there are several possible reasons. First, the IFLs in ECTA packages are usually smaller in value than the average Chinese loan to Africa. By nature, smaller loans receive less media attention and government fanfare than larger ones, so less information is publicly available. Second, at least for CHEXIM loans, which constitutes 54 percent of all commitments worth $87 billion, loan purposes are more likely to be published because the project contract must be signed before a borrower can apply for a loan. For an IFL-supported project, there is no evidence that a project contract must be secured before receiving an IFL. For example, the Mauritius government announced that a $8 million IFL signed in October 2014 “will be used to implement projects to be agreed upon through consultations with the two Governments,” indicating that the purpose of the IFL had not been decided at the time of the loan signing (Mauritius Ministry of Finance and Economic Development 2014).

The research time CLA Database researchers allocate to a loan is proportional to the loan value, with more time dedicated to larger loans. Since the average size of all loans is $135 million, loans under $25 million receive around 30 minutes to one hour of research.
For IFLs with a known purpose, constituting 40 percent of all IFLs (84 loans), the funded projects are different from the rest of the loans in the CLA Database. Top sectors financed by Chinese loans in general are transport, power, information and communications technology (ICT) and mining. While transport is still the leading sector financed by IFLs with known purposes, 12 loans (14 percent) went towards “other social,” which is a catch-all category for projects such as social housing, stadiums, libraries, conference and convention centers, youth centers, gyms, etc. (Brautigam and Hwang 2020). In contrast, loans to the “other social” sector constitutes only 5 percent of all Chinese loans (64 out of 1,188). Of the 12 IFLs that went to the “other social” sector, six are for sports stadiums, three are for convention centers, two are for social housing and one is for a youth center.

Notably, of the 19 stadiums that are loan financed, six stadiums, or 32 percent, are financed by IFLs. Given that IFLs represent only 18 percent of all loan financed projects, such a large overlap between IFLs and stadiums gives reason to believe stadiums are disproportionately likely to be financed by IFLs. Knowing that IFLs tend to be used as a foreign policy tool, this overlap would corroborate existing research on China’s “stadium diplomacy” abroad, where building stadiums are used as a means to cement bilateral relations and improve public perceptions of China abroad (Xue et al 2019, Will 2012, Vondracek 2019).

PAST IFL CANCELLATIONS

There are many instances of IFL cancellation, showing this type of debt is typically the most canceled when China forgives debt. Including the most recent IFL cancellation in Africa, there are now ten instances of China’s IFL debt cancellation for African countries at United Nations (UN) high-level meetings and FOCAC summits from 2005-2022 (Acker et al. 2020, Brautigam 2021). The first announcement took place at a UN Summit High-Level Meeting on Financing for Development in September 2005, where China announced it would cancel the overdue parts (arrears) due by the end of 2004 of IFLs for heavily indebted poor countries (HIPCs) (Chinese Embassy in Botswana 2005). Subsequently, six similar announcements were made at FOCAC summits in Beijing, Egypt and Johannesburg and UN high-level meetings in New York (Acker et al. 2020). Notably, before the start of the COVID-19 pandemic at the September 2018 FOCAC summit in Beijing, China announced exemption for IFLs due to mature by the end of 2018 for “Africa’s least developed countries (LDCs), HIPCs, landlocked developing countries and small island developing countries that have diplomatic relations with China” (Xinhua 2018).

During the COVID-19 pandemic, China has made two IFL forgiveness announcements. In February 2021, China claimed to have forgiven IFLs due to mature by 2020 in 15 African countries (Chinese Embassy in Solomon Islands 2021). In November 2021, during the opening keynote speech of the 2021 FOCAC summit, China promised forgiveness for IFLs due to mature by 2021 to African LDCs (FOCAC 2021). The 2022 announcement, which took place at a follow-up FOCAC meeting, appears to be a reaffirmation of the 2021 FOCAC commitment.

These multiple cancellations show a consistent and customary practice of forgiving Chinese IFLs. China’s 2011 Foreign Aid White Paper specified that “when aid recipients encounter difficulties upon repayment of interest-free loans, the Chinese government have always responded with flexibility, and extended repayment periods after bilateral negotiations” (China State Council Information Office 2011). As the pandemic has exacerbated the debt situations of countries receiving loans from global financing institutions, including Chinese financing institutions (World Bank 2022), IFL loan forgiveness in Africa is in line with China’s general debt relief practices during times of global crises.
ESTIMATING THE TOTAL FORGIVENESS FROM THE 23 CANCELLATIONS ANNOUNCEMENT

The August 19 announcement of 23 IFL cancellations does not elaborate on how much value the cancellations might represent, nor which 17 countries are involved. CLA Database researchers derived four estimations for the total canceled values based on different timeframes and country criteria. Each estimate provides an average estimate and a range estimate, as shown in Figure 1 and below. Two different country criteria are considered: the first includes all African countries in the CLA Database, and the second includes African countries designated as DSSI participants that received debt deferrals from China. Two timeframe estimations are analyzed. The 2000-2012 timeframe estimation solely focuses on the loan criteria of years signed based on maturity by the end of 2021. The second timeframe estimation accounts for IFL cancellations during the COVID-19 pandemic by analyzing IFLs signed from 2010-2012 (i.e., IFLs matured in 2019-2021) for all African countries and those designated as DSSI-recipient countries of debt deferrals from China. Intersecting the two country criteria and two timeframes produces four estimation groups. Final estimations are rounded to the tenths place; see text and Appendix for decimals.

Figure 1: Value Estimations of China’s 23 IFL Cancellation to African Countries Based on Years Signed and DSSI-participant African Countries with Debt Deferrals from China

**Estimation 1: All African countries, 2000-2012**

Average amount of 23 loans: $193 million  
Lower and upper bound: between $45 million and $610 million

This estimation assumes that all IFLs within the CLA Database are equally likely to be one of the 23 IFLs canceled in August. The canceled IFLs must have all matured by the end of 2021. Since ten years is the shortest maturity (five-year grace period and five-year repayment term) observed based on the Kenyan road project discussed above, an IFL must be signed by 2012 to reach maturity by 2021. If assumed that these IFLs were signed in 2012 or earlier, the average size of an IFL between 2000-2012 is $8.38 million, and 23 loans would on average constitute $192.65 million worth of loans canceled. The upper and lower bound of cancellation value are estimated by summing the largest 23 and smallest ILFs in the database from 2000-2012, regardless of DSSI qualification. The smallest possible value of the cancellations is $44.76 million, and the largest possible value of cancellation is $609.57 million.

**Estimation 2: DSSI Participant African Countries with Debt Deferrals from China, 2000-2012**

Average amount of 23 loans: $252 million  
Lower and upper bound: between $74 million and $517 million

Given China’s focus on debt cancellation for LDCs and HIPCs as mentioned above in the previous 2005, 2018 and 2021 cancellations, there are reasons to believe that countries under heavier debt distress are more likely to have their IFLs canceled. This estimation type restricts the borrowing countries to the 20 African countries that received debt deferrals from China under the DSSI.

Of these 20 countries, Burkina Faso, Malawi, Niger and Sierra Leone received DSSI deferrals from China but did not receive IFLs from China from 2000-2012 (World Bank n.d.). This may be because Malawi and Burkina Faso re-established diplomatic relations with China in December 2007 and May 2018, respectively (Consulate-General 2008; State Council 2018). Although Sierra Leone established diplomatic ties with China in 1971 and Niger established diplomatic ties with China in 1992 (Chinese Embassy in Sierra Leone 2010; MFA 2006), both have only received loan commitments amounting to $752 million and $699 million, respectively, from 2000-2020 (compared to $42.64 billion to Angola from 2000-2020), indicating that they are not major recipients of Chinese loans. The absence of these four countries from the list of IFL recipients under the DSSI leaves 16 countries: Angola, Burundi, Cabo Verde, Cameroon, The Democratic Republic of Congo, The Republic of Congo, Ethiopia, Guinea, Lesotho, Mauritania, Mozambique, Senegal, Tanzania, Togo, Uganda and Zambia. These 16 countries may potentially be included in the 17 countries mentioned in the 2022 announcement, along with other countries that may have their IFLs canceled as well.

The average IFL size China extended to these countries from 2000-2012 is larger than the average for all Africa at $10.96 million, making 23 loans worth an average of $251.99 million. The upper and lower bounds of canceled values are estimated by summing the largest and smallest 23 IFLs in the DSSI-qualified countries. The smallest possible value is $74.08 million, and the largest possible value of cancellation is $516.69 million.
Estimation 3: All African Countries, 2010-2012

Average amount of 23 loans: $264 million
Lower and upper bound: between $132 million and $402 million

This estimation takes into account loan cancellation announcements made during the COVID-19 pandemic by assessing IFLs signed in 2010-2012 with maturity dates from 2019-2021. Assuming at least ten-year maturity, loans signed in 2010-2012 are considered. The average IFL amount for these loans is $11.47 million, and 23 loans would on average constitute $263.70 million. The upper and lower bound of cancellation value are estimated by summing the largest 23 and smallest IFLs in the database from 2010-2012, taking into account the 2018 IFL cancellations. The smallest possible value of the cancellations is $132.09 million, and the largest possible value of cancellation is $402.22 million.

Estimation 4: DSSI-Participant African Countries with Debt Deferrals from China, 2010-2012

Average amount of 23 loans: $280 million
Lower and upper bound: between $250 million and $290 million

This estimation includes IFLs signed between 2010-2012 to African DSSI participants that received debt deferrals from China. African countries meeting the DSSI recipient and timeframe criteria in these calculations included 11 African countries: Burundi, Cameroon, Ethiopia, Guinea, Lesotho, Mauritania, Mozambique, Tanzania, Togo, Uganda and Zambia. The average IFL amount is $12.17 million, with 23 loans constituting $279.97 million on average. By summing the largest and smallest 23 IFLs, the smallest possible value of the cancellations is $249.54 million, and the largest possible value of cancellation is $289.94 million.

Markedly, the average amount in each estimation group ranges from $193 million to $280 million. However, regardless of which estimation is used, cancellations constitute a small part of all Chinese loan commitments to Africa. The highest estimation of $609.57 million is 1 percent of the $53.79 billion in overall loan commitments between 2000-2012. Indeed, even if all $2.22 billion worth of IFLs in the CLA Database were cancelled, it would still amount to 1 percent of the $159.98 billion of Chinese loans to Africa committed from 2000-2020.

CONCLUSION

China’s IFL provision and IFL forgiveness in Africa is not new. However, IFL provision and cancellation are important diplomatic and symbolic tools in China’s lending practices. Based on the policy orientation and significance of IFLs, policy and commercial bank loans to Africa may not receive similar treatment. While the lack of information makes it challenging to determine the exact amount of the most recent round of cancellations, the CLA Database provides an idea of the magnitude of China’s recent IFL forgiveness to Africa, which could vary from $45 million to $610 million, but overall constitutes a small portion of China’s overall lending to Africa.
APPENDIX – DATA TABLES FOR CALCULATIONS

Table 1: Calculations for Estimating the Total Forgiveness from the 23 Cancellations Announcement

<table>
<thead>
<tr>
<th>Date</th>
<th>High</th>
<th>Low</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Africa 2000-2012</td>
<td>609.57</td>
<td>44.76</td>
<td>8.38*23 = 192.65</td>
</tr>
<tr>
<td>DSSI 2000-2012</td>
<td>516.69</td>
<td>74.08</td>
<td>10.96*23 = 251.99</td>
</tr>
<tr>
<td>All Africa 2010-2012</td>
<td>402.22</td>
<td>132.09</td>
<td>11.47*23 = 263.70</td>
</tr>
<tr>
<td>DSSI 2010-2012</td>
<td>289.94</td>
<td>249.54</td>
<td>12.17*23 = 279.97</td>
</tr>
</tbody>
</table>


REFERENCES


Mauritius Ministry of Finance and Economic Development. 2014. “Press Release: China provides a grant and an interest-free loan for a total sum of Rs 514 million to Mauritius.” http://apec.mu/2014/10/02/


Ministry of Finance (MOF), The People’s Republic of China. 2020 “At the G20 Meetings, Minister of Finance Liu Kun was Interviewed by Reporters about the Debt Issue.” http://wjb.mof.gov.cn/gongzuodongtai/202011/120201120_3626461.htm


The Global China Initiative (GCI) is a research initiative at Boston University Global Development Policy Center. The GDP Center is a University wide center in partnership with the Frederick S. Pardee School for Global Studies. The Center’s mission is to advance policy-oriented research for financial stability, human wellbeing, and environmental sustainability.

www.bu.edu/gdp

The views expressed in this Policy Brief are strictly those of the author(s) and do not represent the position of Boston University, or the Global Development Policy Center.