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# Channeling the FOCAC 2024 Financing Pledge in a Time of Global Turmoil

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## Executive summary

At the ninth Forum on China-Africa Cooperation (FOCAC-9) in September 2024, China reaffirmed its position as Africa's largest bilateral creditor. President Xi announced a resource package of just over $50 billion, $10 billion more than the 2021 proclamation. It came as a palpable relief to the African governments, businesses, and regional lending institutions, who rely on Chinese lending. For the first time, the commitments were denominated in renminbi (RMB). Because China is the continent's largest trading partner, using RMB could not only reduce transaction costs but also provide cover against US dollar-driven currency fluctuations and shortages.

FOCAC-9 took place before the election of President Trump and the economic turbulence it has unleashed upon the world. China remains the continent's largest trading partner, with two-way trade exceeding $290 billion in 2024.[1] Africa is so dependent on exports to China that any trade war between China and the United States carries significant repercussions for African economies.

FOCAC convenes every three years and has served as the preeminent mechanism for bilateral engagement across economics, health, peace and security, education, and culture since its inaugural session in 2000. FOCAC-9 was the most consequential thus far. Africa's economic fragility and heightened exposure to external shocks means it is vulnerable to a disproportionate negative impact from global turbulence. Going into the meeting, there was a clear decline in official development assistance (ODA), as traditional partners channeled resources to Ukraine and Gaza. Chinese lending had plummeted, and African sovereigns were effectively locked out of capital markets. When

1 https://www.ecofinagency.com/public-management/2001-46339-china-africa-trade-up-4-8-to-295bn-in-2024

they did gain access, it was at double digit rates, increasing the likelihood of debt distress. African governments have been forced to seek alternative funding sources which tend not to be concessional and with higher interest rates relative to other regions, raising debt servicing costs.

In view of this, how the FOCAC resource package is structured will determine its efficacy to African governments. Heightened scrutiny of the modalities of the package (grants vs. loans) is warranted as the fiscal bandwidth to absorb further loans is significantly constrained among African sovereigns, while China's ability to extend concessional loans faces its own domestic limitations. This note proposes (a) renewing and expanding the Africa Growing Together Fund at the African Development Bank by embracing a wider slate of participants to enable continued and sustainable lending from China to African projects, and (b) adjusting the existing Chinese lending instruments that target the African private sector.

## The importance of FOCAC

While FOCAC is not Africa's only uni-multilateral forum, it has taken on greater significance as China's influence on the continent has grown. In recent years, as external actors have stepped up their engagement with Africa, other Africa-plus one summits have emerged: the Russia-Africa Summit, the Indonesia-Africa Summit, and the Korea-Africa summit, each designed to coordinate an external actor's foreign policy with Africa. The oldest of these is the 1973 France-Africa summit.[2] This was followed by the Tokyo International Conference on African Development (TICAD), which began in 1993[3] followed by the Europe-Africa Summit and the Forum on China-Africa Cooperation (FOCAC) in 2000.

Most importantly, FOCAC is supposedly the only Africa plus-one forum that was initiated at the request from the African side.[4] It remains the only such summit where there is an African co-chair and the hosting venue alternates between Beijing and African capitals. Even though Chinese lending to Africa on concessional terms (1995) predates FOCAC, since 2000, FOCAC has been the premier mechanism for setting expectations around the scale and focus of concessional bilateral lending from China.

The highlight of each summit is the Chinese leader's address unveiling China's three-year engagement program with Africa. Financial engagement has increased dramatically from as low as $5 billion commitment in 2006 to $60 billion in 2015 and 2018.[5]

2 https://developmentreimagined.com/wp-content/uploads/2024/08/FOCAC-Introductory-Brief-2.pdf
3 https://www.ticad8.tn/content/2#:~:text=Tokyo%20International%20Conference%20on%20African%20Development%20(TICAD)%20is%20a%20Summit,African%20ownership%E2%80%9D%20and%20international%20partnership
4 (PDF) 20-Years of China-Africa Cooperation: Processes, Developments and Achievements
5 Understanding FOCAC: A Comprehensive Overview and Key Insights – Africa-China Centre

## The world's largest bilateral creditor takes a break

In the last few years, China began recalibrating its lending under its Belt and Road Initiative.[6] China reduced lending dramatically as an increasing number of Africa countries faced debt distress. An AidData review of Chinese lending noted that "by the end of 2021, China had undertaken 128 rescue loan operations across 22 debtor countries worth $240 billion. These operations include many so-called 'rollovers,' in which the same short-term loans are extended again and again to refinance maturing debts."[7]

But across the world, debtor countries faced challenges servicing loans, regardless of creditor. According to Bloomberg, "the world's poorest nations have to pay more than $290 billion in foreign debt," plus billions more to domestic creditors. The World Bank and IMF are thus worried that without short-term financing and a longer-term fix, the world could witness "a new wave of sovereign defaults, which would paralyze governments, punish their citizens and deal losses to foreign investors." By end of year 2024, Africa's debt to external creditors exceeded $1 trillion, pushing close to half of the region's economies toward high risk of debt distress. With debt service costs at $163 billion in 2024 (from $61 billion in 2010),[8] Africans increasingly form the bulk of the one billion people living in countries where interest payments exceed spending on health care and education.[9]

According to the IMF, in sub-Saharan Africa, the funding squeeze is partly due to a decline in ODA. With a reduction in concessional financing, African governments have been forced to seek "alternative financing options, which are typically associated with higher charges, less transparency, and shorter maturities. The cost of borrowing—both domestic and external—has increased and continues to be elevated for many."[10]

Other regions also saw a noticeable decline in Chinese lending since 2016. According to the Global Development Center at Boston University, "between 2015-2020, the LAC region saw a precipitous decline in loans from CDB and CHEXIM when lending ceased altogether, amid pandemic-related challenges."

But the financing needs across the continent continue to rise. According to the IMF "Gross external financing needs, for example, in low-income countries in sub-Saharan Africa are estimated to exceed $70 billion annually (6 percent of GDP) over the next four years." Africa's need for financing is aggravated by the continent's extreme exposure to external shocks— its dependence on commodities, high debt costs, and weak infrastructure make the continent particularly vulnerable.

6 https://www.bu.edu/gdp/tag/chinese-loans-to-africa/
7 https://www.aiddata.org/blog/belt-and-road-bailout-lending-reaches-record-levels
8 https://www.afdb.org/en/news-and-events/annual-meetings-2024-old-debt-resolution-african-countries-cornerstone-reforming-global-financial-architecture-70791#:~:text=The%20Bank%20Group%20estimates%20that,%241.152%20trillion%20by%20end%2D2023
9 https://www.nytimes.com/2024/06/14/business/government-debt.html
10 https://www.imf.org/en/Publications/REO/SSA/Issues/2024/04/19/regional-economic-outlook-for-sub-saharan-africa-april-2024

Against this backdrop, African policymakers were concerned about FOCAC-9's outcome regarding financing. For example, 2022 saw the total amount of Chinese loans to Africa fall below $1 billion, a two-decade low. At a side event during FOCAC, a vice president of the African Export-Import Bank told the audience that African policymakers had come to Beijing to request a resumption of lending to the continent.[11] As already noted, China's position as the continent's largest bilateral creditor means any reduction in its lending has large-scale reverberations. Kenya, for example, reported through its National Bureau of Statistics, a "significant drop in direct investment from China." The report showed that "between 2020 and 2022, Chinese expenditures in Kenya's construction sector, which is China's leading area of foreign investment in the country, dropped more than 34 percent." While COVID-19 disruptions, end of deal pipelines, and domestic priorities influenced lower lending from China, it was also a function of the declining fiscal space for African sovereigns to increase their debt.

## Challenging composition of FOCAC-9 package

The composition of the FOCAC-9 funding package, however, presents a challenge. Approximately $30 billion was pledged as credit lines, about $10 billion as development assistance (a mixture of grants and concessional loans) and $10 billion as investment by Chinese firms in Africa.[12]

A significant portion of the package will be provided as loans at a time when servicing costs restrict the fiscal space for countries to take on new debt. African sovereigns that have accessed international capital markets have done so at a steep cost, issuing bonds at double-digits percent yield to maturity.[13] This reality severely limits how much of the FOCAC funding package is available to African governments when channeled through loans.

There is thus the need to channel financing through conduits that enable lending for infrastructure and private sector activities in a way that is both sustainable and self-reinforcing.

## Role of Chinese commercial lenders

A working paper from ODI tracks a very deliberate Chinese policy shift: encouraging commercial Chinese lenders to increase their activity in Africa. According to the report, between 2015 and 2021, commercial creditors contributed about a third of all Chinese lending commitments over that period. These commercial lenders overtook policy banks between 2018 and 2021.[14]

11 https://developmentreimagined.com/building-bridges-collaboration-for-growth-between-china-and-african-multilateral-financial-institutions-amfis/
12 https://odi.org/en/insights/focac-2024-a-revival-of-china-africa-relations/
13 https://aprm.au.int/sites/default/files/files/2025-02/10th-edition-csr-eng.pdf
14 https://odi.org/en/publications/chinas-creditor-diversification-in-africa-impacts-and-challenges-of-infrastructure-debt-financing-by-chinese-commercial-creditors/

Diversifying the sources of financing for economic activity in Africa has been a key objective of the continent's governments and multilateral institutions. Chinese commercial creditors are, therefore, a welcome addition. These creditors, however, are market-oriented, with loans that are more expensive and with shorter maturity than state-owned counterparts. Their need for risk mitigation, usually through Sinosure, raises the financing costs even higher.[15]

Over the next five years, a continuation of this trend where Chinese commercial lenders become an ever-larger segment of lending to Africa at non-concessional rates will only heightens the risks of debt distress. This note recommends that China increases its direct bilateral lending, channeled through regional development banks and reduces the share of lending from commercial sources, over the next five years.

## Recommendations

In view of the above, this note recommends amending the allocation of China's FOCAC spending commitments by channeling a third of the credit allocations through regional and national development lending institutions. A second recommendation focuses on existing Africa-focused funds, established at previous FOCACs. These changes would increase their activity in Africa, increasing deal flow and sustainably earning better returns for China.

### A larger role for regional and national lenders

Channeling a portion of the $30 billion credit through regional lenders, especially those with development mandates, makes these loans sustainable. This is primarily because of their preferred creditor status, relationships with their member states, and a portfolio approach to lending. An institution like the African Development Bank (AfDB) can leverage its balance sheet to stretch each dollar beyond what any commercial lender could. In its argument for rechanneling SDRs, the AfDB argued that they would enable it and other multilateral development banks (MDBs) to "to lend at least US$4 for every US$1 equivalent of SDRs." This ability to scale lending makes MDBs an excellent channel for Chinese lending.

### Reauthorize the Africa Growing Together Fund

Last year saw the end of a decade-long China-AfDB $2 billion instrument that was co-managed by the African Development Bank and the People's Bank of China. The Africa Growing Together Fund (AGTF) was targeted at sovereign and non-sovereign development projects on the continent. It provided up to $2 million a year in additional financing for larger projects in the transport and renewable energy sectors.[16] Global turbulence, declining ODA, especially the loss of USAID support for health and education, and an increase in the share of commercial debt in Africa have made this fund more important now than when it was first introduced. At FOCAC-9, AGTF was referenced but

15 https://odi.org/en/publications/chinas-creditor-diversification-in-africa-impacts-and-challenges-of-infrastructure-debt-financing-by-chinese-commercial-creditors/
16 https://www.devex.com/news/a-first-new-china-afdb-fund-8354

there was no indication that it would be reauthorized. A portion of the $30 billion FOCAC lending that is dedicated to credit lines can be channeled through a reauthorized and expanded Africa Growing Together Fund. With higher needs today than in 2014, the recommendation proposes an increase to $10 billion dollars and deposited with both the African Development Bank and smaller African MDBs under the same operational and institutional arrangements. The China Latin America and Caribbean Cooperation (CLAC) Fund, for example, received $5 billion for a region that has half the population of Africa.

The proposed expanded resource envelope reflects (a) limitations in direct government-to-government lending, (b) the scale of the funding gap, and (c) the speed with which these resources need to be deployed. China's more stringent project selection criteria and policy signals for an expansive role for Chinese private sector actors align with these MDBs' strengths of superior project selection and implementation, portfolio lending, a prominent role for the private sector and agility in deployment. While this reallocation would be superior to one based on commercial rates, uptake will still fall significantly below what it would be at concessional rates. Channeling some of the existing resources through the concessional window of the AfDB group thus is a logical next recommendation.

## Expand resources to the Africa Development Fund

In its current form, the FOCAC-9 commitments dedicate $10 billion as "development assistance." This finance is also expected to support China's Global Development Initiative and its small but smart projects. China historically implements its own development assistance, making it reasonable to assume that this allocation will be channeled through bilateral development programs. This note recommends a change of tack, redirecting a portion of that allocation ($2.5 billion) to the 16th Replenishment of the African Development Fund (ADF). The Center for Global Development's Quality of Official Development Assistance (QuODA) has ranked the ADF second (out of 49) on aid effectiveness, making this the best allocation of grant resources.[17]

The ADF replenishment faced significant headwinds, even before the new US administration turned against development assistance. The ADF is attempting to raise $25 billion in an era when ODA has been declining, many other funds are seeking replenishment this year and rightwing politics have roiled donor countries that head to the polls this year—including Germany. In the UK, the government has already decided to reduce its development assistance and redirect the resources to defense spending in the wake of US withdrawing its security umbrella over Europe.[18] It is not unreasonable to expect other European countries to follow suit, significantly dampening hopes that traditional donors will meet ADF's ambitious requests this year.

17 https://www.cgdev.org/publication/quality-official-development-assistance
18 https://www.bbc.com/news/articles/clyrkkv4gd7o

China has never been more important as a development partner, and the centrality of FOCAC to China's engagement in Africa makes FOCAC-9's commitment a logical basis for Chinese development assistance in Africa in both bilateral and multilateral settings.

## Expand the AGTF to include regional and national lenders

African sovereigns are not the only class of regional borrowers who have expanded their portfolio of more expensive commercial creditors. Smaller African MDBs have increased funding from commercial sources, including Chinese commercial creditors. The Africa Finance Corporation's largest loan to date is a $1.16 billion, three-year facility with private banks—including China's own Industrial and Commercial Bank of China (London Branch) acting as China Coordinator. Tapping commercial funding has naturally raised the rates at which these institutions can onward lend. Speaking off the record, high ranking IMF staff noted with concern that some regional lenders are offering commercial terms under the guise development banks.

Expanding the AGTF to include regional and national lenders must be contingent on extending the loans at near-concessional rates or materially below commercial rates. This is aligned with the recommendation on reducing the role of Chinese commercial lenders.

The 2024 FOCAC included a Chinese pledge to support the "construction of local value chains, manufacturing development and deep processing of key minerals in Africa." These reflect direct African input into the FOCAC planning, but none of these activities can be sustainably and profitably launched without deep participation from the region's lenders. An expanded AGTF can address this missing link.

National development funds that have expanded lending activities outside their home market, like the Development Bank of Southern Africa, can also qualify for a segment of this fund. The Africa department of other development banks, like the World Bank and the European Development Bank, can also be granted access to the fund, creating competition for project pipeline development and leveraging the existing balance sheets of these institutions.

In this regard, this policy recommendation is pushing on an open door. China has already shown a willingness to extend credit to African regional lenders. Fifty percent of Chinese lending commitments in 2023 went to this class of lenders,[19] including $600 million from China EXIM to Afreximbank to fund loans and trade finance. Mr. Shengjun Ren, president of Export-Import Bank of China (China EXIM), saw the transaction as keeping with China EXIM's mandate "to implement the nine programs under the Forum on China and Africa Cooperation framework."[20]

19 https://www.bu.edu/gdp/tag/chinese-loans-to-africa/
20 https://www.afreximbank.com/the-african-export-import-bank-afreximbank-and-the-export-import-bank-of-china-cexim-sign-us600-million-loan-to-fund-loans-and-trade-finance-transactions/

The Africa Finance Corporation (AFC) has also secured a total of $700 million from China EXIM Bank, $300 million in 2018 and $400 million in 2023. Earlier this year, the AFC and China EXIM signed a memorandum of understanding to "deepen collaboration in financing strategic infrastructure and trade projects across Africa."[21]

The recommendation here is to move beyond extending lines of credit to these institutions and to deposit much larger fixed-term resources, like the Africa Growing Together Fund, that offer important advantages: credibility with the African public and private sectors, intimate knowledge of the market, appropriate risk assessment, and deep connections within the society. This recommendation, however, comes with a caveat: Access to these funds requires lending at below commercial rates, which is currently not a feature of these entities. This would require that China—or another donor—provide financing to enable them to lend on concessional or near-concessional terms.

## Expanding existing Africa-focused policy instruments

Two Chinese funds—the China-Africa Development Fund (CADFUND) and the China-Africa Fund for Industrial Cooperation (CAFIC)—were created out of commitments from previous FOCACs to channel Chinese capital, technology, productive capacity, and management experience in Africa.[22]

### *The China-Africa Development Fund (CADFUND)*

CADFUND is owned by China Development Bank (CDB) and mainly makes equity and quasi-equity investments through fund of funds. It largely targets Chinese enterprises investing in Africa with opportunities for African projects seeking Chinese partners.[23] In an off-the-record conversations, CADFUND clarified that its investments require a majority stake for Chinese shareholders. Even for African-led projects without a Chinese partner, CADFUND offers matchmaking services. Leveraging the presence of its parent company, CDB, across China, CADFUND conducts roadshows to increase knowledge of its operations in Africa among Chinese enterprises.

At $10 billion capitalization, CADFUND already has two times the resources this note recommends for a reauthorized AGTF. The slow pace of capital formation in Africa could benefit from the infusion of Chinese financial and human capital to improve productive capacities, yet CADFUND remains barely known outside specialist circles in Africa.

### *The China-Africa Fund for Industrial Cooperation (CAFIC)*

CAFIC was created in 2015 at the FOCAC summit in Johannesburg with an initial capitalization of $10 billion and a mandate to invest primarily in Africa. It is jointly funded by China's foreign exchange reserves (80 percent) and the Export-Import Bank of China (20 percent). CAFIC has a sister

21 https://www.africafc.org/news-and-insights/news/africa-finance-corporation-and-the-export-import-bank-of-china-cexim-strengthen-partnership-to-drive-trade-and-infrastructure-growth-across-africa#:~:text=To%20date%2C%20AFC%20has%20secured,%24400%20million%20loan%20in%202023
22 https://en.imsilkroad.com/p/316216.html
23 http://en.cadfund.com/

institution, the China-LAC Industrial Cooperation Investment Fund (CLAI FUND), with a focus in Latin America. Both funds are managed by SIYUAN Investment, a fund that is wholly owned by the SAFE (the State Administration of Foreign Exchange) of China.

Unlike CADFUND, CAFIC's activities expand beyond equity and include debt—merger and acquisition loans, project loans, bridge loans, and shareholder loans. Like CADFUND, it makes equity investments and quasi-equity investments. It also shares a broad investment scope with CADFUND: manufacturing, power, logistics, agriculture, ICT, and the development of industrial supply chains. CAFIC has so far invested in mining projects (platinum and palladium in South Africa) bauxite (Guinea), manufacturing (Egypt), and renewable energy (also in Egypt).[24]

CAFIC too, because of its clear Africa mandate, now includes *xiao er mei* (small and smart/beautiful) projects and faces fewer administrative constraints on approvals than CADFUND and is more inaccessible. There is no website for Siyuan Holdings and even the page on CEXIM's website that deals with CAFIC only provides historical information.[25] It has phone numbers and an email address, but it is very unlikely that this is the primary means of sourcing deals.

### *Administrative restructuring*

CADFUND's application process claims to be open to all enterprises through recommendations by governments or relevant organizations. It is unclear what this means in practice, and it is questionable whether African governments are the appropriate source of viable deals, especially in cases that require majority Chinese interests. CADFUND's focus on industries that are central to the development of African economies make governments an indispensable partner. Its priority sectors include infrastructure, natural resource development, manufacturing, and agriculture—sectors that require substantial state involvement.[26] But African governments rarely have the bandwidth to develop commercially viable projects. Expanding that class of "relevant institutions" will significantly improve deal flow for CADFUND.

Deal flow remains a largely insider affair focused on Chinese actors. Administrative adjustments to CADFUND's current operations can increase a project pipeline, especially as Chinese enterprises face market assess issues elsewhere. CADFUND could sign MoUs with African partners on a fee basis to develop its project pipeline. It could outsource due diligence to other African partners at AFC, Africa50, Trade and Development Bank, or the Development Bank of Southern Africa and co-invest with these partners to off-take the projects for a fee. For the size of its development, CADFUND can and should take a more active role in the market for which it was created.

CADFUND has also indicated that it is no longer bound by minimum ticket-size. During the last FOCAC, President Xi committed to investing in 1,000 *xiao er mei* "small yet beautiful" projects in

24 CAFIC presentation.
25 http://www.eximbank.gov.cn/aboutExim/organization/ckfjj/whcgjj/zfcnhzjj/
26 https://www.investopedia.com/terms/c/china-africa-development-fund.asp

Africa.[27] Every Chinese institution with an Africa mandate is thus encouraged to find, develop, and invest in these projects. The current administrative structure of funds like CADFUND, however, makes it impossible to process anywhere near the projected 1,000 projects.

With $20 billion in capitalization between CADFUND and CAFIC, there is technically enough Chinese funding for investment—both debt and equity—in African projects. Unfortunately, access to these funds poses significant challenges, at least to the African side.

## Conclusions

Buffeted by a series of global shocks, African economies face still more challenges with the election of President Trump. His cessation of development assistance and threats of a trade war expose Africa to still more shocks, raising the importance of last year's FOCAC funding commitments.

The current composition of those commitments, however, presents challenges and limits their efficacy and value to African governments. As announced, approximately 59 percent of the latest FOCAC spending commitment is dedicated to loans which, if recent trends are an indicator, will be on either commercial or close to commercial terms. With limited fiscal space, even for those able to take on those loans, the risk of debt distress rises significantly.

To ensure that lending to Africa continues, but in a manner that is sustainable, this policy note makes two recommendations:

1. Channel a portion of the credit through regional and national lenders. Their portfolio approach, multiplier effect through their balance sheets and high-quality project development ensure that the money is sustainably targeted.

    - To accomplish this, reauthorize the Africa Growing Together Fund (AGTF), increasing its resources from $2 to $10 billion. Since FOCAC packages are expended over three years, the AGTF can be capitalized over a decade ($3.3 billion every three years).

    - Dedicate $2.5 billion (one-tenth of the current request) of the $10 billion allocated to development assistance, to the 17th replenishment of the African Development Fund.

    - Expand access to the AGTF through regional and national development lending institutions. Parts of the financing should also be made to other development lending institutions with Africa lending programs, on the condition that the AGTF funds are deployed along with their own capital.

27 https://www.swp-berlin.org/en/publication/megatrends-spotlight-38-focac-2024-towards-normative-power-of-china

2. Increase the activity and flexibility of existing Africa-focused funds: CADFUND and CAFIC. The combined $20 billion capitalization of these two funds could have a significantly more transformational impact with minor adjustments to their current operational processes.

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