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# China's infrastructure finance in Africa: Impacts and policy lessons

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SOAS

# Key contributions

China as a major contributor to African infrastructure investment

- How is this changing? What are the impacts?

Draws on empirical evidence from five country cases (Angola, Ethiopia, Guinea, Kenya and Zambia)

- Focus on four infrastructure sector studies

Highlights the developmental impact of China's infrastructure projects – and the challenges

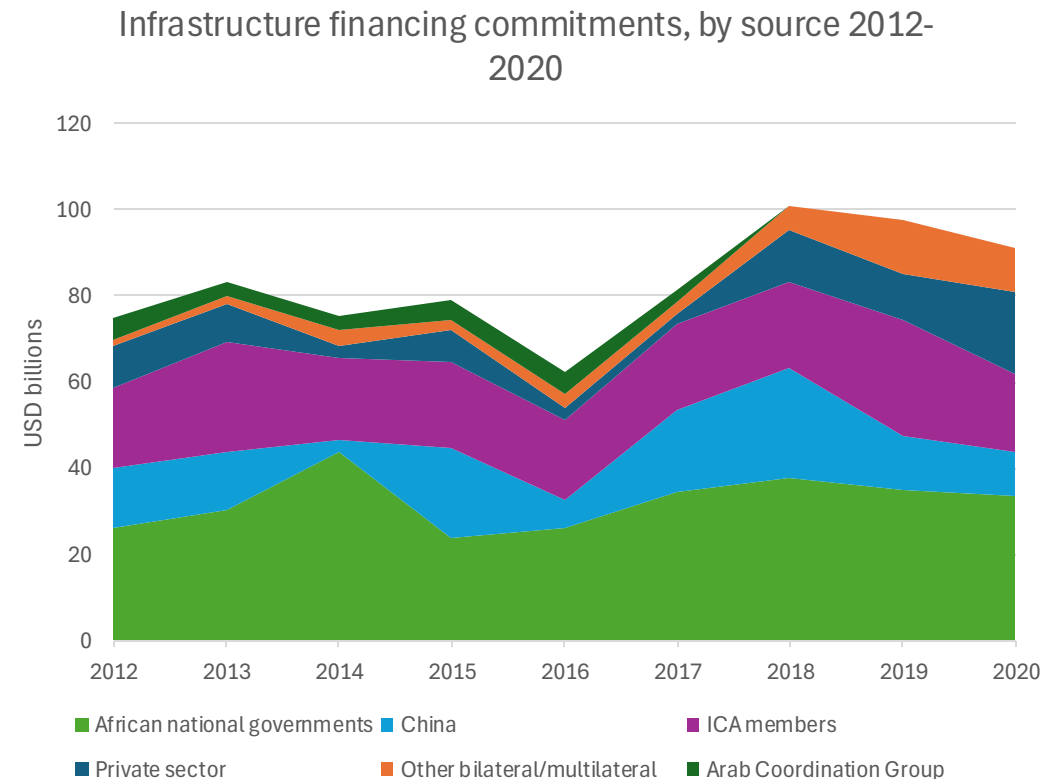
- Lessons for policy, planning and governance



# Changing patterns of infrastructure finance

# China has been a major contributor to Africa's infrastructure finance

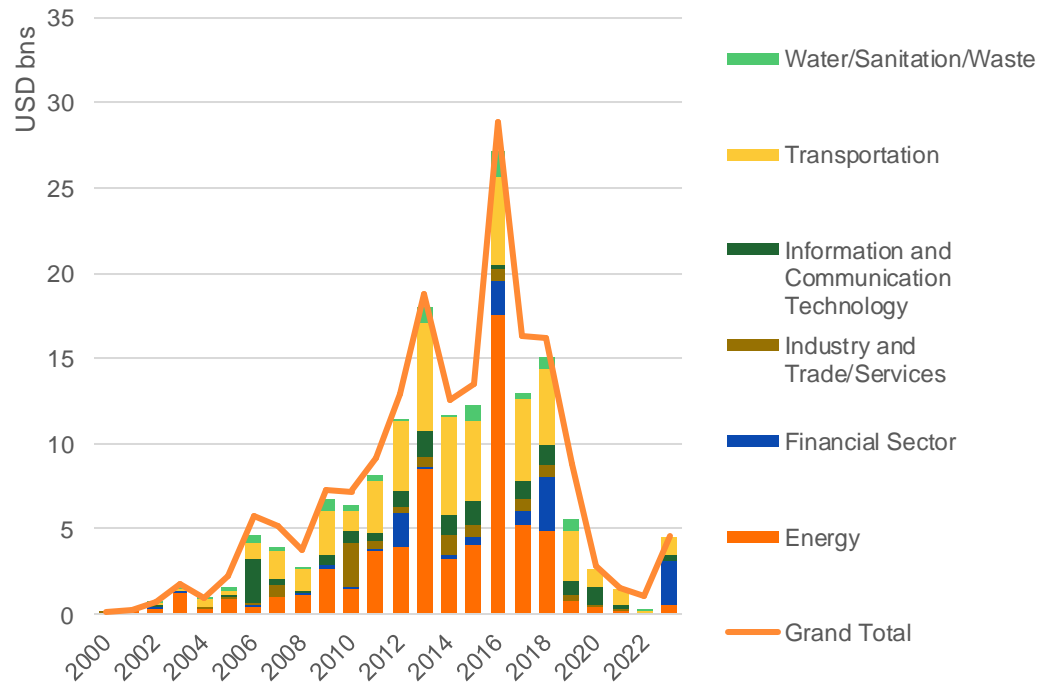
- China accounted for an average of 18% of total infrastructure finance in Africa from 2012-2020
- Dominance in transport and energy sectors
  - Driven by domestic economic cycles
- Heterogenous modes of financing
  - Framework agreements
  - Tied to resource flows
  - Strong role of contractors and SOEs



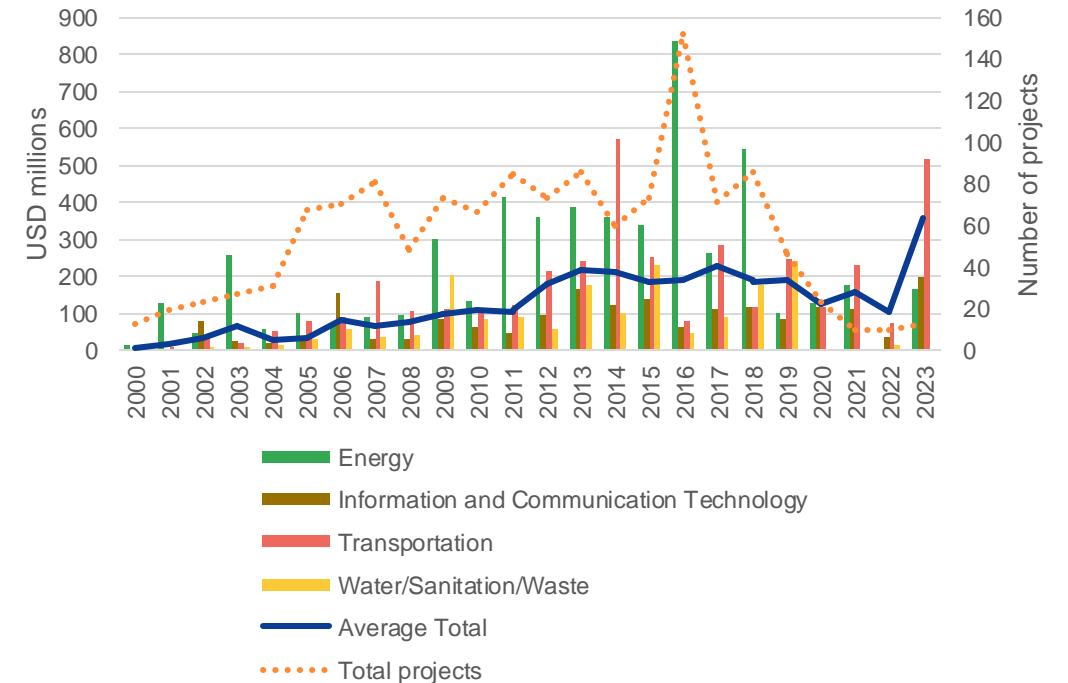
Infrastructure Consortium for Africa (2021)

# The boom and bust in China's development finance in Africa

China's overseas lending to African countries, 2000-2023



Average loan size by year in major sectors, 2000-2023



Boston University, CLA database (2024)



# Development impacts of China's infrastructure finance

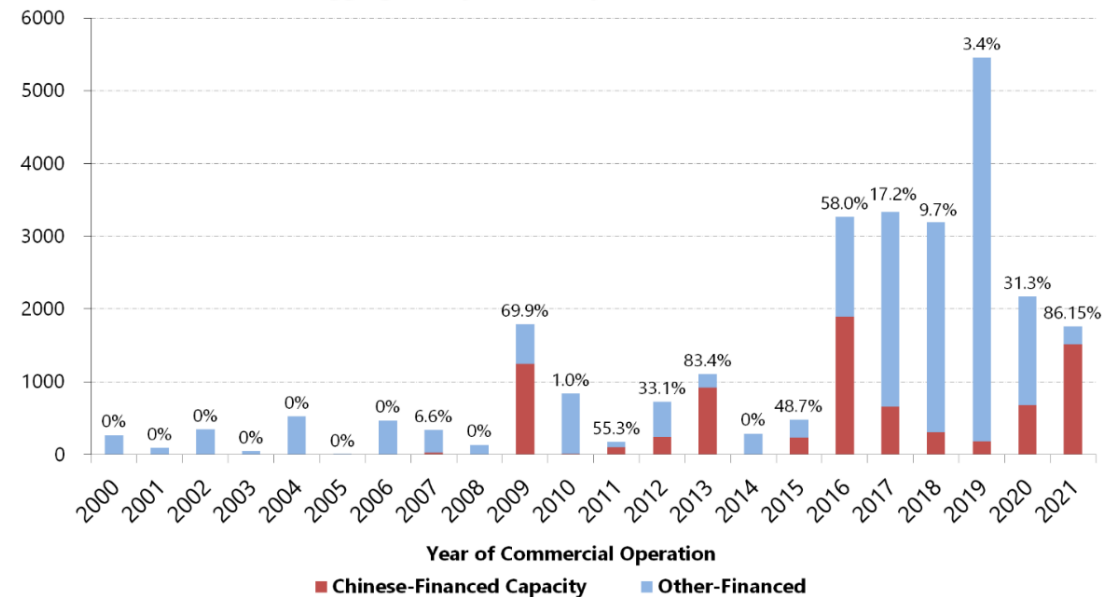
# “Classic” vs. emerging sectors of Chinese infrastructure projects

- Focus on hydropower and railway
  - Reflect China’s industrial dominance and leadership in sector
  - Little competition from MDBs/traditional donors
  - Challenging, high-risk sectors
- Shifting discourse over time
  - Emerging sectors in digital communications and ICT, and in renewable energy
    - Digital Silk Road, Green Belt and Road
    - New initiatives under FOCAC 9

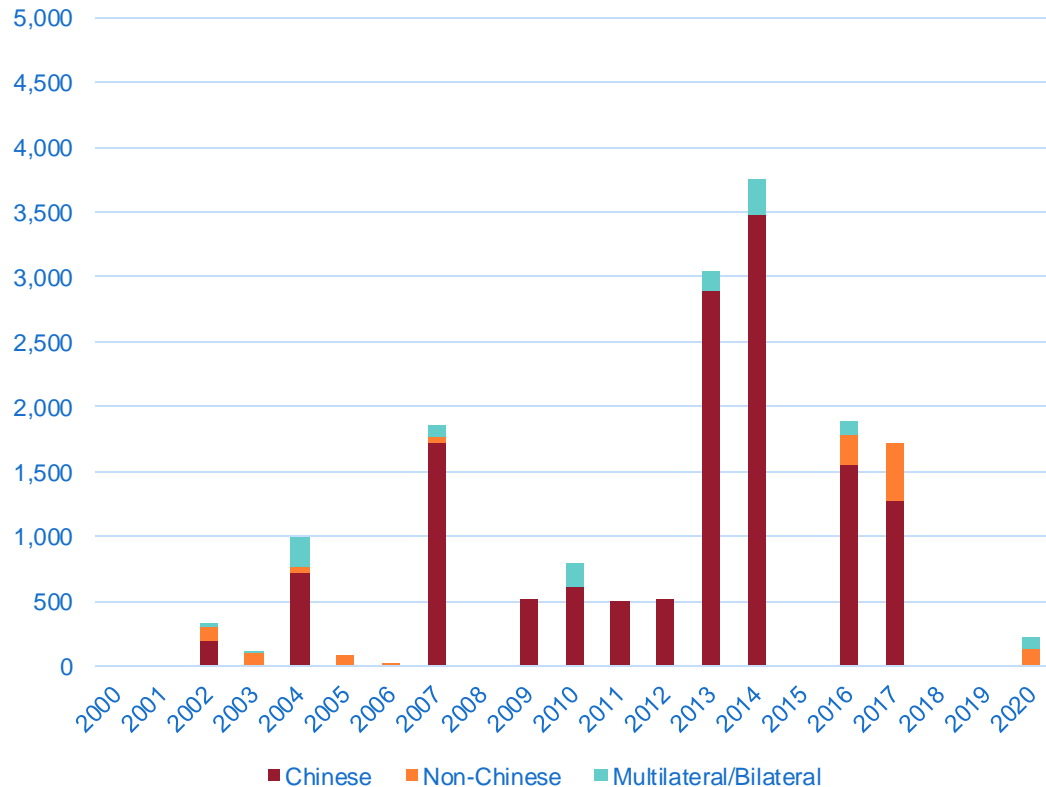
# Hydropower

- Huge scaling up of hydropower
  - China accounts for added 9.2GW of hydropower capacity from 2009-20
- Chinese dams have made significant contribution to energy generation
  - 2009-2020, China financed and constructed a total of 9.2GW of hydropower in Africa
- Challenges around ESG impacts, planning
  - Pricing issues and cost of electricity – contributes to debt issues.

Figure 1: Financing Commitments to Construction of Hydropower Generation in Africa Disaggregated by Nationality of Financier, 2000-2020 (MW)



# Railway

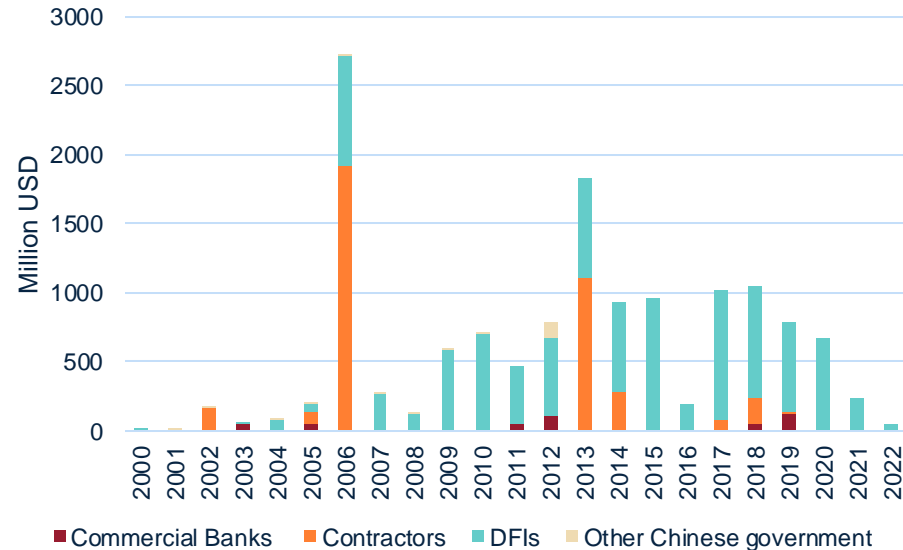


- China has been largest supporter of railway sector projects in Africa
  - Constructed 5.5kmn of railway line
  - Construction of new SGR lines vs. rehabilitation
- Contributed to national and regional rail connectivity plans
- Construction and operational challenges
  - Revenue generation and debt implications



# **“Emerging” sectors of infrastructure finance**

# Digital communications

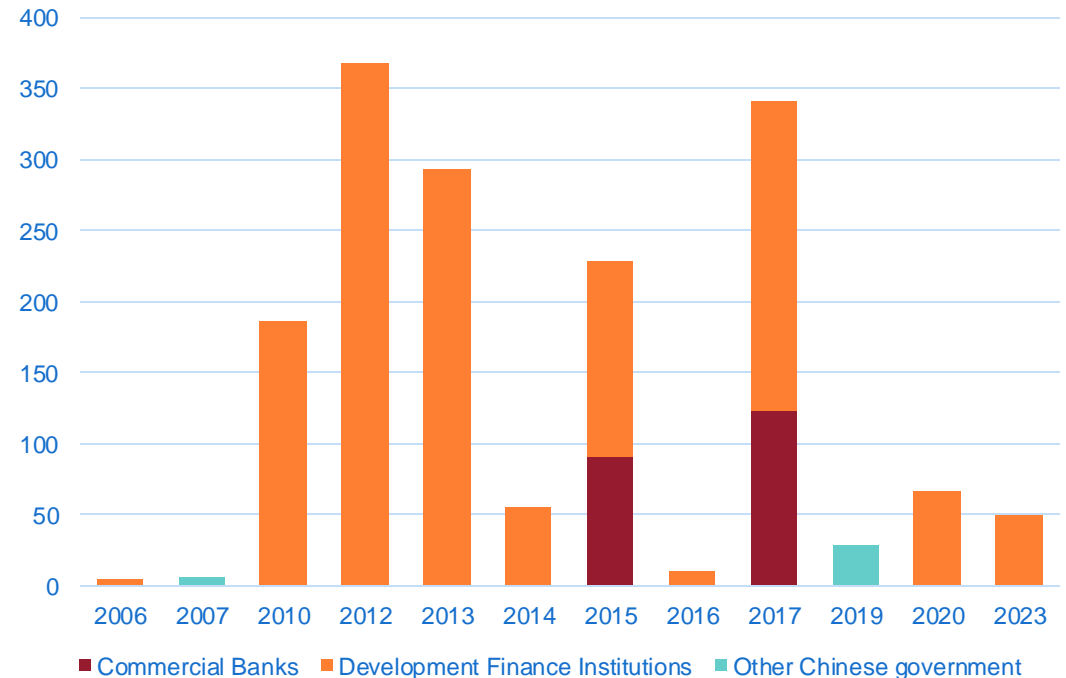


- Stronger role of commercial financing and companies (SOE and private) in supporting investments
- Strong trend of ICT investment, with significant role of companies (Huawei) in infra financing and construction
  - Announcement of “digital silk road” in 2015
- Focus on e-government, digitalization projects, broadband expansion
  - Recent focus on data centers
- Expansion of internet access and ICT networks in Ethiopia, Kenya

# Renewable energy

- Renewable energy as one 'frontier technology' in China's national industrial strategy
- Limited financing from Chinese FIs to date
  - But potential sector for private investment under IPP schemes
- Previous cases show developmental impacts in energy generation
  - But similar ESG challenges

Financing commitments for non-hydro renewable energy in Africa, 2008-2023





# Implications and policy lessons

# Chinese infrastructure finance brings tangible benefits – but also weaknesses

- Tangible developmental impacts from Chinese financed projects:
  - Expansion of energy generation capacity
  - Expansion and upgrading of physical infrastructure
  - Some contribution to technology transfer and project operation
- However developmental impact has been hampered
  - Unclear links to national development strategies in some cases
  - Unmet expectations in project revenue generation
  - Contributed to debt and repayment issues in several countries
    - Rescheduling and debt restructuring in several major borrowers

# Key challenges

## Sector strategy and planning

- Lack of complementary investments, coordination issues
- Pricing and tariff design
- Operations and maintenance considerations

## Technical capacity of host governments

- Unrealistic economic and financial assessments/politically motivated projects
- Capacity constraints and lack of managerial capacity

## Governance and institutions

- Stronger ESG regulatory frameworks and accountability mechanisms
- Procurement needs to be competitive and transparent
- Fiscal governance, reform of parastatals
- Climate risk

# Policy lessons

- **Governments:**

- Sound macroeconomic management
- Careful and strategic investment planning
- Ensure financial and operational sustainability and longer-term growth impact
- Improve ESG and broader governance

- **Financiers:**

- Evaluate investments planning and project rationale
- Independent assessment financial and operational sustainability
- Strengthen international environmental and social standards