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How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments

Anna Gelpern, Sebastian Horn, Scott Morris, Bradley Parks & Cristoph Trebesch

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A Rare Look into 100 Debt Contracts with Foreign Governments

Anna Gelpern
Georgetown Law and Peterson Institute for International Economics

Sebastian Horn
Kiel Institute for the World Economy

Scott Morris
Center for Global Development

Brad Parks
AidData, William and Mary, and Center for Global Development

Christoph Trebesch
Kiel Institute, Kiel University, and CEPR

Abstract

China is the world's largest official creditor, but we lack basic facts about the terms and conditions of its lending. Very few contracts between Chinese lenders and their government borrowers have ever been published or studied. This paper is the first systematic analysis of the legal terms of China's foreign lending. We collect and analyze 100 contracts between Chinese state-owned entities and government borrowers in 24 developing countries in Africa, Asia, Eastern Europe, Latin America, and Oceania, and compare them with those of other bilateral, multilateral, and commercial creditors. Three main insights emerge. First, the Chinese contracts contain unusual confidentiality clauses that bar borrowers from revealing the terms or even the existence of the debt. Second, Chinese lenders seek advantage over other creditors, using collateral arrangements such as lender-controlled revenue accounts and promises to keep the debt out of collective restructuring ("no Paris Club" clauses). Third, cancellation, acceleration, and stabilization clauses in Chinese contracts potentially allow the lenders to influence debtors' domestic and foreign policies. Even if these terms were unenforceable in court, the mix of confidentiality, seniority, and policy influence could limit the sovereign debtor's crisis management options and complicate debt renegotiation. Overall, the contracts use creative design to manage credit risks and overcome enforcement hurdles, presenting China as a muscular and commercially-savvy lender to the developing world.

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1. Introduction

The Chinese government and its state-owned banks have lent record amounts to governments in low- and middle-income countries since the early 2000s, making China the world's largest official creditor (Horn et al. 2021, Malik et al. 2021). Although several recent studies examine the economics of Chinese lending, we still lack basic facts about *how* China and its state-owned entities lend—in particular, how the loan contracts are written and what terms and conditions they contain.[1] Neither Chinese creditors nor their sovereign debtors normally disclose the text of their loan agreements. But the legal and financial details in these agreements have gained relevance in the wake of the Covid-19 shock and the growing risks of financial distress in countries heavily indebted to Chinese lenders.[2] In light of the high stakes, the terms and conditions of China's debt contracts have become a matter of global public interest.

China's loan agreements—sight unseen—are the subject of intense debate and controversy. Some have suggested that Beijing is deliberately pursuing "debt trap diplomacy," imposing harsh terms on its government counterparties and writing contracts that allow it to seize strategic assets when debtor countries run into financial problems (e.g., Chellaney 2017; Moody's 2018). Senior U.S. government officials have argued that Beijing "encourages dependency using opaque contracts […] that mire nations in debt and undercut their sovereignty" (Tillerson 2018). At the opposite end of the spectrum, others have emphasized the benefits of China's lending and suggested that concerns about harsh terms and a loss of sovereignty are greatly exaggerated (e.g., Bräutigam 2019; Bräutigam and Kidane 2020; Jones and Hameiri 2020).

This debate in large part is based on conjecture. Neither policymakers nor scholars know if Chinese loan contracts would help or hobble borrowers because few independent observers have seen them. Existing research and policy debate rests upon anecdotal accounts in media reports, cherry-picked cases, and isolated excerpts from a small number of contracts. Our paper seeks to address this gap in the literature, thus adding an in-depth exploration to a growing body of research on lending and investment through China's Belt and Road initiative (BRI) (see also Dreher and Fuchs 2016, Dreher

[1] Acker et al. (2020), Dreher et al. (2021), Horn et al. (2021, 2022), Hurley et al. (2018), Kratz et al. (2019) and Malik et al. (2021) collect data and examine the economic and financial aspects of Chinese foreign lending and debt restructuring activities in detail, but generally avoid engaging with non-financial (legal) terms in the debt contracts.

[2] As of January 2022, according to the IMF and the World Bank, more than half of all low-income countries were in debt distress or faced a high risk of entering distress. Since the start of the Covid-19 crisis, the G20 has agreed on a debt service suspension initiative (DSSI) for poor indebted countries as well as on a Common Framework for Debt Treatments beyond DSSI.

et al. 2018, Fuest et al. 2019, Strange et al. 2019, Agarwal et al. 2020, Malik et al. 2021, Dreher et al. 2021, Dreher et al. 2022, Horn et al. 2022).

We present the first systematic analysis of China's foreign lending terms by examining 100 debt contracts between Chinese state-owned entities and government borrowers in 24 countries around the world, with commitment amounts totaling $36.6 billion. All of these contracts were signed between 2000 and 2020. In 84 cases, the lender is the Export-Import Bank of China (China Eximbank) or China Development Bank (CDB). Many of the contracts contain or refer to borrowers' promises not to disclose their terms—or, in some cases, even the fact of the contract's existence. We were able to obtain these documents thanks to a multi-year data collection initiative undertaken by AidData, a research lab at William and Mary. AidData's team of faculty, staff, and research assistants identified and collected electronic copies of 100 Chinese loan contracts (not summaries or excerpts of these contracts) by conducting a systematic review of public sources, including debt information management systems, official registers and gazettes, and parliamentary websites.[3] In partnership with AidData, we have digitized and published each of these contracts in a searchable online repository (see https://www.aiddata.org/how-china-lends).[4]

Our sample of 100 contracts with Chinese lenders represents a small part of the more than 2000 loan agreements that China's state-owned lenders have signed with developing countries since the early 2000s (Horn et al. 2021). However, it is sufficiently large to make clear that Chinese entities use standardized contracts, and to identify a handful of prevalent contract forms, which appear to vary by lender. Each Chinese entity in our sample uses its own contract form across all of its foreign borrowers. Three main forms, or contract types, occur most often in our sample: the CDB loan contract, the China Eximbank concessional loan contract, and the China Eximbank non-concessional loan contract (see Appendix II for our typology). We find substantial overlap in how these entities write debt contracts with foreign governments, which suggests that our sample is informative of the larger universe of other CDB and China Eximbank contracts.

We have analyzed the full text of every contract document we could find. We are not aware of any analysis of sovereign debt contracts with Chinese lenders that uses more than a handful of contracts or contract excerpts. Having access to the entire universe of sovereign debt contracts, including but not limited to those with Chinese lenders, would be preferable—but most of these contracts are shrouded

[3] All of the loan agreements were obtained from publicly available sources. None of the agreements were obtained from parties to the relevant contracts, advisers or agents of such parties or any other source that was subject to a confidentiality undertaking in respect of such documents. Some of these agreements were first published by investigative journalists and civil society organizations.

[4] The contracts are searchable by lender, borrower, sector, and contract clause.

in secrecy. Until disclosure becomes the norm, being able to evaluate and compare 100 contract texts is a significant step forward.

We start by coding the terms and conditions of the 100 Chinese debt contracts we found. In addition to the key financial characteristics of each contract (principal, interest, currency, maturity, amortization schedule, collateral, and guarantees), we code key non-financial terms that have played important roles in contemporary sovereign debt contract practice. These include priority (status), events of default and their consequences (including cross-default and acceleration), termination and cancellation, enforcement (including waiver of immunity and governing law), and confidentiality.

We then endeavor to evaluate China's contracts in a broader international sovereign debt contracting context. For this purpose, alongside the contracts with Chinese lenders, we code a benchmark set of foreign debt contracts that consists of 142 loans from 28 commercial, bilateral, and multilateral creditors. With few exceptions, neither sovereign debtors nor their creditors normally publish their contract texts in full. Our benchmark contracts are from Cameroon, the only developing country that, at the time of our study, had published all of its project-related loan contracts with foreign creditors of all types, entered into between 1999 and 2017. We compare the Chinese contract terms with those in the benchmark sample, as well as the model commercial loan contract published by the London-based Loan Market Association (hereinafter "the LMA template").

The summary results of our analysis are as follows. First, China's state-owned entities blend standard commercial and official lending terms, and introduce novel ones, to maximize commercial leverage over the sovereign borrower and to secure repayment priority over other creditors. The following examples illustrate:

- All of the post-2014 contracts with Chinese state-owned entities in our sample contain or reference far-reaching confidentiality clauses.[5] Most of these commit the *debtor* not to disclose any of the contract terms or related information unless required by law.[6] Only 2 of the 142 contracts in the benchmark sample contain potentially comparable confidentiality clauses. Commercial debt contracts, including the LMA template, impose confidentiality obligations primarily on *the lenders*. Borrower confidentiality obligations outside the Chinese sample are rare and narrowly drawn. Broad borrower confidentiality undertakings make it hard for all stakeholders, including other creditors, to ascertain the true financial position of the sovereign borrower, to detect preferential payments, and to design crisis response policies. Most

[5] We were not able to obtain separate borrower confidentiality letters referenced in some of the contracts.
[6] At least one contract specifically bars disclosure of English governing law and international arbitration provisions.

importantly, citizens in lending and borrowing countries alike cannot hold their governments accountable for secret debts.

- 30 percent of Chinese contracts in our sample (representing 55 percent of loan commitment amounts) require the sovereign borrower to maintain a special bank account—usually with a bank "acceptable to the lender"—that effectively serves as security for debt repayment. Banks typically have the legal and practical ability to offset account holders' debts against account balances. These set-off rights can function as cash collateral without the transparency of a formal pledge. Contracts in our sample require borrowers to fund special accounts with revenues from projects financed by the Chinese lender, or with cash flows that are entirely unrelated to such projects. In practice, this means that government revenues remain outside the borrowing country and beyond the sovereign borrower's control. Offshore accounts are common in limited-recourse project finance transactions, but they are highly unusual in contemporary, full-recourse sovereign lending.[7] In our benchmark sample, we find only three analogous arrangements: one each with a multilateral, a bilateral, and a commercial lender. The U.S. emergency loan to Mexico in 1995, which required oil revenues to flow through an account at the Federal Reserve Bank of New York, is a high-profile exception that proves the rule. One needs to go back to the 19th and early 20th century to find similar security arrangements in sovereign lending on the scale that we observe in our Chinese contract sample (Borchard and Hotchkiss 1951; Wynne 1951; Maurer 2013). When combined with confidentiality clauses, revenue accounts pose significant challenges for policymaking and multilateral surveillance. If a substantial share of a country's revenues is under the effective control of a single creditor, conventional measures of debt sustainability are likely to overestimate the country's true debt servicing capacity and underestimate its risk of debt distress.

- Close to three-quarters of the debt contracts in the Chinese sample contain what we term "No Paris Club" clauses, which expressly commit the borrower to exclude the debt from restructuring in the Paris Club of official bilateral creditors, and from any comparable debt treatment. As a result, governments that borrow from Chinese lenders and restructure their debts in the Paris Club must choose between breaching the "No Paris Club" clause and their comparability undertaking to the Paris Club. These provisions predate and stand in tension with

[7] When a project is financed with a non-recourse or limited-recourse structure, the loan that is used to finance the acquisition, construction, and maintenance of an asset (e.g., a toll road) is repaid from the cash flow generated by the asset (e.g., toll revenue). The lender's claim is typically against a special-purpose project company rather than the recipient country government, and depends primarily on the financial viability of the project.

commitments China's government has made under the G20 Common Framework for Debt Treatments beyond the DSSI (the "Common Framework"), announced in November 2020. The framework commits G20 governments to coordinate their debt relief terms for eligible countries and specifically calls for comparable terms.

- All contracts with China Eximbank and CDB include versions of the cross-default clause, standard in commercial debt, which entitles the lender to terminate and demand immediate full repayment (acceleration) when the borrower defaults on its *other* lenders. Some contracts in our sample, discussed in more detail below, also cross-default to any action adverse to China's investment interests in the borrowing country. Every commercial contract in our benchmark sample includes a cross-default clause, as does the LMA template. Only around half of all bilateral official debt contracts, and just 10 percent of multilateral debt contracts in the benchmark sample contain cross-default clauses. Instead, multilateral debt contracts usually let the lender suspend or cancel the contract if the debtor fails to perform its obligations under different contracts with the *same* lender, or in connection with the same project. Both cross-default and cross-suspension clauses put pressure on the debtor to perform or renegotiate, but they serve somewhat different purposes. A commercial cross-default clause helps protect creditors from falling behind in the payment queue; a cross-suspension clause lets a policy lender pause disbursements when the debtor's policy or project effort—or its relationship with the lending institution—deteriorates. Some Chinese contracts combine elements of both, further constraining the sovereign borrower.

Second, several contracts with Chinese lenders contain novel terms, and many adapt standard commercial terms in ways that can go beyond maximizing commercial advantage. Such terms can amplify the lender's influence over the debtor's economic and foreign policies. For instance,

- 50 percent of CDB contracts in our sample include cross-default clauses that can be triggered by actions ranging from expropriation to actions broadly defined by the sovereign debtor as adverse to the interests of "a PRC entity." These terms seem designed to protect a wide swath of Chinese direct investment and other dealings inside the borrowing country, with no apparent connection to the underlying CDB credits. They are especially counterintuitive in light of China's characterization of CDB as a "commercial" lender. No contract in our benchmark sample contains similar terms.

- All CDB contracts in our sample include the termination of diplomatic relations between China and the borrowing country among the events of default, which entitle the lender to demand immediate repayment.

- More than 90 percent of the Chinese contracts we examined, including all CDB contracts, have clauses that allow the creditor to terminate the contract and demand immediate repayment in case of significant law or policy changes in the debtor or creditor country. 30 percent of Chinese contracts also contain stabilization clauses, common to non-recourse project finance, whereby the sovereign debtor assumes all the costs of change in its environmental and labor policies. Change-of-policy clauses are standard in commercial contracts, including the LMA template, but they take on a different meaning when the lender is a state entity that may have a voice in the policy change, rather than a private firm on the receiving end of new financial regulations or UN sanctions. At the extreme, policy change clauses could allow the state lender to accelerate loan repayment and set off a cascade of defaults in response to political disagreements with the borrowing government.

Overall, the contracts in our sample suggest that China is a muscular and commercially-savvy lender to developing countries. Chinese contracts contain more elaborate repayment safeguards than their peers in the official credit market, alongside elements that give Chinese lenders an advantage over other creditors. At the same time, many of the terms and conditions we have reviewed exhibit a difference in degree, not in kind, from commercial and other official bilateral lenders. All creditors, including commercial banks, hedge funds, suppliers, and export credit agencies, seek a measure of influence over debtors to maximize their prospects of repayment by any legal, economic, and political means available to them (e.g., Gelpern 2004; Gelpern 2007; Schumacher et al. 2021). However, China's contracts also contain unique provisions, such as broad borrower confidentiality undertakings, the promise to exclude Chinese lenders from Paris Club and other collective restructuring initiatives, and expansive cross-defaults designed to bolster China's position in the borrowing country. Our analysis also calls attention to terms that might be unremarkable in a commercial debt contract, such as the policy change event of default, which could acquire a different meaning and new potency in government-to-government lending arrangements.

It bears emphasis that our study does not systematically address contract implementation and enforcement, for which there is limited anecdotal evidence. It is entirely possible that some of the contract features we identify serve an expressive purpose, or function *in terrorem*, to dissuade the debtor from taking steps adverse to the creditor's interests. Several of the unusual terms we identify, including the promise to forswear restructuring, would likely be unenforceable in court in a major

financial jurisdiction. Because most of the contracts in our sample specify Chinese governing law and arbitration in China, we cannot predict how the terms in question would fare in a dispute. Any given lender might prefer to avoid adjudication or arbitration altogether. Nonetheless, promises that eventually turn out to be unenforceable could be a source of formal and informal pressure on the debtor, especially if the creditor invokes their breach to block a special revenue account it controls.

The enforcement terms themselves—choice of law, forum selection, and waivers of sovereign immunity—have attracted attention in policy and research circles (e.g., Brautigam and Kidane 2020), but look mostly unremarkable to us. Lenders in cross-border transactions often insist on specifying their own law as the governing law for a loan agreement, along with a tribunal familiar to them as the dispute resolution forum (e.g., Buchheit 2006, Gooch and Klein 1996). This choice is often presented in terms of creditor preference for predictability. The alternative, also consistent with predictability, is to choose the law of, and a dispute resolution forum in a major established financial center. When governments borrowed from banks based in New York, London, Singapore, Hong Kong, Tokyo or Frankfurt, the argument for creditors' law coincided with the argument for established legal systems and predictable commercial adjudication.

Like other bilateral creditors in the benchmark sample, China Eximbank insists on its domestic governing law and a dispute resolution forum in its home country. While China Eximbank contracts usually specify arbitration before the China International Economic and Trade Arbitration Commission (CIETAC) and using its procedures, both commercial and bilateral official creditors that agree to submit their disputes to arbitration choose the procedural rules of the London-based International Chamber of Commerce (ICC). CDB follows commercial practice in this area: seven out of eight CDB contracts in our sample are governed by English law; one is governed by New York law; they specify different arbitration venues and ICC rules. Although Chinese law and CIETAC are not as familiar in the international lending circles as the laws of New York and London, the fact that Chinese lenders expressed a preference for their own law or, failing that, for English law, comports with China's and Chinese lenders' stature as large international creditors. It did not appear to us to be inconsistent with international norms.

Sovereign immunity waivers in the Chinese sample contracts are generally in line with the LMA template and the commercial contracts in our benchmark set. In sum, despite their media prominence, the enforcement terms in China's contracts appear to be broadly consistent with the practices of other lenders. We are not in a position to evaluate the substance of Chinese law or China's commercial dispute resolution regime in this study; nor do we opine on the merits of customary international

practice. We simply note that the choice of creditors' domestic law to govern a debt contract appears to come with the territory.

Our findings, while based on a limited sample of contracts, have significant implications for sovereign debt contracting, sovereign debt policy, and the academic literature on sovereign debt.

Lending to sovereign governments occurs in an environment of limited and indirect enforcement, with incomplete and uneven contract standardization and no statutory or treaty bankruptcy to supply generally accepted default outcomes. As a result, even when we find troubling terms in debt contracts between sovereign borrowers and China's state-owned entities, we cannot conclude that they violate international standards: with few exceptions, *such standards do not exist*. The strict clauses that we do observe may in part reflect the poor credit quality of many of the countries that borrow from China. At the same time, we find little evidence that Chinese state-owned creditors tailor their lending contracts to specific borrowing country characteristics, such as default risk.[8]

Looking ahead, we suspect that the contracts we have examined are both more common than had been understood and a sign of things to come. New and hybrid lenders that mix official and commercial institutional features are growing in importance for sovereign financing. These are not limited to China. We expect such lenders to adapt and innovate contract features to maximize their commercial and political advantage in an increasingly crowded field. In the immediate future, our analysis should help inform the ongoing discussions on how to address the risk of debt distress across developing countries (e.g., IMF and World Bank 2020), including via global initiatives such as the Common Framework (Group of 20 2020). China's distinct approach to lending and debt restructuring has already created tensions between China and traditional multilateral lenders, between China and the rest of the G20, and between China and private creditors in countries like Zambia.[9]

Our main contribution to the academic literature on sovereign debt is to show how China has adapted sovereign debt contracts to manage repayment risk under conditions of weak contract enforcement (Tirole 2003; Aguiar and Amador 2015). A longstanding puzzle in international macroeconomics is why private investment and lending to developing countries is so limited (Lucas 1990). One explanation is that investments in high-risk countries simply do not pay off in light of their weak

[8] Finding systematic variation across different levels of creditworthiness within our sample of Chinese lending contracts is difficult, simply because the sample of 100 contracts is too small.

[9] For recent reporting on tensions with private creditors and tensions with the World Bank and G20, see Bavier and Strohecker (2021) and Lawder (2020).

institutions and the associated expropriation risk (Alfaro et al. 2008), as well as the high likelihood of sovereign defaults (Reinhart et al. 2003).

We show how Chinese state-owned banks use contract tools to manage these and other risks. They adapt legal and financial engineering tools—some new and others over a century old—to protect their investments and climb the "seniority ladder," potentially gaining repayment advantage over other creditors. We thereby add to the literature on seniority in sovereign debt markets, which has yet to examine the role of China and other new creditors (e.g., Bolton and Jeanne 2009; Chatterjee and Eyigungor 2015; Schlegl, Trebesch, Wright 2019). We also contribute to a large body of research studying international agreements that are hard to enforce, such as trade agreements (e.g. Horn, Maggi, and Staiger 2010; Maggi and Staiger 2011). Lastly, our paper is unique for its focus on a hybrid contract form—debt contracts between governments and state-owned entities that meld commercial and official contracting practices and innovate on both. These types of hybrid contracts between sovereign or quasi-sovereign entities of different countries have received little attention in the literature, but merit study as a distinct and growing phenomenon.

The paper begins by introducing a new dataset of 100 sovereign debt contracts with Chinese state-owned lenders and a benchmark sample of 142 sovereign debt contracts between Cameroon and a broad range of bilateral, multilateral, and commercial creditors. We then describe the methods we use to evaluate the terms and conditions in these contracts and present the main insights by focusing on specific provisions that set Chinese lenders apart from their peers and competitors from other countries. We conclude with a discussion of policy considerations.

2. Dataset and methodology: Coding the terms of 100 Chinese and 142 benchmark debt contracts

This section introduces our new dataset of sovereign debt contracts. Section 2.1 focuses on the 100 Chinese debt contracts, presents summary statistics, and discusses the extent to which the sample is representative of the population of China's official foreign lending activities. Section 2.2 presents key characteristics of the benchmark sample and discusses its similarities and differences with the Chinese contract sample. In Section 2.3 we outline the methodology that we developed to code the terms of Chinese and benchmark contracts.

2.1 The Chinese contract sample

Despite its size and rapid growth, China's foreign lending remains opaque. The Chinese government has resisted pressure to reveal the size, scope, and terms of its claims on low- and middle-income countries (Dreher et al. 2022). This secrecy has been a focus of public debate for a long time. For example, in 2011, a group of bilateral and multilateral creditors urged China to comply voluntarily with information disclosure standards of the OECD's Development Assistance Committee (DAC). The Chinese authorities rejected the call, arguing that the "principle of transparency should apply to north-south cooperation, but [...] it should not be seen as a standard for south-south cooperation."[10] Ten years later, China still does not participate in the OECD's Creditor Reporting System, the OECD Export Credit Group, or the Paris Club—although its recent commitment to the G20 Common Framework may indicate an evolving position.

To address the evidence gap, we collaborated with AidData—a research lab at the College of William and Mary—to identify all publicly accessible loan agreements between Chinese government institutions and state-owned banks, and sovereign borrowers from low- and middle-income countries.[11] In preparation for the 2021 update of its Global Chinese Development Finance Dataset, AidData recently revised its Tracking Underreported Financial Flows (TUFF) methodology (Custer et al. 2021). It now requires the systematic implementation of search procedures that enable the identification of loan agreements in the debt information management systems, official registers and gazettes, and parliamentary websites of low- and middle-income countries.

The implementation of these search procedures resulted in the retrieval of 100 loan agreements between Chinese government institutions and state-owned banks, and government entities in 24 borrowing countries, with a total commitment value of $36.6 billion. All of these loan agreements were drawn from publicly available sources. The dataset consists of every contract that AidData retrieved during the implementation of its updated TUFF methodology until December 2020; no contract was excluded. The dataset represents about 5% of total estimated Chinese lending between 2000 and 2017 (Horn et al. 2021 estimate total direct lending commitments of $545 billion). As shown in Table 1, our sample includes concessional and non-concessional debt contracts entered into between 2000 and 2020 with China's two main policy banks (China Eximbank and CDB), state-owned commercial banks (Bank of China, Industrial and Commercial Bank of China), state-owned enterprises (e.g., Sinohydro,

[10] Tran (2011).

[11] AidData maintains a dataset of Chinese government-financed projects around the globe (accessible via aiddata.org). In September 2021, it published the 2.0 version of its Global Chinese Development Finance Dataset, which captures detailed information about 13,427 Chinese government-financed projects worth $843 billion across 165 low-income and middle-income countries (Custer et al. 2021; Dreher et al. 2022).

China Machinery Engineering Corporation) and the central government. Almost half of the 100 loan contracts (48%) were signed after China's announcement of the Belt and Road Initiative (BRI) in September 2013 and can thus be considered part of the BRI.[12]

Table 1. Creditor composition in the Chinese contract sample

Creditor agency	**Number of contracts**	**Commitment amounts** (in bn USD)	**Loan Type**
Export-Import Bank of China	**76**	**15.9**	
Government Concessional Loan	36	2.9	Concessional
Preferential Buyer Credit Loan	30	9.1	Concessional
Buyer Credit Loan	5	3.1	Non-concessional
Other	5	0.8	
China Development Bank	**8**	**16.1**	
China Development Bank only	6	9.3	Non-concessional
Co-financed	2	6.8	Non-concessional
State-owned commercial banks	**8**	**1.7**	
Industrial and Commercial Bank of China	3	0.8	Non-concessional
Bank of China	1	0.3	Non-concessional
Other	4	0.7	Non-concessional
Supplier credits	**4**	**2.8**	
Consortium	1	0.4	Non-concessional
China Machinery Engineering Corporation	1	0.6	Concessional
Poly Changda Overseas Engineering	1	0.1	Non-concessional
Sinohydro	1	1.7	Non-concessional
Chinese government	**4**	**0.1**	Concessional

Note: This table shows the composition of our Chinese contract sample by creditor agency. Commitment amounts are provided in billions of current USD. Classification into concessional and non-concessional credits is based on financial terms. Non-concessional credits are usually extended at a spread of 2 or 3 percentage points over a market-based reference interest rate such as LIBOR, whereas concessional loans tend to be extended at fixed interest rates of 2 or 3 percent, effectively incorporating a grant element (also see Appendices I and II).

[12] Because lending by Chinese policy banks and SOEs under the Belt and Road initiative (BRI) is not formally designated as such on a loan-by-loan basis, we consider all loans in our data set following the announcement of BRI in September 2013 as "BRI loans."

China Eximbank accounts for 76 of the 100 loan agreements in the sample. Out of these 76 loans, 69 are concessional lending instruments (so called Government Concessional Loans or Preferential Buyer Credits).[13] The sample only includes 8 loan contracts with CDB, two of which were co-financed with Chinese state-owned commercial banks.[14] However, the small number of CDB loan agreements in our sample corresponds to substantially larger financial commitment amounts: 8 contracts represent 44% of the overall lending volume captured in our sample.[15] Compared to China Eximbank and CDB lending, loans issued by China's state-owned commercial banks, state-owned enterprises, and the central government are small. Taken together, these three groups of lenders account for only 16 percent of the contracts and 13 percent of the lending volume in our sample.

The distribution of creditors within our sample is broadly in line with creditor composition in the datasets of Morris et al. (2020) and of Horn et al. (2021). In both of these datasets, China Eximbank and CDB represent by far the two most important sources of China's international financial commitments. Morris et al. (2020: 46) analyze 1,046 Chinese government loans to 130 countries between 2000 and 2014 and find that 80 percent of the loans during this period came from China Eximbank and 14 percent came from CDB. While China Eximbank makes a far larger number of loans than CDB, the average size of its loans is substantially smaller than those made by CDB. As a result, in the Morris et al. (2020) dataset, loan commitments from China Eximbank account for 55 percent of overall lending and loan commitments from CDB lending account for 36 percent of overall lending. Very similar patterns are observed in the dataset constructed by Horn et al. (2021). In their dataset, loans from China Eximbank account for 60 percent of the total by number, and 33 percent of the total by monetary value, while loans from CDB represent 18 percent of the total by number, and 42 percent of the total by monetary value.

Figures 1 and 2 further demonstrate that our sample is broadly dispersed across world regions (also see Table A1 in Appendix I for a detailed country list). 47 percent of the loan agreements in the sample

[13] China Eximbank issues two different types of concessional loans: government concessional loans (GCLs) and preferential buyer's credits (PBCs). GCLs are RMB-denominated loans granted to government institutions and provided on below-market terms (usually 20-year maturities, 5-year grace periods, and 2% interest rates). China's Ministry of Finance calculates the difference between the interest rates attached to these loans and the central bank's benchmark rate and reimburses Eximbank accordingly. GCLs do not requires counterpart funding. PBCs are USD-denominated loans granted to government institutions that wish to buy Chinese exports. The terms of these loans vary, but they are typically offered with fixed rather than floating interest rates that are more generous than prevailing market rates. The proceeds of these loans can be used to support up to 85% of a project's overall cost, but 15% counterpart funding is required.

[14] Loans by China Development Bank (CDB) are extended at market-based rates. Typically, the base interest rate of a CDB loan is set to the (floating) London Interbank Offered Rate (LIBOR), and then an additional margin is incorporated to account for borrower-specific risk and repayment capacity. The Chinese authorities have argued that CDB is a commercial bank like Citi, not an official bilateral lender like USAID.

[15] These 8 CDB loans, worth 16.1 bn USD, represent 44% of total lending in the sample. The 76 China Eximbank loans in the sample, worth 15.9 bn USD, represent 42% of total lending in the sample.

are with government borrowers in Africa, and another 27 percent are with government borrowers in Latin America and the Caribbean. The remaining loans in the sample were made to government borrowers in Eastern Europe (11%), Asia (10%), and Oceania (5%).

Figure 1. Regional distribution of Chinese loan contracts in our dataset

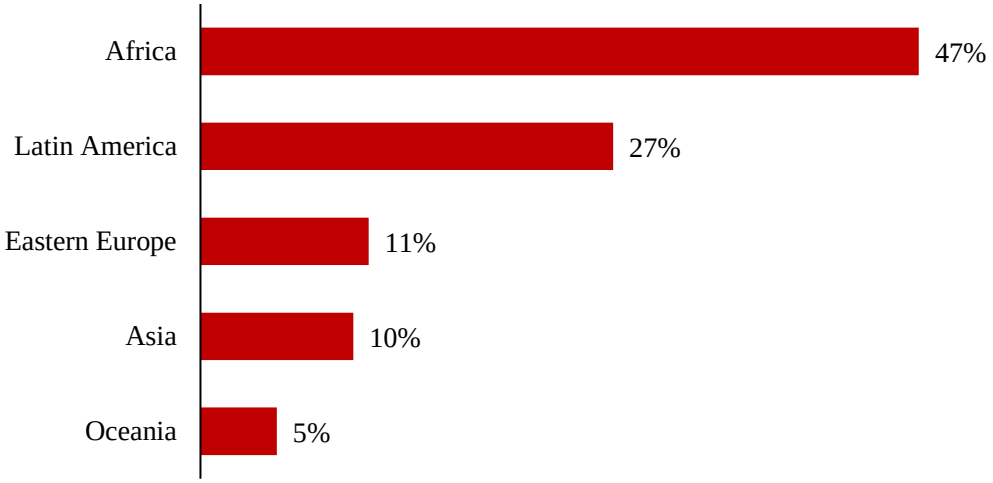
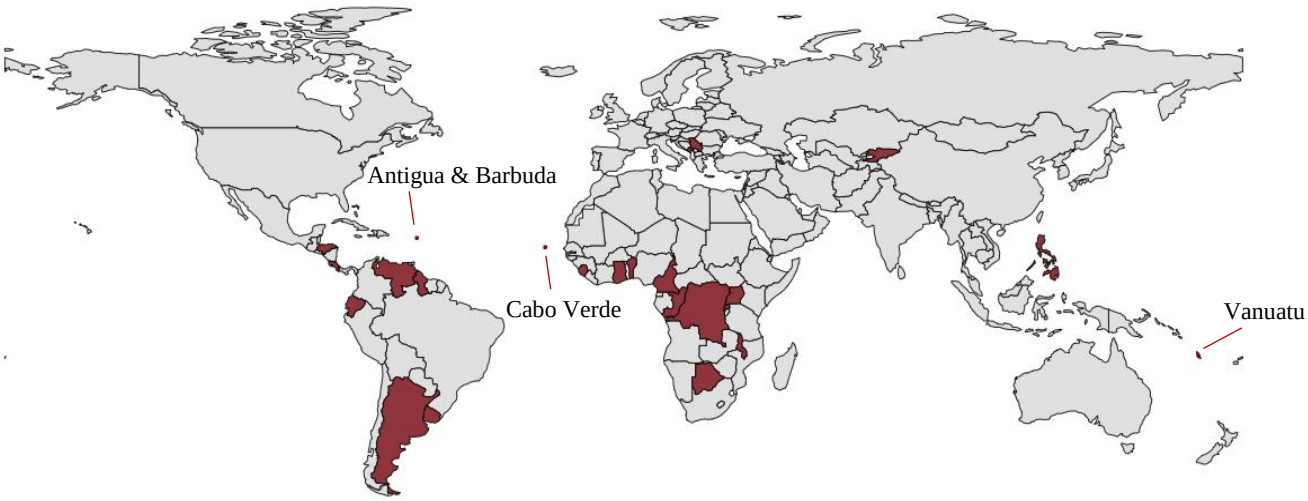


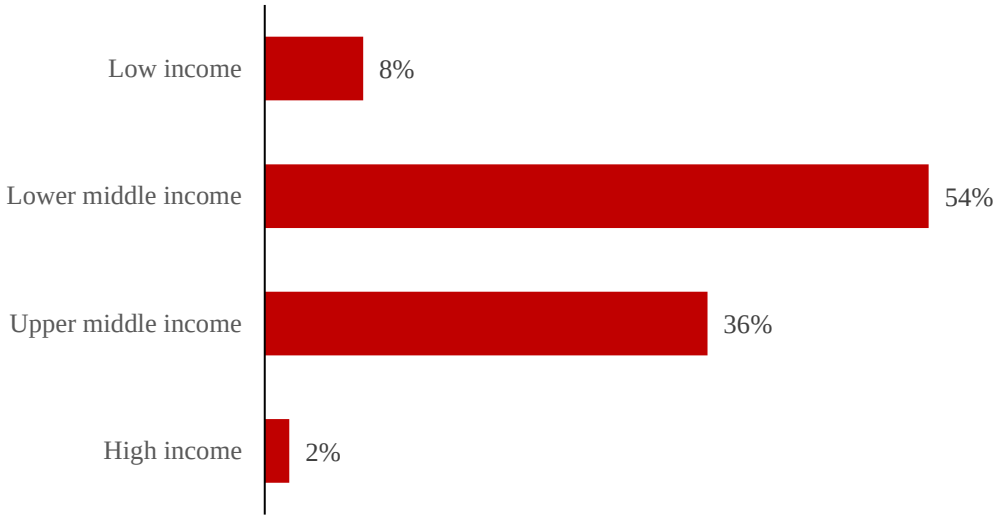
Figure 2. Map of countries with Chinese debt contracts in our dataset



Previous studies demonstrate that Africa, Asia and Latin America are the primary destinations for Chinese government loans (Horn et al. 2021; Dreher et al. 2021). Therefore, our sample likely under-represents Chinese lending to Asia. If Chinese contracts varied systematically by region, this would be

of concern for the external validity of our sample. We do not find evidence, however, that contracts differ significantly by geographic region. In fact, our analysis of Chinese contracts reveals that the lending terms are highly standardized, and largely predetermined by the identity of the creditor and the type of lending instrument.

Figure 3. Distribution of Chinese debt contracts in our sample by borrower country income group



Note: This figure shows the share of contracts in our China sample by borrower country income group. Income group classification follows the World Bank.

The distribution of our sample is broadly consistent with the global distribution of Chinese government loans by borrowing country income level. Borrowers in middle-income countries account for 90 percent of the loan agreements in the sample, while borrowers in low-income (8%) and high-income countries (2%) account for the remainder. By comparison, the analysis of Horn et al. (2021) demonstrates that, since the turn of the century, Chinese state-owned creditors have made approximately 75 percent of their loans to middle-income countries, 19 percent to low-income countries, and 6 percent to high-income countries.

We conclude from these summary statistics that our sample of 100 contracts is generally in line with the composition of China's global portfolio of loans to government borrowers. While certain subgroups may be over- or under-represented in the data, there is no indication of systematic bias in the composition of the sample. More importantly, our analysis of contracts shows that Chinese lending terms are highly standardized by lender and instrument, and do not exhibit significant variation by

borrower country, region, or income bracket.[16] Nonetheless, it bears emphasis that this dataset of Chinese debt contracts does not constitute a random sample; the contracts included in our analysis were selected because they were the only ones publicly available at the time of this study.

2.2 The benchmark debt contract sample

China is a state-led economy, and its approach to government-to-government lending often differs from those of OECD governments. We observe a greater array of lenders, terms, and policy mandates in Chinese debt contracts than we do with other governments. To account for the fact that China does not have an obvious peer group within the sovereign lending ecosystem, we established four separate peer groups for benchmarking purposes: (1) bilateral creditors from the OECD, which include government agencies and instrumentalities that coordinate through the OECD's Development Assistance Committee (DAC) and the Paris Club; (2) non-OECD bilateral creditors (i.e., government creditors from countries that are not part of DAC or the Paris Club, such as the Gulf states or India); (3) multilateral creditors, including regional development banks; and (4) commercial banks. We refer to creditors in the first three categories collectively as official creditors. Since China is a member of neither the OECD nor the Paris Club, the second group of non-traditional creditors is a particularly interesting benchmark.

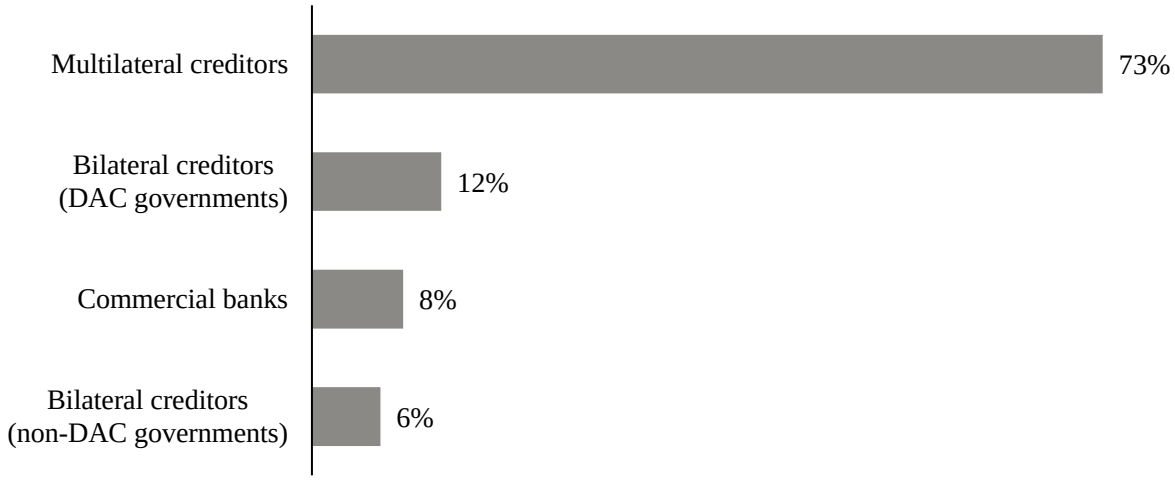
China is not unique for failing to publish detailed information about its lending terms. There is no uniform public disclosure standard or practice for bilateral official lenders, although many governments and most multilateral institutions publish information about their lending at varying levels of detail, and many share such information with a subset of other creditors. To address this information gap, particularly when it comes to comparability at the contract level, we constructed a benchmark sample for a single sovereign borrower, Cameroon, which to our knowledge is the only developing country that has maintained a publicly accessible database (via http://dad.minepat.gov.cm/) of its project-related loan contracts with all external creditors.[17]

[16] In light of prior research attributing contract standardization to law firms (e.g, Choi, Gulati and Posner 2013), we sought to identify the firms responsible for drafting the contracts in our sample. Three of the contracts in our Chinese sample feature prominent international law firm branding. Two are English firms, one represented by its Beijing office; the third is New York-based. All three contracts appear to be governed by English law. The creditor combinations are slightly different in each case, including CDB, China Eximbank, the Bank of China, ICBC, and Deutsche Bank, Beijing Branch. Each of the three contracts contained different variations from the LMA template; none would alter our overall conclusions. The small number of contracts with readily identifiable law firm drafters precludes systematic analysis.

[17] This database is maintained by Cameroon's Ministry of Economy, Planning and Regional Development (MINEPAT). We downloaded all available contracts from http://dad.minepat.gov.cm/ between May and August 2019. As of December 2020, the online version of the MINEPAT database was no longer publicly accessible, but we have published all of the contracts that we downloaded and analyzed (at https://www.aiddata.org/how-china-lends).

This database, in principle, should cover all of the Government of Cameroon's project-related loan contracts with external creditors. However, some of the contracts that are stored in the database are incomplete or in an unreadable condition. Also, for some of the loans in the database, no contractual documentation was available.[18] In total, we were able to retrieve 142 debt contracts with 28 different creditors—8 commercial banks, 10 bilateral creditor agencies from 10 different countries (including 3 official export credit agencies), and 11 inter-governmental organizations—that are listed in detail in Table A2 in Appendix I. For bilateral creditors, we can further distinguish between those creditor agencies that are part of the OECD's DAC and the Paris Club (Belgium, France, Germany, Japan, South Korea and Spain in our benchmark sample) and those that are not (India, Kuwait, Saudi Arabia and Turkey). The composition of the sample is summarized in Figure 4. The International Development Association (IDA), the Islamic Development Bank (ISDB), the African Development Bank (AfDB) and Agence Française de Développement (AFD) are heavily represented in the benchmark set, which likely reflects their institutional mandates and Cameroon's colonial history.

Figure 4. Composition of benchmark sample by creditor groups



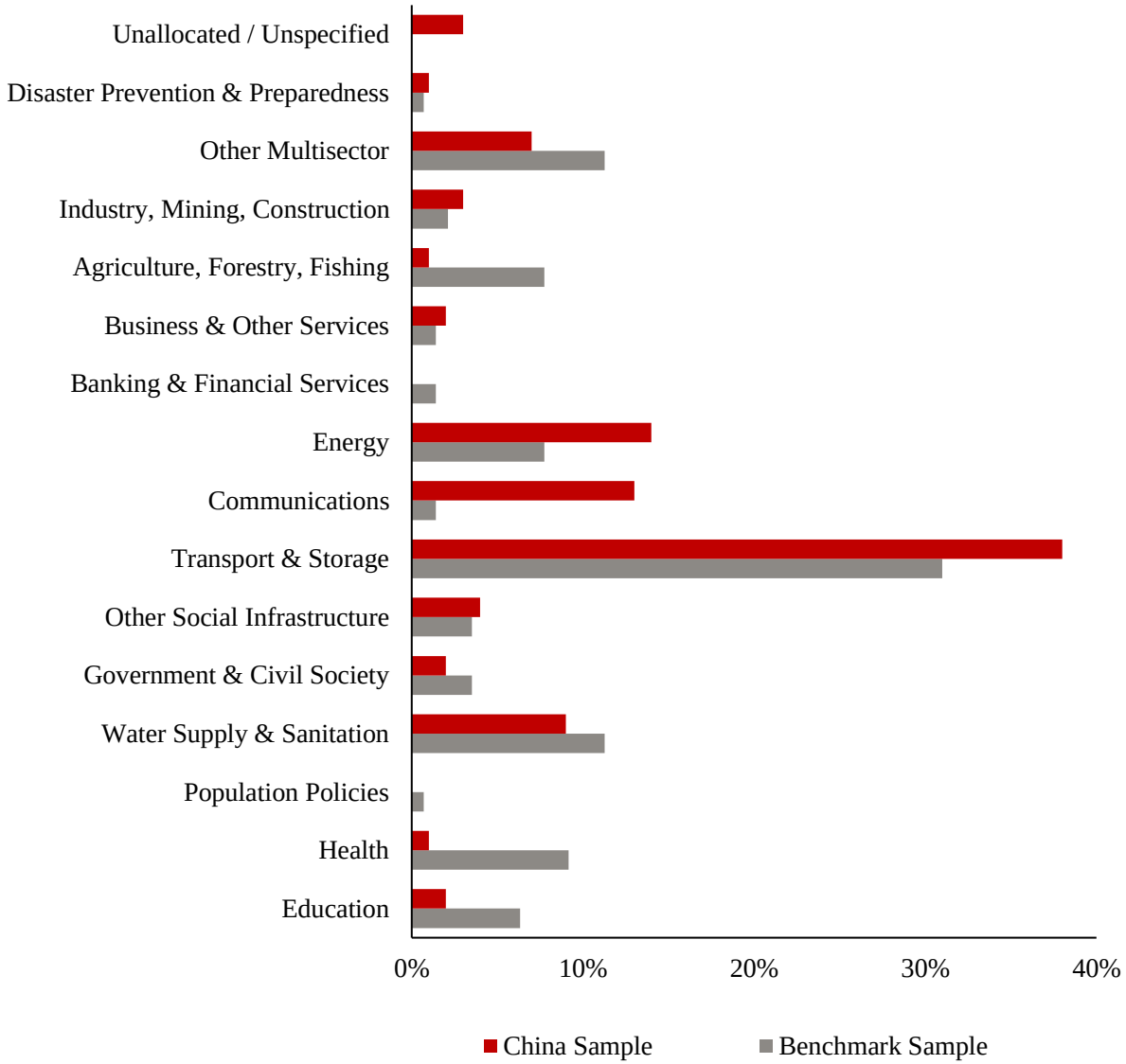
Note: This figure shows the composition of our benchmark sample by creditor type. DAC governments refers to member countries of the OECD's Development Assistance Committee. See Appendix I for a full list.

In order to gauge whether the loans in the benchmark sample and the China sample are reasonably comparable, we explore whether they were designed to achieve similar purposes. Figure 5 summarizes the sectoral composition of loans in the China and the benchmark sample. We find considerable overlap

[18] See section 2.3 for our approach to dealing with missing and incomplete information.

between the samples: in both the benchmark and the China sample, most loans financed projects and programs in the transportation, energy, and water supply sectors. These three areas account for roughly 60 percent of the contracts in the Chinese sample and for 50 percent of the contracts in the benchmark sample.

Figure 5. Sectoral distribution of loan contracts

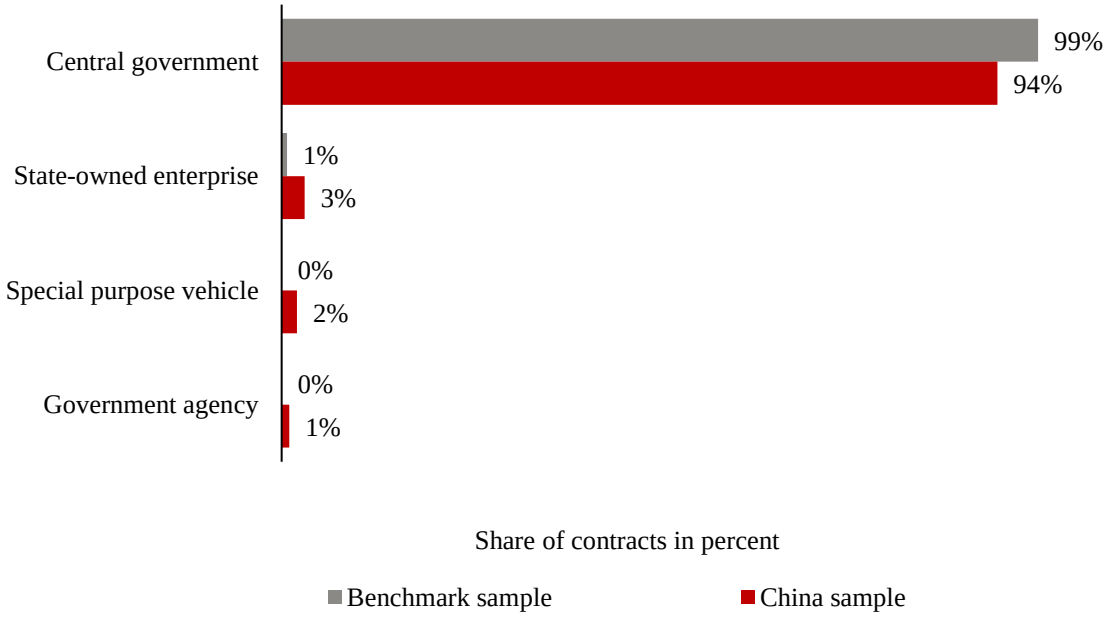


Note: This figure shows the composition of our benchmark and China contract samples by lending purpose sector. Sector classification is based on the three-digit OECD system.

The types of borrowers represented in the benchmark sample and the China sample are also remarkably similar. In both samples, the borrower is almost always the central government (99% in the benchmark sample and 94% in the China sample). The remaining borrowers are state-owned enterprises, a

government agency, and two special purpose vehicles (project companies) with explicit guarantees from the central government (see Figure 6 below).

Figure 6. Sample composition by borrower type



Note: This figure shows the composition of our benchmark and China contract samples by borrower type. Four of the seven loans to state-owned enterprises, special purpose vehicles and to the government agency carry explicit guarantees from the recipient country central government.

Finally, we check whether the benchmark sample and the China sample are comparable with respect to their financial terms and their degree (or lack) of concessionality. For this purpose, we construct a dummy variable that indicates whether a loan is made on concessional or non-concessional terms. To categorize loans as concessional we build on the OECD and IMF definition according to which these "are extended on terms substantially more generous than market loans" (IMF 2003). The exact definition differs so we take an ad hoc threshold and run robustness checks with alternative options. Specifically, we classify a loan as concessional when interest rates are close to zero, defined as a coupon of 0 to 3 percentage points. According to this definition, non-concessional loans in our sample are extended at fixed interest rates larger than 3 percentage points or charge interest based on a floating reference rate, such as the 6 months LIBOR, plus a spread that ranges from 95 to 450 basis points in our sample. Importantly, the findings are not sensitive to the choice of the cut-off, for example when including only loans with up to 2% interest rate or up to 4%.

This exercise reveals that 76 percent of loans in our China sample are extended on concessional financial terms, whereas 24 percent are extended on non-concessional financial terms. The share of

concessional loan instruments in the benchmark sample is slightly higher at 81 percent. We conclude that the two samples are very similar with respect to their financial terms.

In our main analysis, we compare the lending terms of the 100 Chinese contract sample with the 142 contracts of the 28 benchmark creditors. Our analysis therefore entails comparisons of Chinese contracts with borrowers worldwide (including Cameroon) to benchmark contracts with Cameroon as a single sovereign debtor country. This comparison introduces scope for bias if Chinese lending contracts with sovereign borrowers outside Cameroon differ substantially from Chinese loan contracts with Cameroon. Fortunately, this does not appear to be the case, since the terms of Chinese lending contracts in our sample are highly standardized across countries. As we show in Appendix III, all our main findings hold when we limit our comparison to Chinese and benchmark creditor contracts with Cameroon.

A related concern is that specific characteristics of Cameroon as a borrower could make contracting practices there difficult to compare to contracting practices elsewhere. In other words, our benchmark sample could differ for other developing and emerging market countries. All the evidence we have seen reinforces our impression of *standardization by creditor*, with banks typically following the LMA template, and bilateral and multilateral creditors relying heavily on their respective general terms and conditions. In order to reflect the high degree of standardization, we have created a typology of contract characteristics by creditor in Appendix II. Nonetheless, we cannot rule out that Cameroon's contracts differ systematically in some way, given the dearth of systematic data and the lack of publicly available sovereign loan contracts. With more data, we could expand our analysis to a broader range of benchmark countries and their contracts with bilateral, multilateral and private creditors.

2.3 Methodology and coding approach

In order to facilitate comparisons between the terms and conditions in the sample of Chinese loan contracts and the benchmark loan contracts, we developed a set of variables that allow for systematic categorization. The variables that we selected follow the structure of the Loan Market Association (LMA) template for single currency term facility agreements in developing markets. We took this approach because, while there is no "international standard" for bilateral official sovereign debt contracts, a variety of private and some official lenders—inside and outside of China—use the LMA template as a basis for their contract design. In total, we code 100 variables, which we group into eight analytical categories:

1. *Principal Payment Terms:* These variables capture the loan facility, its debt maturity, grace period, repayment schedule, and currency of denomination, as well as bilateral cancellation and debtor prepayment rights.

2. *Interest and Fees*: The variables in this category identify the interest rate, timing and currency of interest payment, as well as the commitment fee and the arrangement or management fee.

3. *Additional Payment Obligations*: This is a catch-all qualitative variable created to capture any payment obligations of the borrower not included in (1) and (2), such as currency conversion costs, indemnification costs, or charges related to contract renegotiation or enforcement. This category also captures stabilization or increased cost clauses that require the borrower to compensate the lender for increased costs resulting from policy changes in the borrower country or the creditor country.

4. *Credit Enhancement*: These variables capture information about third-party credit enhancements and security interests. They cover guarantees (including guarantor identity and guarantee terms and conditions), formal and informal security interests, and escrow and special accounts[19] (including account funding and management arrangements).

5. *Conditions, Covenants, and Modification Terms:* These variables identify the debtor's commitments apart from the promise to repay the debt with interest. They include commitments addressing status (subordination and *pari passu* clauses, if any), information disclosure, negative pledge, collective and bilateral restructuring procedures, if any, and linkages to any other contracts, including commodity sales and project operation.

6. *Events of Default*: These variables identify events of default and their consequences, including acceleration of repayment, suspension of disbursement, and contract termination. Varieties of the cross-default clause feature prominently in the sample and the benchmark contract set.

7. *Assignment and Delegation*: These variables capture whether and under what conditions the sovereign debtor or the creditor may assign its rights or delegate its obligations to a non-party.

8. *Governing Law and Enforcement*: These variables identify the law that governs the contract and the agreed dispute settlement forum and procedure (including arbitration and any applicable procedural rules). They cover sovereign immunity waivers, if any, and separately describe waivers of the debtor's

[19] Debtors may not withdraw funds from escrow accounts except in limited circumstances. Special accounts have substantially fewer withdrawal restrictions.

immunity from lawsuits and of the immunity of its assets from attachment before and after a court judgment, where applicable.

Dealing with missing information: Some loan contracts in our data are incomplete or reference additional agreements that are not available to us. In particular, 18 percent of contracts in our sample are missing one or more pages. In these cases, the table of contents can usually be used to infer which parts of the contract are missing.[20] If a contract is incomplete, we cannot rule out that a certain clause exists in the contract. We therefore assign "missing values" rather than "zeros" in such cases. We do so to ensure that contracts with missing information do not enter the sample statistics for the incidence of a specific clause.

Another related problem emerges if a contract references additional legal documents that are not available to us. By way of example, a creditor's "general conditions" can form an integral part of the contract, but they were not consistently available to us. While none of the Chinese contracts refer to separate general conditions, most multilateral and some bilateral creditors use them. In 42 cases (17% of contracts), general conditions are not available to us. In the Chinese contract sample, seven contracts represent only technical and economic cooperation agreements that leave most contractual details to the final (undisclosed) loan agreement. All of these transactions are flagged in our dataset. When coding the information from these contracts, we again assign "missing values" if we cannot find a clause in the contract, since we cannot rule out that the clause is included in the creditor's general conditions or in the final version of the loan agreement.

Similarly, contracts in our samples often reference separate confidentiality agreements, account agreements, or security documents that form part of the transaction and define important terms. In these cases, we know that a certain clause or arrangement exists, but have only limited insights into the details. We discuss these limitations of our study in the presentation of our findings below.

Coding approach: We employed two independent research teams—one at the Georgetown University Law Center and another at the Kiel Institute for the World Economy—to apply a consistent set of variable definitions and coding rules and procedures to the 100 contracts in the Chinese sample and the 142 contracts in the benchmark set. When the coding determinations of these teams were identical, we accepted their assigned values as final. When the two teams reached different coding

[20] There is no indication that pages are missing systematically, i.e. are left out of documents on purpose. It rather seems that pages are left out arbitrarily when scanning the original loan contracts.

determinations, we enlisted the support of a senior researcher to identify the underlying source of the discrepancy and apply expert judgment to assign a final value.

We provide more information on the definitions of our variables and the coding rules and procedures that we used to construct the variables in Appendix VI. Our dataset can be accessed at https://www.aiddata.org/how-china-lends. Digitized and scanned PDF copies of the loan agreements that we coded can also be accessed at that website.

3. Main findings

We compared the terms and conditions of contracts between Chinese lenders and developing country borrowers with those in the benchmark set of Cameroon's project-related debt contracts with external creditors. Tables A4 to A8 in Appendix II provide a broad overview and Appendix III provides robustness checks by comparing Chinese and non-Chinese contracts *within* the Cameroon sample and by comparing concessional and non-concessional loans separately. All these comparisons reveal that debt contracts with Chinese state-owned entities differ substantially from those in the benchmark sample across three key dimensions: (1) *confidentiality*, (2) *seniority*, and (3) *lender discretion*, particularly with respect to contract termination and certain events of default. Below we review key differences between the terms in the Chinese contract sample and their counterparts in the benchmark sample. We also identify those terms that appear to be unique to Chinese lenders, with no ready parallels in the benchmark sample.

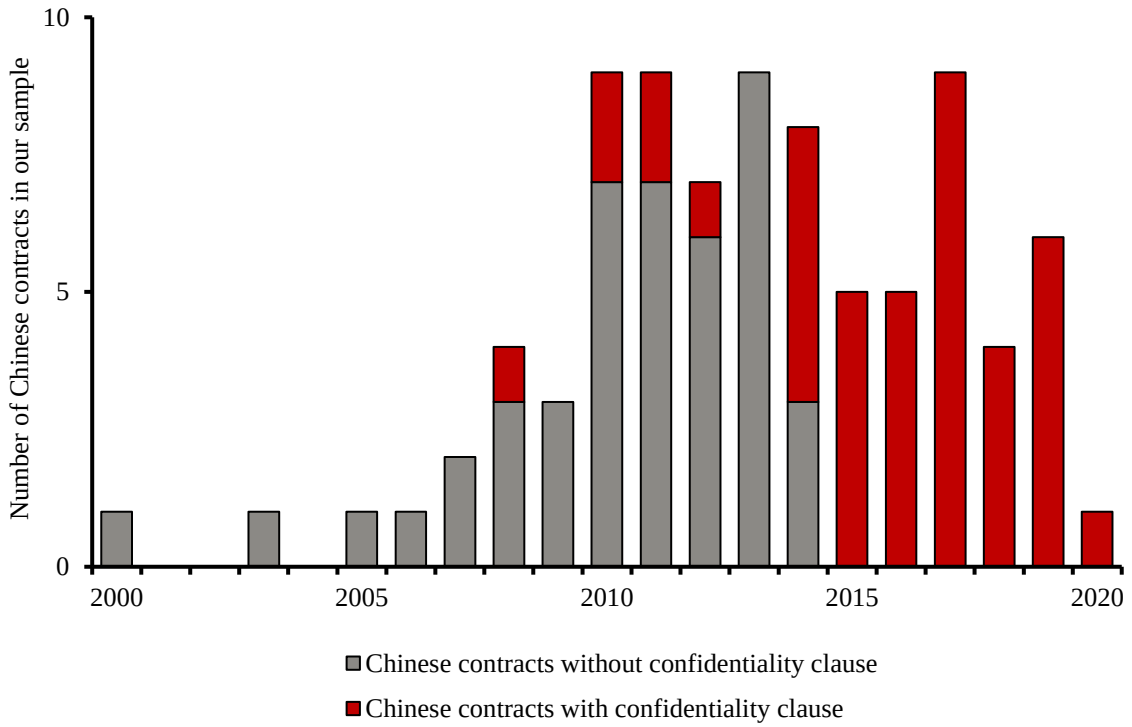
3.1 Confidentiality: Chinese contracts contain unusual confidentiality clauses

Sovereign debt contracts with Chinese lenders are more likely to include confidentiality clauses than similar contracts with most other creditors. All CDB contracts and 43% of China Eximbank contracts include such clauses. Some form of confidentiality clause is also common in the benchmark sample: 39 percent of contracts by multilateral creditors, one third of contracts by bilateral creditors and one third of commercial bank contracts include confidentiality undertakings. While benchmark contracts impose confidentiality obligations primarily on the *lenders*, contracts in our Chinese sample impose them on the *borrowers*. Confidentiality clauses in Chinese lenders' contracts are also far broader in scope than those in the benchmark set, covering all the terms, and even the existence of the debt itself.

Figure 7 shows a pronounced shift towards greater secrecy in Chinese lending contracts that is driven by the widespread introduction of confidentiality clauses in China Eximbank contracts around 2014.

Whereas only one of 37 China Eximbank contracts prior to 2014 contains a confidentiality clause, all China Eximbank contracts after 2014 include confidentiality clauses.

Figure 7. Use of confidentiality clauses in Chinese contracts over time



All China Eximbank contracts beginning in 2014 use substantially the same confidentiality clause, reproduced in Table 2 below. The CDB contracts in our sample follow the LMA template, and also reference separate confidentiality letters. The only publicly available letter of this kind is designed to protect the confidentiality of contract negotiations: it covers all aspects of the transaction and related negotiations, applies to both parties, and expires six months after the contract is signed, or one year after negotiations break up.[21] In our benchmark sample, one-third of the commercial loan contracts use formulations that are nearly identical to or slightly narrower than the confidentiality clause in the LMA template reproduced in Table 2 below.

[21] The 2011 confidentiality letter between CDB and Ecuador in relation to the CDB's 2 billion USD oil-backed loan facility can be accessed here: https://www.dropbox.com/s/hhl7qe0mn9x122z/carta-de-negociacion.pdf?dl=0

Table 2. A comparison of confidentiality undertakings

China Eximbank *(all contracts after 2014)*	LMA Template *(33% of the banks in our sample)*	Islamic Development Bank *(all 20 contracts)*	Agence Française de Développement (AFD) *(2 out of 10 contracts)*
The Borrower shall keep **all the terms**, conditions and the standard of fees **hereunder or in connection with** this Agreement strictly confidential. Without the prior written consent of the Lender, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party **unless required by applicable law.**	Each **Finance Party** [defined as lenders] agrees to keep **all Confidential Information** [enumerated items] confidential and not to disclose it to anyone, save to the extent permitted by Clause 36.2 (Disclosure of Confidential Information) [and Clause 36.3 (Disclosure to numbering service providers)], and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information. **The Agent and each Obligor** agree to keep each **Funding Rate** ... confidential and not to disclose it to anyone, save to the extent permitted by paragraphs ... below. ... ... **The Agent and each Obligor** acknowledge that each **Funding Rate** ... is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and **the Agent and each Obligor** undertake not to use any **Funding Rate** ... for any **unlawful purpose**.	All of the bank's **documents, as well as its correspondence and records**, need to be kept confidential by the borrower.	**The Borrower** shall not disclose **the contents of the agreement** without the prior consent of the Lender to any third party, **unless required by law, applicable regulation or a court decision.**

The China Eximbank confidentiality clause excerpted here binds the sovereign debtor. It applies to the entire agreement and, potentially, to a broader set of dealings between the debtor and China Eximbank "in connection with" the contract. On the other hand, the clause contains a carve-out that would allow the sovereign debtor to make disclosure required by law. It is unlikely, however, that this carve-out would be broad enough to allow a debtor to disclose China Eximbank contract terms to its Paris Club

creditors, since the Paris Club process and output are at best "soft law." The LMA template, in contrast, imposes more robust non-disclosure obligations on the lenders ("finance parties"), which presumably reflects the fact that banks obtain confidential business information in the course of their credit assessment before they issue a loan. The debtor nondisclosure obligations are narrowly drawn, limited to banks' funding costs, and expressly justified by reference to securities regulations.[22]

The Arab Bank for Economic Development in Africa, the Islamic Development Bank, the OPEC Fund for International Development and the Kuwait Fund for Arab Economic Development all have a version of the clause, reproduced in Table 2, that requires the borrower to keep the lender's documents and correspondence confidential. It is much narrower than the China Eximbank clause. Two official bilateral debt contracts in our benchmark sample, both from Agence Française de Développement (AFD), have confidentiality terms resembling China Eximbank's, committing the debtor not to disclose any of the agreement.

Expansive debtor confidentiality undertakings that extend beyond contract negotiation present multiple political and debt management problems. First, they try to hide government borrowing from the people whose taxes are bound to repay it. Second, they impede budget transparency and sound fiscal management. Third, they hide the sovereign's true financial condition from its other creditors. Creditors may charge the government higher interest rates to reflect the uncertainty and potential for subordination. Fourth, potential for hidden debt can impede debt restructuring. At this writing, Zambia's bondholders are refusing to proceed with debt renegotiation citing insufficient information about China's claims on the country (Bavier and Strohecker 2021). More broadly, a lack of trust in the debtor's financial reporting can derail crisis response and recovery.

We have not found any evidence of judicial enforcement of the confidentiality clauses, but we have identified at least one instance of CDB invoking them in response to a video obtained and released by investigative journalists that revealed the terms of Ecuador's multi-billion dollar oil-backed debt to CDB. The release of the video shortly after the deal was signed prompted public debate about the new borrowing (Zurita et al. 2020). In response, the head of CDB's Resident Mission in Ecuador wrote to his counterpart in Ecuador's Ministry of Finance, complaining about the borrower's apparent breach of the confidentiality letter, called on the Ecuadorian government to launch a leak investigation, and demanded that it take measures to mitigate the reputational damage to CDB caused by the video.[23] The

[22] The CDB contracts with Ecuador in our sample are unusual because they commit the debtor and the creditor not to disclose their English governing law and international arbitration provisions, presumably owing to the political sensitivity in both countries of invoking English law and a London-based dispute resolution process.
[23] The letter can be accessed in its entirety at https://www.dropbox.com/s/x71lgctpz0kme0j/OFICIO-No.-CDB-ECU-2016-001-2-1%20%281%29.pdf?dl=0.

CDB letter also implicitly threatened to withhold future financing if the borrower did not adequately address the incident.

3.2 Seniority and Security: Chinese lenders use formal and informal collateral arrangements to maximize their repayment prospects

Chinese state-owned banks use liens, escrow and special accounts much more extensively than either the official or the commercial lenders in the benchmark set. Whereas 29% of the debt contracts in the Chinese sample use one or more of these devices, only 7% of OECD bilateral creditors and 1% of the multilateral creditors in the benchmark set do so. No contract with non-OECD bilateral creditors in the benchmark set uses any of these security devices.

Figure 8. Security arrangements: Chinese contract sample versus benchmark set

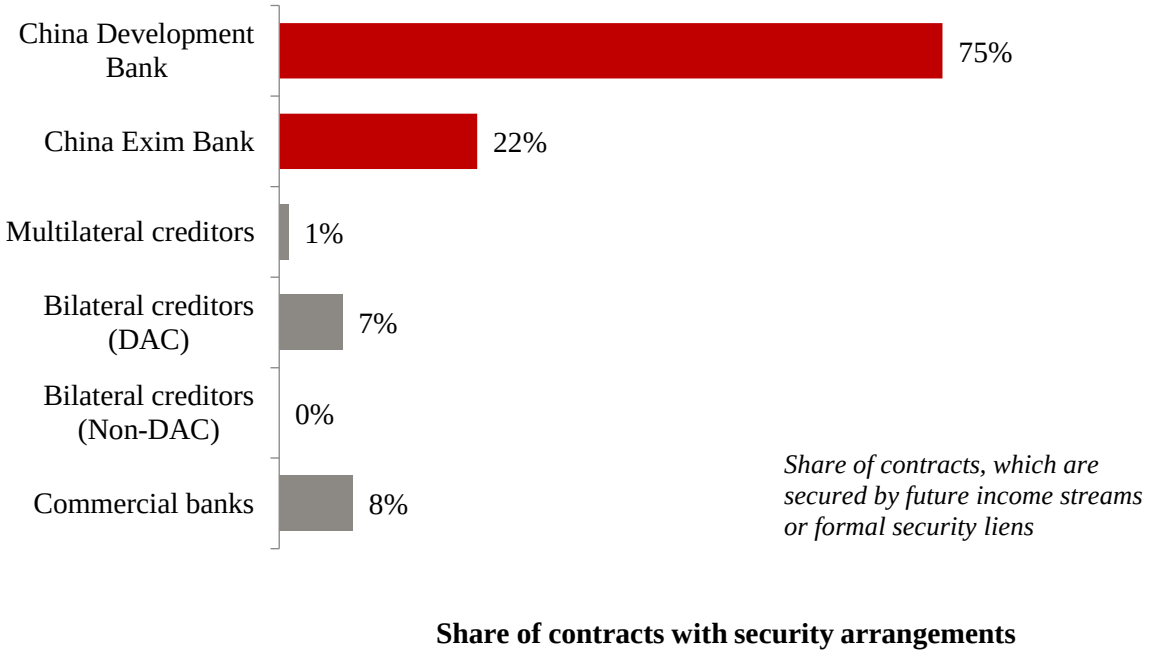


Figure 8 further shows that collateralization practices vary across Chinese lending institutions: 6 out of 8 CDB loans in our sample benefit from some form of security interest, but only 22% of the China Eximbank loans do.[24] The distinct mandates of these institutions may help explain the difference: CDB operates without formal subsidies from the central government, and probably has stronger incentives

[24] This figure is even higher (5 out of 6 or 83% of loans) when we focus on the six loans that were solely made by CDB and disregard the two loans in our sample that CDB co-financed with ICBC and BOC.

than China Eximbank to write contracts to minimize repayment risk. Because CDB makes larger loans than China Eximbank, it must manage additional credit and liquidity risks. In our sample, the average face value of a China Eximbank loan is $200 million, while the average CDB loan has a face value of $1.5 billion. Any and all of these features would lead CDB to use credit enhancements when lending to risky borrowers.

The most common way of securing repayment in the Chinese contract sample is the use of escrow or special accounts. Sovereign borrowers commit to maintain and fund bank accounts either at the lending institution or at a bank "acceptable to the lender" throughout the life of the loan, and to route through these accounts project revenues and/or cash flows that are unrelated to the project funded by the loan. Debt contracts describe the accounts as part of the debt repayment process; however, they function above all as a security device.

The debt contracts in our sample and benchmark set reference separate account agreements that appear to contain most of the detailed provisions governing the accounts. We have access to only one such agreement in our sample, and therefore cannot provide a systematic assessment of how these accounts work. However, many of the debt contracts contain enough detail to convey a general sense of account operation.

- All account arrangements with available information require the debtor to maintain a minimum account balance; in most cases, the minimum is the annual principal, interest, and fees due under the debt contract.
- In 70% of the Chinese transactions with a special account, all revenues from the associated projects must be deposited in the account.
- In 38% of the Chinese account arrangements, the account is financed from unrelated sources, either instead of or in addition to project revenues. In our sample, these sources include the export revenues from oil (Ecuador and Venezuela), bauxite (Ghana), and revenue from financial assets (Costa Rica). Other contracts require the borrower to provide sufficient funding from sources that are not limited to project revenues, but they do not specify the source(s).
- In 5 CDB contracts (with Argentina, Ecuador and Venezuela), the lender also has the ability to block the debtor from withdrawing the funds. These contracts expressly limit the debtor's withdrawal rights to those specified in the account agreement. We have only one such account agreement: between CDB and a state-owned development bank (BANDES) in Venezuela. Under this agreement, BANDES is not permitted to make any withdrawals from the Collection Account during the 35-day period prior to any repayment date or if withdrawals would violate

the minimum debt service coverage ratio. CDB, on the other hand, is "entitled at any time and without notice to BANDES, to […] appropriate, set-off or debit all or parts of the balances in the Collection Account to pay and discharge all or part of BANDES' liabilities to CDB." [25] In the 4.7 billion USD loan to Argentina's Ministry of Finance by CDB, ICBC and BOC, all project revenue is collected in a Project Trust Account and withdrawals are limited to pay for fees, loan repayments, and specified project expenses, in the prescribed order of priority.[26]

Box 1 illustrates the use of special accounts in a 2010 loan from CDB to the government of Ecuador. The loan agreement is linked to an oil purchase agreement between PetroEcuador and PetroChina. Our sample includes two additional oil-backed CDB loans to Ecuador and a similarly structured lending arrangement between CDB and BANDES in Venezuela.

Box 1. How revenue accounts work: CDB's oil-backed 2010 loan to Ecuador

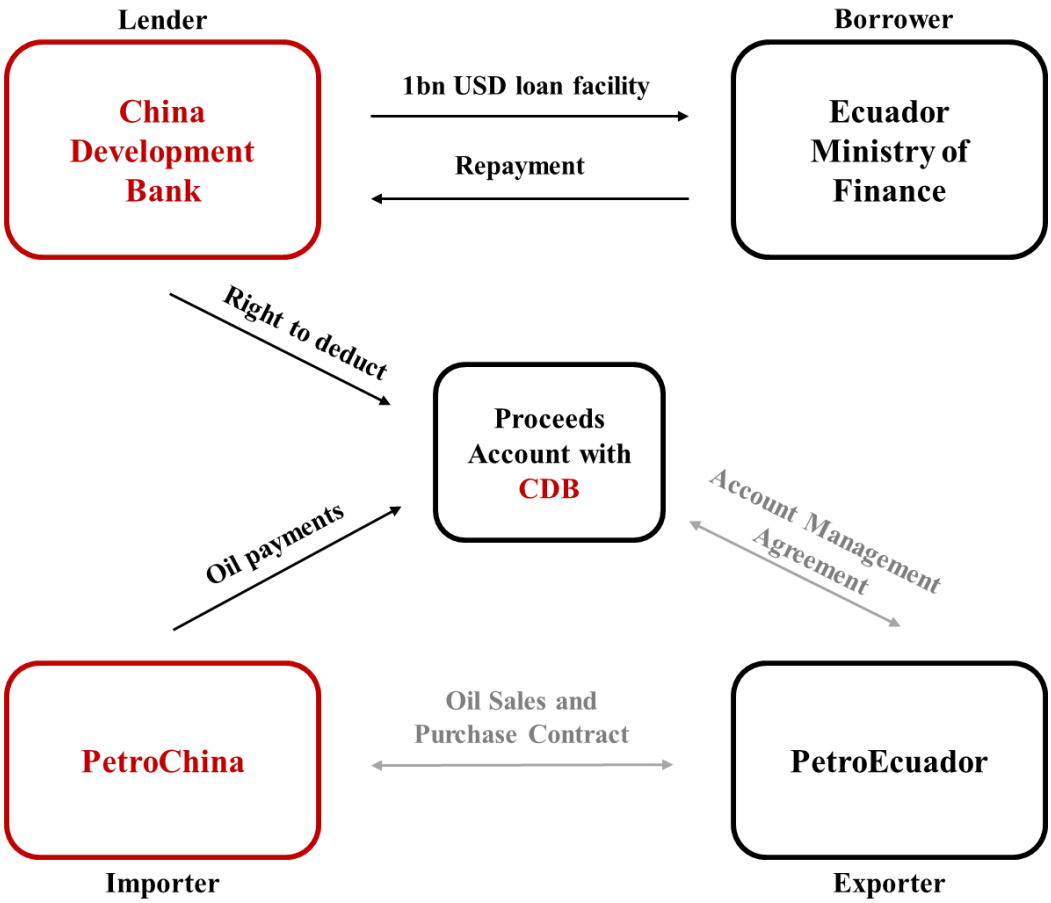
In 2010, China Development Bank (CDB) extended a 1 billion USD oil-backed loan to the Ecuadorian Ministry of Finance.[27] The use of the loan is divided into two tranches. The first 80% of the commitment is at the free disposal of the Ministry to finance projects of infrastructure, mining, telecommunications, social development and/or energy. The remaining 20% are committed for the purchase of goods and services from selected Chinese contractors (p. 4).

The loan is backed by a separate Oil Sales and Purchase Contract between PetroEcuador and PetroChina. This agreement requires PetroEcuador to sell, over the entire validity period of the Facility Agreement, at least 380,000 barrels of fuel oil per month and 15,000 barrels of crude oil per day to PetroChina.[28] The oil proceeds are paid by PetroChina into the Proceeds Account which is opened by PetroEcuador with CDB in China and which is governed by Chinese law. PetroEcuador is "not permitted to make any withdrawals from the Proceeds Account except to the extent permitted under the Account Management Agreement" (p. 6). PetroEcuador and the Ecuadorian Ministry of Finance acknowledge that CDB has the "statutory rights under Chinese law and regulation […] to deduct or debit all or part of the balances in the Proceeds Account to discharge all or part of the Republic of Ecuador's [...] liabilities due and owing to CDB" both

[25] See Account Management Agreement between BANDES and CDB, p. 10.
[26] See Term Facility Agreement between Republic of Argentina and CDB, ICBC and BOC, p. 123.
[27] The transaction is governed by a Facility Agreement between CDB and the Ecuadorian Ministry of Finance and by a Four Party Agreement that links the Facility Agreement to the Oil Sales and Purchase Contract between PetroEcuador and PetroChina. Page numbers in this box refer to the Four Party Agreement.
[28] The Oil Supply Agreement "provides a pricing mechanism (acceptable to CDB) to set the price for the crude and / or fuel oil" (p. 5), but since the Oil Supply Agreement is not publicly available, no details are known. At the current cost of a barrel of oil of around 60 USD, the minimum oil supply is worth around 88 million USD per month.

under the 2010 oil-backed loan as well as under "any other agreement between CDB and the Republic of Ecuador" (p. 6). The figure below illustrates.

Figure 9. Stylized structure of CDB's 2010 oil-backed loan to Ecuador



Note: This figure illustrates the contractual structure of the Four-Party Agreement between China Development Bank, PetroChina, the Ecuador Ministry of Finance, and PetroEcuador. The Oil Sales and Purchase Contract and the Account Management Agreement are not available to us.

Only 3 of the 142 contracts in our benchmark set have comparable account arrangements.

- Cameroon's contract with Commerzbank Paris requires the government to deposit payments from the UN into an escrow account and to maintain a minimum account balance equal to a year's principal and interest payments due.
- A contract between Cameroon and the French government development agency (AFD) requires the borrower to deposit royalty payments equal to 150% of annual payments due from

Cameroon in an account formally pledged to AFD, and to maintain a minimum account balance equal to two loan payments due.

- Provisions relating to a reserve account in a 2003 African Development Bank loan with Cameroon are illegible in the version of the contract that was published by the government of Cameroon.

Special accounts of the sort described here are standard in limited-recourse project finance.[29] Their function is to help lenders manage credit, operational, transfer, and legal risk, among others. Such accounts appear to be rare in bilateral official and multilateral lending practice. A handful of high-profile exceptions prove the rule:

- U.S. emergency loans to Mexico beginning in 1982, and again in 1994, required Mexico to route proceeds from state oil sales through Mexico's account at the Federal Reserve Bank of New York; however, even under the more restrictive 1994 agreement, Mexico could withdraw the funds so long as it was not in default (General Accounting Office 1996). In addition, the United States committed to buy oil from Mexico at a discount price. The 1994 arrangement addressed a mix of financial and political imperatives, notably U.S. congressional opposition to the extraordinary assistance package.
- Budget transparency, fiscal management, and related governance concerns led to the establishment of a London-based escrow account, which featured prominently in the World Bank's ill-fated financing for the Chad-Cameroon pipeline. Chad's petroleum revenues from the new pipeline flowed through the accounts between 2004 and 2006. Withdrawals had to be approved by a public oversight board before funds could be transferred to Chad's treasury. The World Bank suspended most disbursements to Chad and froze the account in 2006, after Chad changed its law and, according to the Bank, took fiscal measures in contravention of its agreement. Settlement later the same year allowed Chad to make a partial withdrawal; a subsequent review concluded that the arrangement was fragile and ultimately ineffective as a policy tool (World Bank 2006, 2009).
- Offshore accounts and revenue pledges were popular in 19th and early 20th century sovereign lending, before the advent of restrictive sovereign immunity. Such arrangements had mixed success in improving creditor repayment prospects (e.g., Borchard and Hotchkiss 1951, Wynne 1951, Maurer 2013).

[29] For a concise description, see e.g., "Project Accounts" in Yescombe (2014), Sec. 14.4.1.

Account arrangements of the sort we identify, when used in full-recourse sovereign lending, can pose multiple policy challenges. First, they encumber scarce foreign exchange and fiscal revenues. Second, the encumbrance can be easy to hide. This follows from the fact that banks' set-off rights against their account holders are usually found in background laws and regulations, and do not require a formal pledge, registration, or disclosure on the part of the debtor. Any additional contractual undertakings may also be kept confidential. In contrast, a lender that wishes to take effective security interest in a physical asset must enter into a separate agreement and make a public filing to get a priority claim against the asset. Third, undisclosed routing of revenue flows to special accounts impedes the accuracy of a debt sustainability analysis and multilateral surveillance work. If a substantial portion of a country's revenue streams is earmarked for the benefit of a single creditor, conventional measures of debt sustainability are likely to overestimate the country's true debt servicing capacity to all creditors. In balance of payments crises, this can undermine IMF programs, adding to the effective adjustment burden of the country and deepening haircuts for other creditors in the event of a debt restructuring. Fourth, control over revenue flows can give the lender considerable bargaining power vis-à-vis the debtor and other creditors,[30] which can translate into political leverage in the context of government-to-government lending.

Historical and contemporary experience with special accounts suggests that they may offer lenders limited, if any, protection. Cash-strapped debtors usually do not hesitate to redirect payment flows. However, it may be more difficult to do so if the creditor is also the source of those payment flows, as in the case with the oil-backed loan contracts discussed earlier. Special accounts may also help creditors deflect political pressure at home, reassuring shareholders and voters that risky debt would be repaid.

In contrast to the prevalence of special accounts, only 5 of the Chinese loans in our sample explicitly reference a formal security interest or pledge. In these cases, pledged assets include financial instruments (in Costa Rica and Honduras), mining rights (in the DRC), and project output and equipment, as well as shares in a project company (in Sierra Leone). We find little evidence in our contract sample that China's state-owned banks routinely use physical infrastructure—like a seaport or a power plant—as collateral. This finding stands in contrast to the prominent media and political narrative, which holds that China's lending practices are designed to appropriate strategic physical assets in poor countries (for a critique of this narrative, see Bräutigam and Kidane 2020).

[30] For example, in Puerto Rico's debt restructuring, bonds secured by sales tax revenues had effective repayment priority over general obligation bonds, despite the constitutional protections for the latter.

The only debt contract in our sample that appears to entail a pledge of physical assets is for a syndicated loan from China Eximbank and ICBC to upgrade and expand a seaport in Sierra Leone. The contract contains several references to pledged collateral in the form of physical or financial assets that could be transferred to the lender and liquidated in the event of default. However, we were not able to obtain any of the security agreements referenced in this or any other contract in the Chinese sample, and do not have enough information to define the pledged assets or the operation of the collateral scheme with specificity.

In summary, Chinese lenders in our sample appear to prefer collateral in the form of bank accounts, with contractual minimum balance requirements to ensure that the lender would have cash to seize in the event of default. By comparison, collateral in the form of illiquid physical assets is more burdensome to secure and sell, harder to keep confidential, and more likely to draw unfavorable media coverage and political controversy.

Box 2: Use of collateral in Sierra Leone's port project loan with ICBC and China Eximbank

In 2017, ICBC and China Eximbank made a USD 659 million loan to Sierra Leone for the upgrade and expansion of Queen Elizabeth II Quay in Freetown. The borrower was National Port Development Sierra Leone Ltd., a special purpose vehicle (i.e., project company), which entered into a concession agreement with Sierra Leone's government to operate the port for 25 years. Although the parties used elements of a limited recourse project finance structure, the loan was fully guaranteed by the government of Sierra Leone.

The project company was established and is owned by Sky Rock Management Ltd., a private company incorporated under the laws of the British Virgin Islands. The loan's primary purpose is to finance the port expansion carried out by a consortium of Chinese engineering, procurement and construction firms.

Given the size of the loan (worth 15 percent of Sierra Leone's 2017 GDP), its high interest rates (LIBOR plus 3.5 percent p.a.) and the elevated political and economic risk in Sierra Leone, ICBC and China Eximbank made use of a variety of securitization mechanisms to mitigate default risk. The Facility Agreement references the following Security Documents:

- **Share Pledge Agreement:** Sky Rock Ltd., the foreign investor, enters a share pledge agreement "in respect of their shares in the Borrower in favour of the Security Agent, in form and substance satisfactory to the Facility Agent" (p. 18). The Share Pledge Agreement is separate from the Facility Agreement and not publicly available, so it is unknown under what

circumstances ownership in the project company could be transferred from the foreign investor to the creditors.

- **Mortgage over Assets:** The Borrower enters a mortgage agreement over "equipment and other assets of the Borrower in relation to the Project […] in favour of the Finance Parties, in form and substance satisfactory to the Facility Agent" (p. 13). The Mortgage Agreement is separate from the Facility Agreement and not public, so it is unknown which assets are pledged.
- **Other security documents** which evidence or create "security over any asset of the Borrower to secure any obligation of the Borrower under the Finance Documents" (p. 17). Since no other security documents are publicly available, no further details are known.

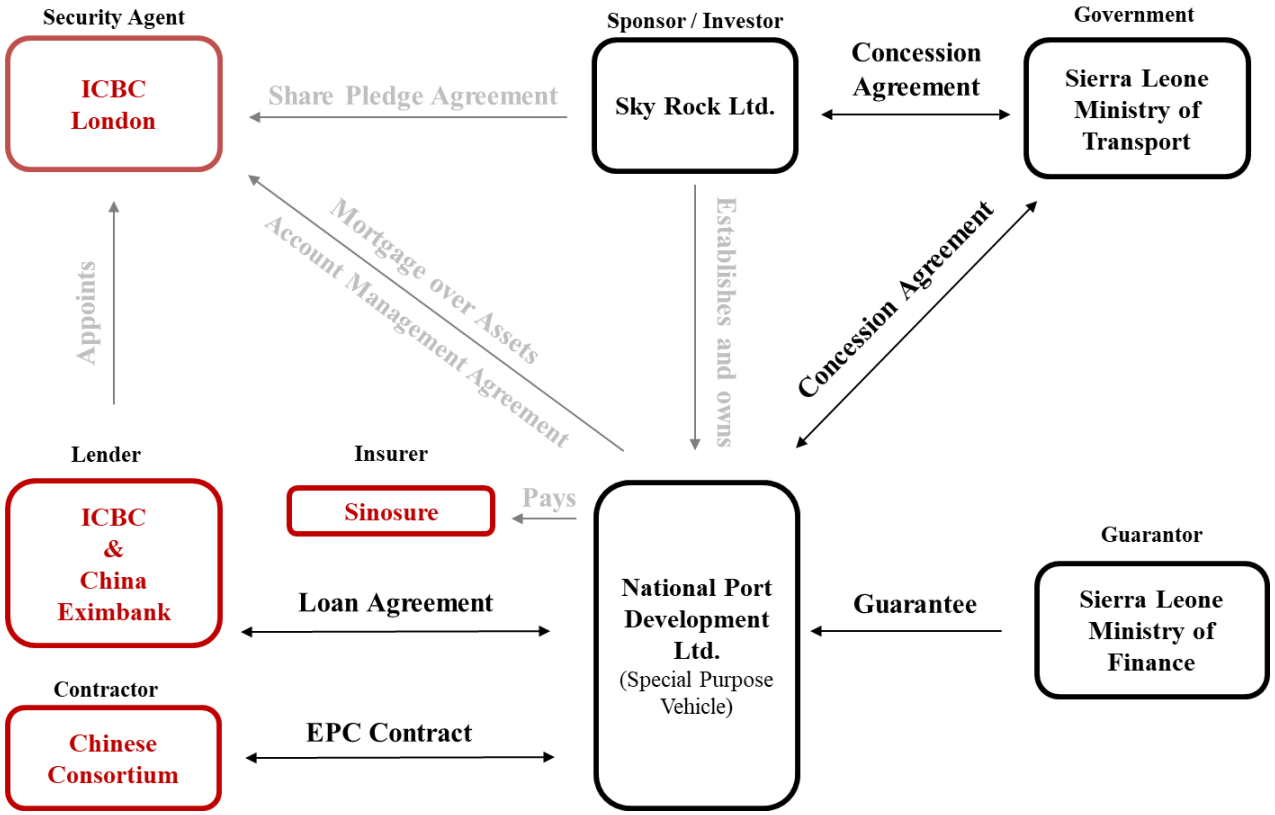
In addition to the Security Documents, the Facility Agreement also references an **Account Agreement**. Again, this is a separate document that is not publicly available. Cross references in the Facility Agreement show that ICBC and China Eximbank can designate "a bank outside the jurisdiction of Sierra Leone" at which the "Bank Accounts are opened and maintained" (p. 1). The conditions of utilization further reveal that the Borrower is required to transfer project revenue into this account so that the account balance at all times meets the minimum debt service coverage of "all principal scheduled to be paid and all interested expected to be payable under the Facility on the next Interest Payment Date" (p. 16).

In addition, the repayment of the loan is fully guaranteed by Sierra Leone's Ministry of Finance. In particular, the Ministry "guarantees to ensure that if […] the balance of the Borrower Collection Account falls to an amount that is less than is required to meet the next Scheduled Debt Service payment […], the Guarantor shall pay, or procure to be paid, into that account, such amount as may be necessary to ensure that the balance of the account is equal to the amount of the next Scheduled Debt Service payment" (p. 143).

Finally, the borrower is required to use part of the loan proceeds to purchase an insurance policy with Chinese state-owned Sinosure, which insures 95% of the facility plus accrued interest against political and commercial risk.

The figure below summarizes the financial and institutional structure of the deal. As can be seen, the parties involved are connected through a variety of contractual links. Contracts marked in grey have not been made public and are not available to us.

Figure 10. Stylized structure of ICBC & China Eximbank loan to Sierra Leone



Note: This figure illustrates the contractual structure of ICBC's and China Eximbank's 659 million USD loan to Sierra Leone for the Upgrade of Queen Elizabeth II Quay in Freetown. Contractual links marked in grey have not been made publicly available.

3.3 Seniority and "No Paris Club": Chinese contracts enable lenders to seek preferential repayment without saying so

Only two debt contracts with China's state-owned banks formally claim senior status: an ICBC loan to Argentina and a collateralized loan from ICBC and China Eximbank to Sierra Leone, discussed earlier. On the other hand, all contracts in our Chinese sample commit the borrower to exclude the debt from any multilateral restructuring process, such as the Paris Club of official bilateral creditors, and from "comparable treatment" that the Paris Club requires the debtor to seek from its other creditors. Such a promise is unlikely to be enforceable in the court of any major financial jurisdiction; however, combined with other contract terms, it could give the lender additional bargaining power in a crisis.

A typical "No Paris Club" clause in the Chinese contract sample is reproduced below:

> [T]he Borrower hereby represents, warrants and undertakes that its obligations and liabilities under this Agreement are independent and separate from those stated in agreements with other creditors (official creditors, Paris Club creditors, or other creditors), and the Borrower shall not seek from the Lender any kind of comparable terms and conditions which are stated or might be stated in agreements with other creditors.[31]

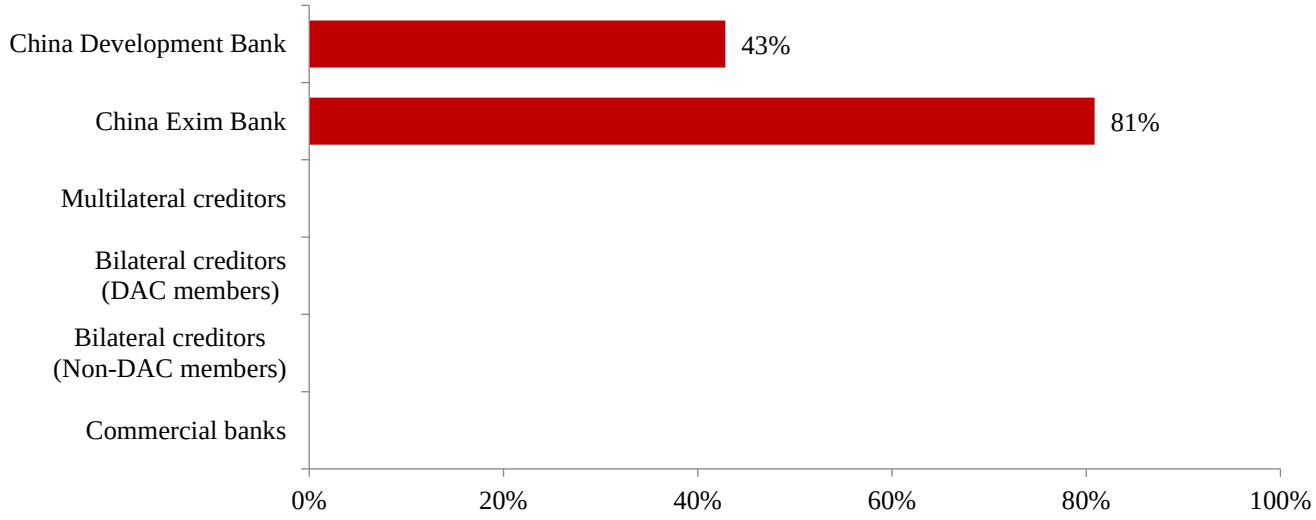
Three CDB contracts with Argentina's Ministry of Economy contain a different variation on the theme:

> The Borrower shall under no circumstances bring or agree to submit the obligations under the Finance Documents to the Paris Club for restructuring or into any debt reduction plan of the IMF, the World Bank, any other multilateral international financial institution to which the State is a part of, or the Government of the PRC without the prior written consent of the Lender.[32]

Comparability of treatment is one of six core Paris Club principles; it covers both commercial and official bilateral creditors that are not members of the Paris Club.[33] The stated objective of comparability is burden-sharing: governments are loath to grant relief if their taxpayers end up subsidizing other creditors instead of helping countries in distress. Comparability has long been a pillar of the international financial architecture and has shaped international sovereign debt markets for decades (see Gelpern 2004; Schlegl, Trebesch and Wright 2019). Governments that borrow from Chinese lenders and restructure their debts in the Paris Club must choose between breaching the "No Paris Club" clause and their comparability undertaking to the Paris Club. In theory, a sovereign debtor that fails to seek comparable treatment from official or private non-Paris Club creditors risks losing its Paris Club relief, and potentially its IMF and other multilateral financing. In practice, no Paris Club treatment has ever been undone for lack of comparability, in part because it is assessed in the aggregate, treating all non-Paris Club creditors as a group, and defined loosely enough to accommodate a wide variety of creditor concessions.

[31] See, for example, the China Eximbank's Government Concessional Loan Agreement in 2015 with the Government of Kyrgyz Republic for Alternative North-South Road Project, p. 13.
[32] See, for example, the China Development Bank's 236 million USD term facility agreement in 2019 with Argentina Ministry of Economy, p. 51.
[33] See https://clubdeparis.org/en/communications/page/what-does-comparability-of-treatment-mean

Figure 11. “No Paris Club” clause: China versus benchmark set



A debtor that flouts the comparability principle and follows through on its preferential treatment promise to CDB or China Eximbank would be in serious breach of Paris Club norms, and would likely damage its relationships with the IMF, the World Bank, and other official and commercial creditors. As part of the Common Framework agreed in November of 2020, China and other G20 members that are not part of the Paris Club agreed to restructure their claims on the poorest sovereign borrowers in tandem with the Paris Club, implying broadly the same terms, including comparability of treatment for *both* official and commercial claims. Although the G20 statement is too vague to amount to a definitive commitment, it stands in tension with 74% of the Chinese contracts in our sample, which explicitly reject burden sharing with other creditors.

Box 3. The Common Framework for Debt Treatments beyond the DSSI

The G20 endorsement of a “Common Framework for Debt Treatments beyond the DSSI” suggests some progress toward greater alignment and coordination between China and other bilateral creditors, at least at the level of key principles. From this standpoint, it raises some hope that the divergence in contract behavior between China and other bilateral lenders could be narrowed or better reconciled in the years ahead.

The framework is a successor to the G20 Debt Service Suspension Initiative (DSSI), launched in April 2020 as a short-term measure to free up cashflows and help low-income countries respond to the COVID-19 shock. The Common Framework commits G20 governments to transparent

negotiations among official creditors; seeking an obligation from borrowers to seek comparability of treatment across all creditors; and a common understanding of the key parameters for a debt treatment. In essence, the G20 text creates a Paris Club-like arrangement that includes China, without a formal move by the Chinese government to join the club itself.

However, this may significantly overstate the case when we consider what is missing from the Common Framework. Critically, the framework is silent on the definition of an official creditor and therefore appears to leave intact the Chinese government's assertions—namely, that China Eximbank is an official creditor but China Development Bank is not. This suggests a narrower scope for coordinated action, and in light of this study, leaves the lender that is most divergent from official bilateral behavior largely outside the disciplines of a coordinated approach. From the Chinese government's perspective, this is consistent. Where we observe contract provisions that are unusual for an official lender, Chinese officials assert that the lender is in fact commercial and not official. Nonetheless, this basic disagreement over definitions suggests limited progress on a multilateral arrangement for debt workouts and better practices in terms of official lending.

The Common Framework does adopt the Paris Club's comparability of treatment standard for all creditors, which would require debtors to seek debt relief from CDB, contrary to the "No Paris Club" clauses in their contracts. Because neither the Paris Club, nor the IMF insist on restructuring of any particular creditors' claims—only on comparability and adequate financial assurances from all creditors in the aggregate—there is little reason to believe that CDB would be compelled to absorb a proportionate share of the losses.

At this writing, the Common Framework applies only to the 73 low-income countries eligible for DSSI. All middle-income emerging market countries, including some of China's largest borrowers, are outside its scope.

No contracts with private or non-Paris Club official creditors in our benchmark set include similar clauses. The closest analogue in recent sovereign debt history may be the term forswearing future debt restructuring in the 1990s Brady Bonds (restructured bank claims that represented substantial debt relief):

> [The sovereign] will not, directly or indirectly, seek any restructuring or rescheduling of the Bonds or any provisions thereof, nor will it, directly or indirectly, seek or request any loans,

advances, extensions of credit or other financial accommodation from any holders of the Bonds or any affiliate thereof based upon such holdings.[34]

Although such clauses became ubiquitous in Brady Bonds, they were also widely understood to be unenforceable: it is hard to see what remedy a court might fashion for breach of such a term. On the other hand, a lender could do real economic damage to the debtor if it has access to a "special account" and threatens to use self-help, seizing the account should the debtor attempt collective restructuring negotiations. Moreover, "No Paris Club" clauses could have expressive and political functions, which may be more potent in the government-to-government context.

3.4 Policy influence: Cancellation, acceleration, and stabilization clauses can give Chinese lenders sway over policies in the borrowing country

Chinese lenders in our contract sample retain the right to cancel the loan and demand immediate repayment under a wide range of circumstances, including political and economic developments not directly connected to the lending relationship. In contrast, the sovereign debtor's exit options are limited once the contracts are signed. For instance, cross-default and cross-cancellation clauses in some of the Chinese contracts trigger if the debtor takes action adverse to "any PRC entity" in the borrowing country. Such terms position Chinese state-owned institutions to act in concert, amplifying their collective bargaining power vis-à-vis the developing country. All CDB contracts include the severing of diplomatic relations with China as an event of default. Events of default in 90% of the contracts in our Chinese sample include broadly defined policy changes in the creditor or in the debtor country. Normally in the event of default, the lender can accelerate principal and interest repayment. Default triggers of the sort we have identified in Chinese debt contracts potentially amplify China's economic and political influence over a sovereign borrower. We elaborate below.

Cross-Default

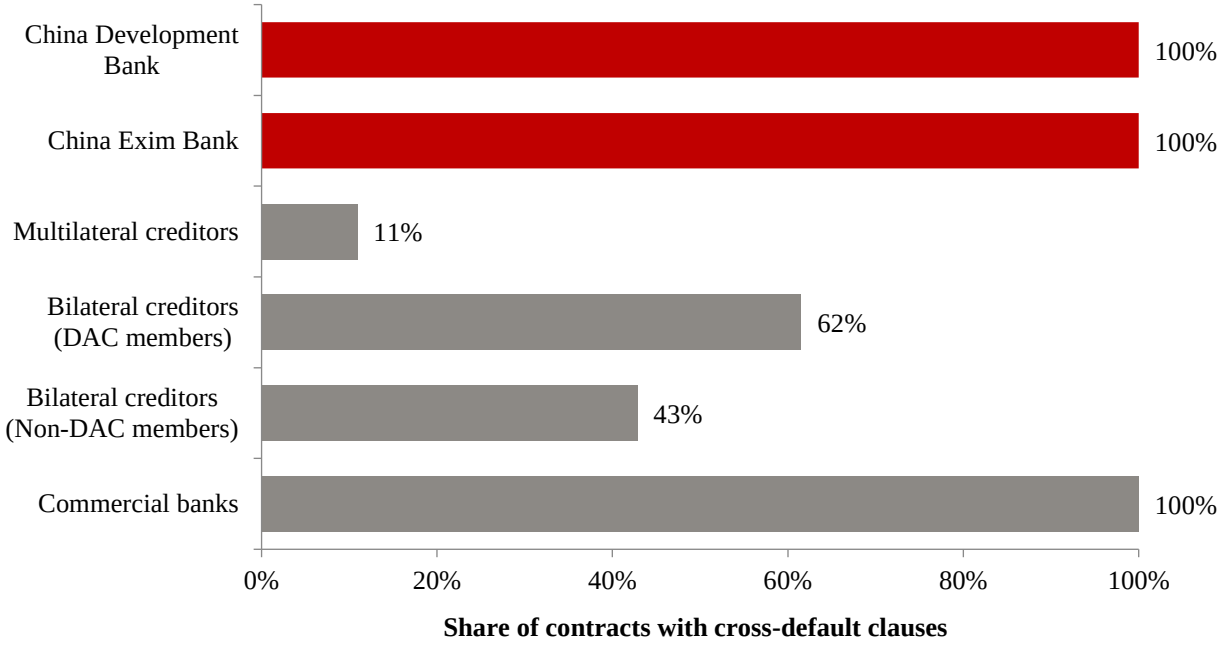
"Things do not get much more utterly standard than the cross-default clause," according to one authoritative guide to international debt contracts (Buchheit 2006, 102). The LMA template, all of the commercial debt contracts in our benchmark set, and 98 percent of the Chinese loan contracts in our sample contain cross-default clauses, including all contracts by China Eximbank and CDB. In

[34] *The 1992 Philippine Bond Fiscal Agency Agreement*, Republic of the Philippines, Morgan Guaranty Trust Company of New York, and Banque Paribus Luxembourge, 1 December 1992, 1 at 24. Reproduced in Gelpern and Gulati (2009). More sophisticated and enforceable anti-restructuring devices are relatively common in mortgage-backed securities and other structured finance transactions.

contrast, only 11 percent of multilateral debt contracts, 62 percent of OECD bilateral contracts, and 43 percent of non-OECD bilateral contracts in the benchmark set have cross-default terms (Figure 12).

A cross-default clause allows Creditor A to put pressure on the debtor and to protect its claim priority when the debtor defaults on its debt to Creditor B. Under a creditor-friendly version of the clause, if the debtor misses a payment to B, both A and B would have the right demand full principal and accrued interest repayment at the same time. A more debtor-friendly version would only give A the right to accelerate debt repayments if B chose to do so. Once it triggers the clause, A would claim a seat at the restructuring table and stand next to B, not behind them, in the asset disposition queue.

Figure 12. Cross-default clauses: Chinese loan sample versus benchmark set



Chinese lenders in our sample tend use more creditor-friendly, though still market standard, formulations of cross-default. For instance, around two-thirds of China Eximbank's contracts extend the scope of the cross-default beyond failure to pay on another debt, to include all events of default under debt contracts with other creditors (in theory, these could cover minor reporting violations, other lenders' cross-defaults, and similar terms). In contrast, cross-default clauses in the AFD contracts of in our sample are more narrowly drawn: AFD may not accelerate or enforce its claim unless the creditor under another contract "has terminated or suspended its commitment, declared the early repayment or pronounced the early repayment of this debt." Nonetheless, both formulations are within the commercial norm.

Unusual Triggers and Cross-Cancellation

Other Chinese contracts in our sample depart from the norm in potentially significant ways. For instance, three out of seven CDB contracts in our sample cross-default to adverse actions that any government entity in the debtor country might take against Chinese investments there ("PRC entity" is broadly defined). The following excerpt from CDB's 2010 facility agreement with the Ecuadorian Ministry of Finance illustrates:

> [An event of default occurs if] "borrower, any governmental agency or any public entity of the Republic of Ecuador
>
> a) condemns, nationalizes, seizes or otherwise expropriates all or any substantial part of the property or other assets of a PRC Entity or its share capital,
>
> b) assumes custody or control of the property or other assets or of the business or operations of a PRC Entity or its share capital,
>
> c) takes any action for the dissolution or disestablishment of a PRC entity or any action that would prevent a PRC entity or its officers from carrying on all or substantial part of its business or operations,
>
> d) takes any action, other than actions having general effect in the Republic of Ecuador, which would disadvantage a PRC entity in carrying out its business or operations in the Republic of Ecuador, or
>
> e) commences any action or proceeding in relation to the matters described in a, b, c ...[35]

A similar but slightly narrower version of this cross-default appears in Russia's 2013 debt contract with Ukraine, issued in the form of tradable notes to the Russian sovereign wealth fund. A default occurs under the notes if Ukraine defaults on "any indebtedness […] owed to the Noteholder or to any entity controlled or majority-owned by the Noteholder." (Russia was the only Noteholder). Although Russia appeared to have had the flexibility to accelerate the notes using this cross-default and citing Ukraine's arrears to Gazprom, it chose not to use this flexibility, and waited to sue until Ukraine had stopped paying on the notes.

[35] See China Development Bank 1 bn USD Facility Agreement in 2010 with Ecuador's Ministry of Finance, p. 38.

Chinese institutions also use a clause related to the cross-default, but more closely resembling multilateral institutions' practice of suspending or cancelling multiple projects with the debtor. Cross-cancellation can protect the lender's finances, but even more importantly, ensure that public funds do not continue to support failed projects or poor policy outcomes. CDB appears to use cross-cancellation as a security device for its loans, and as a way of protecting China's other interests in the borrowing country. For instance, a $2 billion CDB loan for the Belgrano Cargas Railway includes among its cross-cancellation triggers default or cancellation of Argentina's $4.7 billion syndicated loan from Chinese banks to build two hydroelectric dams on the Santa Cruz River in Patagonia.[36] CDB invoked this clause and threatened to cancel the railway project when a new government in Argentina sought to cancel dam construction on environmental grounds.[37] The Argentinian government quickly reversed course. Using cross-defaults to link otherwise unrelated projects makes it harder for the borrower to walk away from any of them, and gives Chinese lenders as a group more bargaining power—and more policy influence.

Stabilization

CDB and, to a lesser extent, China Eximbank include stabilization clauses in their debt contracts to manage the risk of legal and regulatory change in the borrowing countries. Stabilization clauses are standard in project finance; they approximate a stable investment environment for large infrastructure projects and make it easier to plan for the long term (e.g., Dewar ed. 2019). A 2009 report for the IFC and two UN agencies identified three types of stabilization clauses (Shemberg 2009):

- Freezing clauses ... designed to make new laws inapplicable to the investment. ... They are so named because they aim to freeze the law of the host state with respect to the investment project.

- Economic equilibrium clauses ... [also known as "increased cost clauses," which promise that], although new laws will apply to the investment, the investor will be compensated for the cost of complying with them. Compensation can take many forms, such as adjusted tariffs, extension of the concession, tax reductions, monetary compensation, or other...

[36] The syndicate included China Development Bank, Bank of China, and ICBC.

[37] The letter can be accessed in its entirety at https://www.dropbox.com/s/q6s26ninx4ldnes/Cross-Default%20Letter%20from%20China%20Development%20Bank%20to%20the%20Government%20of%20Argentina%2010%20March%202016.pdf?dl=0. The loan agreements for the Kirchner-Cepernic Dams Project and the Belgrano Cargas Railway Line Project can be accessed at https://www.documentcloud.org/documents/20484849-arg_2014_435 and https://www.documentcloud.org/documents/20484846-arg_2012_418

- Hybrid clauses (so named because they share some aspects of both of the other categories) require the state to restore the investor to the same position it had prior to changes in law, and the contract states explicitly that exemptions in law are one way of doing this.

All but one stabilization clause in our sample of Chinese contracts fall into the second category. They do not rule out the application of regulatory changes to the investment project, but require the borrower to compensate the creditor for all increased costs. The freezing version of the stabilization clause appears just once in our sample, in the 2008 mining and infrastructure deal between a consortium of Chinese state-owned enterprises and the Democratic Republic of Congo.

[T]he contractor in charge of infrastructure works will benefit from the advantages resulting from all the new legal and regulatory provisions which would be subsequently taken by the DRC or from the agreements that the latter would come to an agreement with other investors. However, any new legal provisions and regulations bringing disadvantages to them will not be applied to them.[38]

This variant of the stabilization clause can pose a special challenge for human rights and sustainable development policies. It effectively creates carve-outs within the rule of law, limits the borrower's self-governance, and potentially blocks state-of-the-art environmental, public health, labor, and other potentially vital and popular regulations (see, for example, Global Witness 2011 for a more detailed discussion).

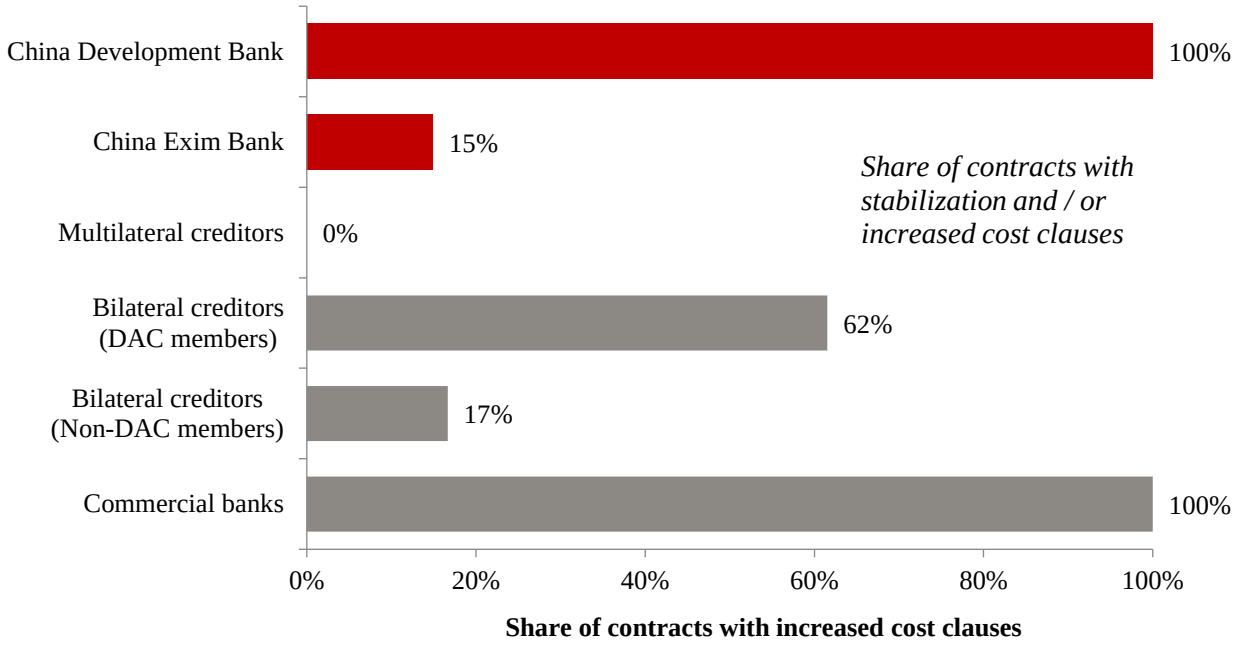
Figure 13 shows that China is not the only bilateral official lender to adopt stabilization clauses. Indeed, we found stabilization or increased cost clauses in more contracts with OECD and non-OECD official bilateral creditors than in contracts with China Eximbank. They are also commonplace in commercial bank lending contracts.

In sum, the cross-default, cross-cancellation, and stabilization clauses we find in the sample are not outside commercial or policy norms, or oppressive *per se*. Nor is it unusual for lenders to seek to influence debtor policies. However, such clauses are in tension with narratives of Chinese lenders as altruistic and motivated by solidarity. They complicate efforts to draw sharp distinctions between their practices and those of Western banks or OECD governments: China Eximbank uses some of the most aggressive commercial versions of standard-form clauses. They also pose a problem for the claim that CDB is a profit-driven commercial lender: the CDB contracts in our sample are enmeshed

[38] See Convention de Collaboration entre la Republique Democratique Du Congo et la Societe Sinohydro Corporation Relative Au Developpement D'Un Projet Minier et D'Un Projet D'Infrastructures En Republique Democratique Du Congo signé en Janvrier 2008, p. 14.

in the broader Chinese government investment program, drafted so that CDB lending can protect a broad spectrum of Chinese interests in the borrowing countries.

Figure 13. Stabilization clauses: China versus benchmark set



Illegality and Exit

More than 90 percent of the contracts in our Chinese sample identify policy changes in the debtor or creditor country as an event of default, giving the creditor an option to exit and demand immediate debt repayment. This term adapts a standard-form illegality clause in commercial bank loan contracts, originally designed to deal with changes in bank regulation and sanctions (Buchheit 2006: 53). CDB contracts closely follow the LMA template. The trouble with illegality clauses in contracts with governments or state-owned entities is that some of them may have a voice in the policy decision triggering their termination rights. At the extreme, termination could become discretionary, the lender's prerogative. In our benchmark sample, AFD and Turkey Eximbank are the only other official creditors to use illegality clauses. Their clauses, however, tend to be narrower than their Chinese counterparts.

Table 3. Illegality clauses in official loan contracts

China Eximbank *(77% of loans)*	CDB *(all loans)*	Turkey Eximbank *(all loans)*	Agence Française de Développement *(all loans)*
Where there occurs **any** change of the **laws or government policies** in the country of **either** the Lender or the Borrower, which makes it impossible for **either** the Lender or the Borrower to perform its obligations under this Agreement, **the Lender** may, by written notice to the Borrower, terminate the disbursement of the Facility, and/or declare all the principal and accrued interest and all other sums payable hereunder to be immediately due and payable by the Borrower without further demand, notice or other legal formality of any kind.	If, as a result of any change in any **law or regulation**, it becomes unlawful in any applicable jurisdiction **for the lender** to perform any of its obligations as contemplated by this agreement or to fund or maintain any loan, the lender shall promptly notify the borrower upon becoming aware of that event, whereupon the facility will be immediately cancelled (illegality).	[I]f, at any time, it is or will become unlawful in any applicable jurisdiction **for the lender** to perform any of its obligations as contemplated by this agreement or to fund or maintain any loan, the lender shall promptly notify the borrower upon becoming aware of that event whereupon the facility will be immediately cancelled. (illegality).	The performance **by the Lender** of any of its obligations under the Agreement or the provision or maintenance of the Credit becomes illegal under the terms of the regulations applicable to it.

In addition to the standard illegality clause shown in the table above, four out of five of China Eximbank's non-concessional loans in our sample contain more expansive illegality clauses, as follows:[39]

> If at any time the Lender determines that it is or will become unlawful or contrary to any directive of any agency for it to allow all or part of the Facility to remain outstanding, to make, fund or allow to remain outstanding all or part of the Loan under this Agreement, upon such notifying the Borrower by the Lender:
>
> (a) the Facility shall be cancelled; and
>
> (b) the Borrower shall prepay such Loan on such date as the Lender shall certify to be necessary to comply with the relevant law or directive with all unpaid accrued interest thereon, all unpaid fees accrued to the Lender and other sums then due under this Agreement.[40]

This clause can trigger immediate cancellation of the facility and accelerate repayment *if the lender* determines that the loan is contrary *to any directive of any agency*. Two aspects of this formulation give the lender more leverage over the borrower. First, a mere "directive of any agency"—short of a legislative enactment—could trigger cancellation and prepayment. Second, prepayment follows automatically after the lender has certified that the relevant law or directive has been promulgated. The LMA template, in contrast, contemplates that the loan would be transferred to a creditor for whom it would not be illegal. We do not see similarly broad illegality clauses in the contracts of other private or official creditors.

Related to illegality, all CDB contracts in our sample include cancellation and acceleration terms tied to the PRC severing diplomatic relations with the borrower, as in this example from CDB, making it an event of default that *"The government of the PRC has, or has announced its intention to sever diplomatic ties with the stator or the government of the state has, or has announced its intention to*

[39] While this clause appears in 80% of "Buyer Credit Loans," it seldom appears in any of China Eximbank's concessional lending agreements: only 3 out of 61 concessional agreements in our sample use the strong illegality clause, whereas the large majority includes the standard version shown in Table 3.

[40] See, for example, China Eximbank's 85 million USD Buyer Credit Loan in 2016 with Uganda's Ministry of Finance for Four Industrial Substations, p. 20.

sever diplomatic ties with the PRC."[41] In our benchmark sample, only two contracts of the Export-Import Bank of India contain a similar provision.

Illegality and stabilization clauses are examples of standard contract terms dealing with "known unknowns," or allocating the risk of contingencies within the contemplation of the parties at the time the contract is made. Standard-form commercial contracts often contain a catch-all "Act of God" or *force majeure* term, which excuses performance in the event of an unforeseen contingency such as war or natural disaster. Such clauses are rare in debt contracts, where the only obligation is payment, and the interest rate reflects general nonpayment risk—there is little scope for the unforeseen. In our Chinese sample, we found nine contracts with China Development Bank and China Eximbank containing what appear to be *force majeure* clauses, but where the "Act of God" becomes an event of default and triggers acceleration, instead of excusing performance in the event of a disaster. China Eximbank's 2011 Government Concessional Loan agreement with Sierra Leone includes the following event of default:

> There occurs force majeure in the recipient country such as serious natural calamity, war or other social unrests, which may, in the opinion of the Lender, jeopardize the normal environment for the implementation of the project [42]

Force majeure, and especially *force majeure* as an acceleration trigger stands out as highly unusual, although we found similar provisions in our benchmark set, in the loan contracts of Japan International Cooperation Agency (JICA). Considering the adverse shocks associated with *force majeure* events in borrower countries (natural disasters and pandemics), to require the acceleration of repayments under these circumstances would seem counter to the interests of the borrowing country and its citizens, and politically challenging for the foreign creditor to enforce. It may be useful for domestic consumption in the creditor country, to create the illusion of additional exit option and escape valves, or as an expressive device to project power and make the debtor think twice before defaulting, even in extreme circumstances.

[41] See, for example, p. 50 of China Development Bank's 1.5 billion USD facility agreement in 2016 with Ecuador's Ministry of Finance. This clause is not included in the two CDB loans in our sample that are co-financed with state-owned Chinese commercial banks.

[42] See China Eximbank's Government Concessional Loan Agreement in 2011 with the Ministry of Finance and Economic Development of Sierra Leone for the Sierra Leone Dedicated Security Information System Project, p. 12.

4. Conclusion

Our study of Chinese foreign loan contracts reveals several new insights. Chinese lenders show considerable ingenuity in adapting and expanding standard contract tools to maximize their repayment prospects, including with lender-controlled revenue accounts, and to protect a broad range of Chinese interests in the borrowing country. The contracts are in tension with narratives of South-South cooperation and belie the claim that CDB is a purely commercial lender—notwithstanding its adoption of many commercial lending practices. Both CDB and China Eximbank are enmeshed in the broader Chinese government investment program, with cross-default and cross-cancellation clauses linking different parts of the program. Links among financial, trade, and construction contracts are pervasive throughout the sample; however, because we do not have access to contracts apart from the loans, we do not analyze such links in depth.

We find widespread use of "No Paris Club" and "no comparability of treatment" clauses—that expressly prohibit the borrower country from restructuring their outstanding debts to China in coordination with Paris Club creditors and/or on comparable terms with them. This practice suggests that Chinese state-owned banks are effectively seeking to position themselves as "preferred creditors" exempt from restructuring. More generally, we find that Chinese contracts give lenders considerable discretion to cancel loans and/or demand full repayment ahead of schedule. Such terms give lenders an opening to project policy influence over the sovereign borrower, and effectively limit the borrower's policy space to cancel a Chinese loan or to issue new environmental regulations.

Our findings raise the question of why China's overseas lending program has proven so attractive to borrower countries in the developing world. One explanation is the limited global supply of financing for large-scale infrastructure and energy projects—especially in high-risk environments (Brautigam 2009). Moreover, Chinese lenders' terms are relatively attractive because they tend to be cheaper than market financing, even if they are more expensive than (generally smaller) loans from other official creditors (Morris et al. 2020). Additionally, the costs and benefits of the debt-financed projects are not evenly distributed across society: political favoritism, principal-agent problems, and outright corruption can distort decision making, resulting in loans that are not necessarily in the best interest of the country as a whole (Hodler and Raschky 2014, Alesina and Passalaqua 2016, Isaksson and Kotsadam 2018, Dreher et al. 2019, Bunte 2019, Anaxagorou et al. 2020, Dreher et al. 2022).

Some of the debt contracts in our sample could pose a challenge for multilateral cooperation in debt or financial crises, since so many of their terms run directly counter to recent multilateral commitments, long-established practices, and institutional policies. Time will tell whether the

Chinese government's commitment to greater coordination and cooperation—as expressed in the G20's Common Framework—will result in new types of Chinese debt contracts and greater contract transparency.

More generally, this study calls attention to the need for substantially greater transparency in sovereign lending, including but not confined to government-to-government loans. Transparency problems abound in the world of sovereign debt and they are not limited to China. Almost no official OECD and non-OECD lenders publicly release the text of their loan contracts. Nor do debtor governments. At the time of our study, Cameroon was the vanishingly rare example of debt transparency in a world of opacity. For this reason, we draw on Cameroon's debt contracts as a basis for benchmarking. Disclosing all debt contracts, however difficult politically, should become the norm rather than the exception. This would give citizens the ability to hold their governments accountable for the debt contracts signed in their name. Public debt should be public.

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Appendix I. Additional descriptive statistics on sample composition

Table A1. China contract sample: composition by recipient country

Recipient country	Number of contracts	Commitment amount (in mn USD)	Income group
Sub-Saharan Africa			
Benin	5	334	Lower middle income
Botswana	1	4	Upper middle income
Cabo Verde	2	64	Lower middle income
Cameroon	23	4,225	Lower middle income
Congo, Dem. Rep.	1	400	Low income
Congo, Rep.	4	892	Lower middle income
Ghana	4	2,008	Lower middle income
Malawi	1	92	Low income
Rwanda	1	227	Low income
Sierra Leone	3	690	Low income
Uganda	2	295	Low income
Asia			
Kyrgyzstan	7	1,677	Lower middle income
Philippines	3	493	Lower middle income
Eastern Europe			
Montenegro	1	944	Upper middle income
Serbia	10	3,597	Upper middle income
Latin America			
Antigua and Barbuda	1	43	High income
Argentina	10	8,574	Upper middle income
Costa Rica	2	142	Upper middle income
Ecuador	8	7,204	Upper middle income
Guyana	2	84	Upper middle income
Honduras	1	298	Lower middle income
Uruguay	1	1	High income
Venezuela	2	4,043	Upper middle income
Oceania			
Vanuatu	5	235	Lower middle income

Table A2. Benchmark sample: composition by creditor agency

Creditor agency	**Number of contracts**	**Sample share** (in percent)	**Commitment amounts** (in bn USD)
Commercial banks	**12**	**8.5**	**0.40**
Belfius Banque	4	2.8	0.15
Commerzbank AG	1	0.7	0.06
Deutsche Bank	2	1.4	0.03
Dexia Banque Belgique	3	2.1	0.05
Raiffeisen Bank International	1	0.7	0.01
Standard Chartered	1	0.7	0.11
DAC bilateral creditors	**17**	**12**	**1.05**
Agence Française de Développement	10	7	0.86
Export-Import Bank of Korea	1	0.7	0.04
Government of Belgium	2	1.4	0.02
Instituto de Crédito Oficial	1	0.7	0.01
Japan International Cooperation Agency	2	1.4	0.10
Kreditanstalt für Wiederaufbau	1	0.7	0.02
Non-DAC bilateral creditors	**9**	**6.3**	**0.35**
Export Credit Bank of Turkey	1	0.7	0.19
Export-Import Bank of India	2	1.4	0.08
Kuwait Fund for Arab Economic Development	4	2.8	0.04
Saudi Fund for Development	2	1.4	0.03
Multilateral creditors	**104**	**73**	**2.75**
African Development Bank	4	2.8	0.17
African Development Fund	22	15	0.37
Arab Bank for Economic Development in Africa	8	5.6	0.07
Development Bank of the Central African States	4	2.8	0.19
European Investment Bank	2	1.4	0.10
International Bank for Reconstruction and Development	2	1.4	0.52
International Development Association	28	20	1.75
International Fund for Agricultural Development	4	2.8	0.07
International Islamic Trade Finance Corporation	1	0.7	0.02
Islamic Development Bank	20	14	0.18
OPEC Fund for International Development	9	6.3	0.08

Note: Some of the commercial bank loans are co-financed by other commercial banks.

Table A3. Sectoral composition: China sample versus benchmark sample

	China Sample		Benchmark Sample	
Sector	Number of contracts	Share of contracts	Number of contracts	Share of contracts
Education	2	2.0	9	6.3
Health	1	1.0	13	9.2
Population Policies	0	0.0	1	0.7
Water Supply & Sanitation	9	9.0	16	11.3
Government & Civil Society	2	2.0	5	3.5
Other Social Infrastructure	4	4.0	5	3.5
Transport & Storage	38	38.0	44	31.0
Communications	13	13.0	2	1.4
Energy	14	14.0	11	7.7
Banking & Financial Services	0	0.0	2	1.4
Business & Other Services	2	2.0	2	1.4
Agriculture, Forestry, Fishing	1	1.0	11	7.7
Industry, Mining, Construction	3	3.0	3	2.1
Other Multisector	7	7.0	16	11.3
Disaster Prevention & Preparedr	1	1.0	1	0.7
Unallocated / Unspecified	3	3.0	0	0.0

Appendix II. Overview of coding results by creditor

Table A4. Chinese state-owned creditors: Stylized summary of lending terms in our sample

Creditor agency	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
China Ex-Im Bank								
Concessional loans[1]	2-3% 20 year maturity 5 year grace	Project revenue in collection account	In all contracts since 2014, focus on borrower	No comparability of treatment	Yes	Chinese law	For borrower and assets	Creditor policy change as event of default
Buyer credit loans	LIBOR plus 3-4% 10-15 year maturity 3-5 year grace	Project revenue in collection account	In all contracts since 2014, focus on borrower	No comparability of treatment	Yes	Chinese law	For borrower and assets	Creditor policy change as event of default
China Development Bank	Libor plus 2-3% 15 year maturity 3 year grace	Project revenue & export revenue in collection account	Separate confidentiality letter	No comparability of treatment	Yes	English law	For borrower and assets	Force majeure as event of default; broad cross-default clause
Chinese commercial banks, e.g. ICBC, BoC[2]	Libor plus 1-4% 15 year maturity 5 year grace	Liens and revenue accounts	Separate confidentiality letter	Differs	Yes	English law	For borrower and assets	
Chinese supplier credits	0.2% - LIBOR plus 4% 7-17 year maturity 0-5 year grace	Export revenue in escrow account	Differs	Differs	No	Chinese law or borrower's law	For borrower and assets	

[1] [1]ncludes both Government Concessional Loan Agreements and Preferential Buyer Credit Loan Agreements; [2] includes loans co-financed with non-Chinese commercial banks

Table A5. DAC bilateral creditors (benchmark): Stylized summary of lending terms in our Cameroon sample

Creditor	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
Agence Française de Développement	Euribor plus margin 20 year maturity 4 year grace	One loan with revenue collection account	Two contracts impose confidentiality on borrower	at least pari passu	Yes	French Law	For borrower and assets	Illegality clause
Ex-Im Bank of Korea	1.5% 30.5 year maturity 10.5 year grace	None	None	at least pari passu	na	na	na	
Government of Belgium	0% 30 year maturity 10 year grace	None	None	na	None	na	None	
Japan International Cooperation Agency	0.3% 40 year maturity 10 year grace	None	None	at least pari passu	None	Japanese Law	None	Force majeure as event of default
Instituto de Credito Oficial	0.50% 15 year maturity 5 year grace	None	None	at least pari passu	only cross-cancellation	Spanish Law	None	
Kreditanstalt für Wiederaufbau	na	na	na	na	na	German Law	na	

Table A6. Non-DAC bilateral creditors (benchmark): Stylized summary of lending terms in our Cameroon sample

Creditor	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
Export Credit Bank of Turkey Inc.	LIBOR plus 4% 13 year maturity 3 year grace	None	None	at least pari passu	Yes	English Law	For borrower and assets	
Ex-Im Bank of India	1.75% 20 year maturity 5 year grace	None	None	at least pari passu	Yes	Indian Law	For borrower and assets	Termination of diplomatic relations as event of default
Kuwait Fund for Arab Economic Development	1.5% 20 year maturity 4 year grace	None	For creditor documents & records	at least pari passu	No	Common principles of creditor's and borrower's law	None	
Saudi Fund for Development	1% 25 year maturity 5 year grace	None	na	at least pari passu	na	na	na	

Table A7. Multilateral creditors (benchmark): Stylized summary of lending terms in our Cameroon sample

Creditor	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
African Development Fund	0% 45 year maturity 10 year grace	None	None	at least pari passu	only cross-cancellation	Public International Law	None	
African Development Bank	Euribor plus 0.6% 15 year maturity 5 year grace	One collateralized loan with illegible details	None	at least pari passu	only cross-cancellation	Public International Law	None	
Arab Bank for Economic Development in Africa	1-3% 30 year maturity 5-10 year grace	None	For creditor documents & records	na	No	General Principles of law and justice	None	
Development Bank of the Central African States	4-9% 15 year maturity 5 year grace	None	None	na	Yes	Borrower's law	None	
European Investment Bank	2.25% 25 year maturity 5 year grace	None	None	at least pari passu	only cross-cancellation	French Law	For borrower and assets	
International Bank for Reconstruction and Development	Euribor plus 1.3% 30 year maturity 7 year grace	None	None	at least pari passu	only cross-cancellation	Borrower's law	None	
International Development Association	0-1.25% 40 year maturity 10 year grace	None	None	na	only cross-cancellation	na	None	

Creditor	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
International Fund for Agricultural Development	0-0.75% 40-50 year maturity 10 year grace	None	None	na	Yes	Public International Law	None	
International Islamic Trade Finance Corporation	LIBOR plus 3%	None	na	at least pari passu	Yes	Islamic Shariah	For borrower and assets	
Islamic Development Bank	25 year maturity 7 year grace	None	For creditor documents & records	at least pari passu	na	Islamic Shariah	na	
OPEC Fund for International Development	1.50% 20 year maturity 5 year grace	None	For creditor documents & records	at least pari passu	only cross-cancellation	na	None	

Table A8. Commercial banks (benchmark): Stylized summary of lending terms in our Cameroon sample

Creditor	Financial terms	Security	Confidentiality	Seniority	Cross-default	Governing law	Immunity waiver	Other characteristics
Belfius Banque SA	CIRR plus 1.75% 15 year maturity 3 year grace	None	None	at least pari passu	Yes	Belgian Law	For borrower and assets	
Dexia Banque Belgique SA	0-CIRR plus 0.95% 13 year maturity 3 year grace	None	None	at least pari passu	Yes	Belgian Law	For borrower and assets	
Commerzbank AG Paris Branch	LIBOR plus 1.6% 5.5 year maturity 1.5 year grace	UN subsidies in offshore escrow account	Focus on lender	at least pari passu	Yes	French Law	For borrower and assets	
Deutsche Bank	EURIBOR plus 3.05% 4 year maturity	None	Focus on lender	at least pari passu	Yes	English Law	For borrower and assets	
Raiffeisen Bank International AG	0% 20 year maturity 6 year grace	None	None	at least pari passu	Yes	Austrian Law	For borrower and assets	
Standard Chartered Bank, Deutsche Pfandbriefbank AG	EURIBOR plus 1.75% 10 year maturity 2.5 year grace	None	Focus on lender	at least pari passu	Yes	English Law	For borrower and assets	

Note: One of two loan agreements by Deutsche Bank in our dataset is co-financed by Caixabank.

Appendix III. Robustness checks

The benchmarking exercise in Section 3 involves comparisons between Chinese lending to 24 countries and non-Chinese lending to just one borrower country (Cameroon). As a robustness check, we repeat this benchmarking exercise by comparing Chinese and non-Chinese lending to Cameroon alone. Furthermore, we conduct separate comparisons between concessional and non-concessional lending.

Comparing Chinese and benchmark lending to Cameroon

In this subsection we limit our comparison between Chinese and non-Chinese lending to contracts signed with Cameroon. This robustness check confirms the main conclusions that are presented in Section 3. *Within the Cameroon sample*, China Eximbank loans are more likely to secure repayment through project revenues, they contain unique "No Paris Club" clauses, and make use of broad cross-default clauses. As we found elsewhere, some but not all loan China Eximbank debt contracts use increased cost clauses.[43]

Chinese loan contracts to Cameroon also contain broad confidentiality clauses that focus on borrower rather than creditor confidentiality (see Table 2 in the main text), but these clauses are less frequent in the Cameroon sample than elsewhere (19% of Eximbank contracts with Cameroon include the confidentiality clause). This relatively low share has to do with the timing of Chinese lending to Cameroon; the majority of loans to Cameroon were extended between 2000 and 2013, before the widespread introduction of confidentiality clauses in 2014 (see Figure 7 in the main text). Only three China Eximbank loans with Cameroon were signed since then.

[43]Since the Cameroon sample does not include any debt contracts with China Development Bank, the exercise is limited to a comparison of debt contracts with China Eximbank and debt contracts with 28 non-Chinese external creditors.

Figure A1. Share of secured contracts: Chinese vs benchmark lending to Cameroon

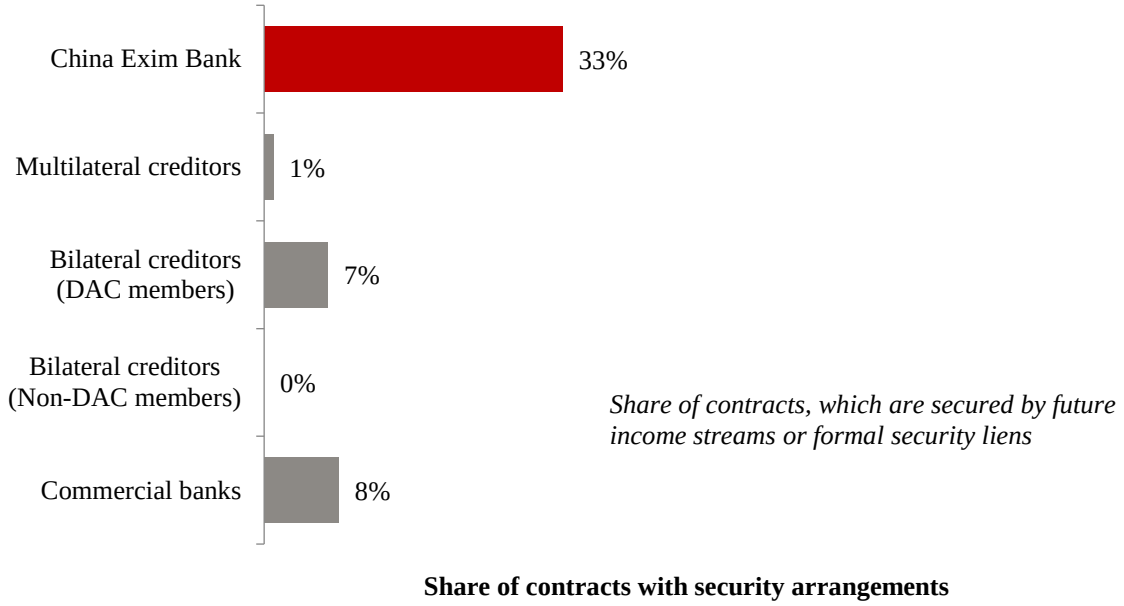


Figure A2. Share of contracts with "No Paris Club" clauses: Chinese vs benchmark lending to Cameroon

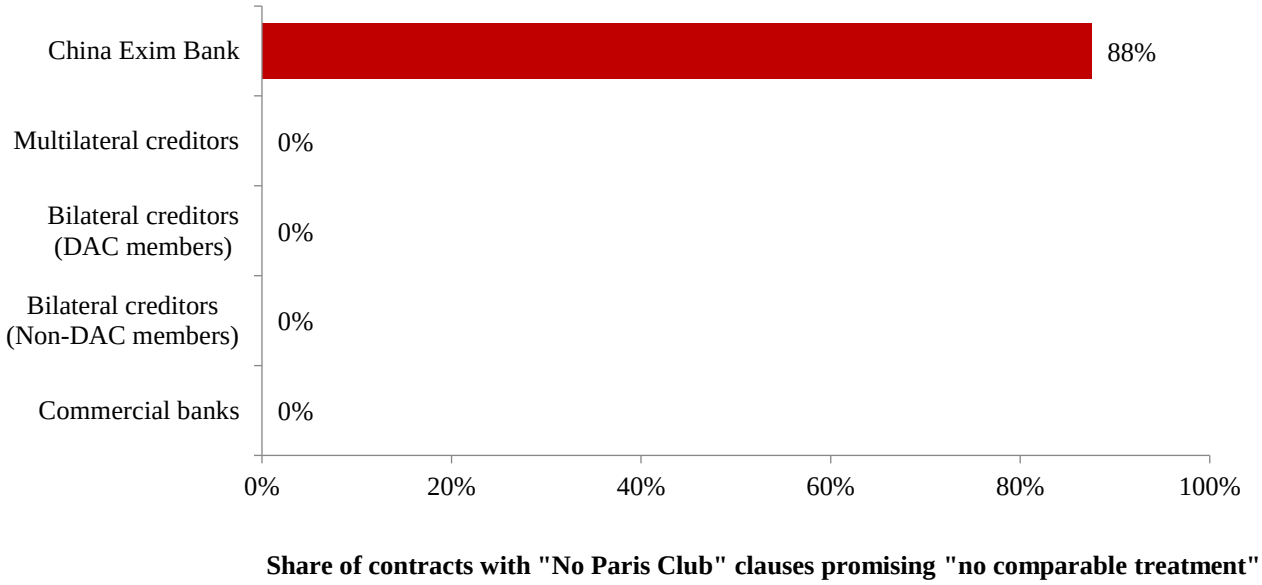


Figure A3. Share of contracts with cross-default clauses: Chinese vs benchmark lending to Cameroon sample

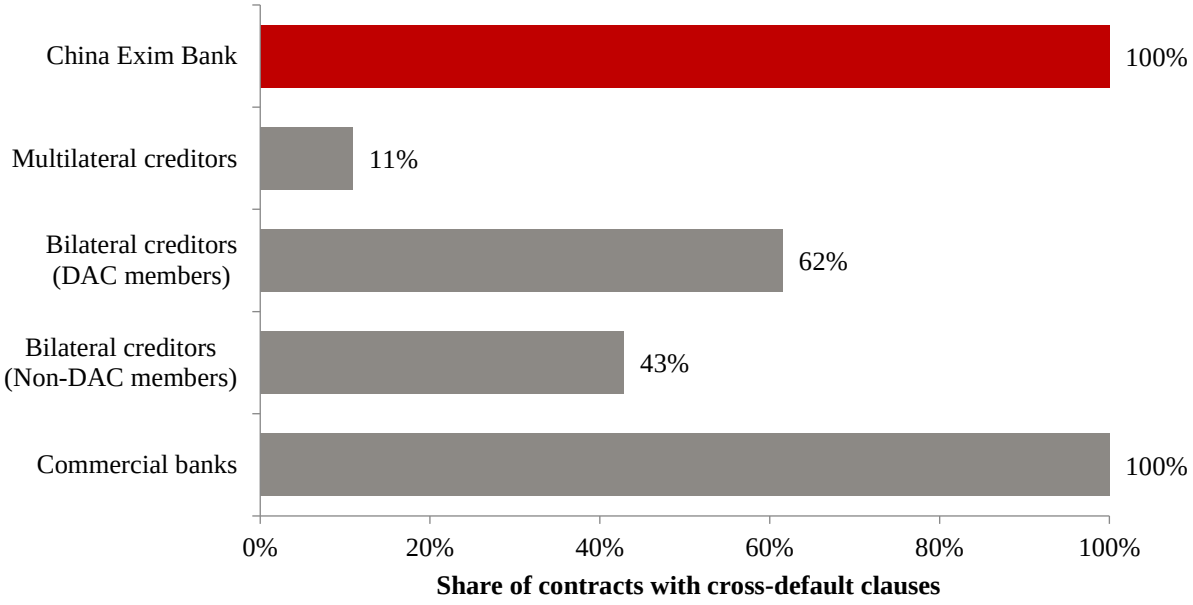
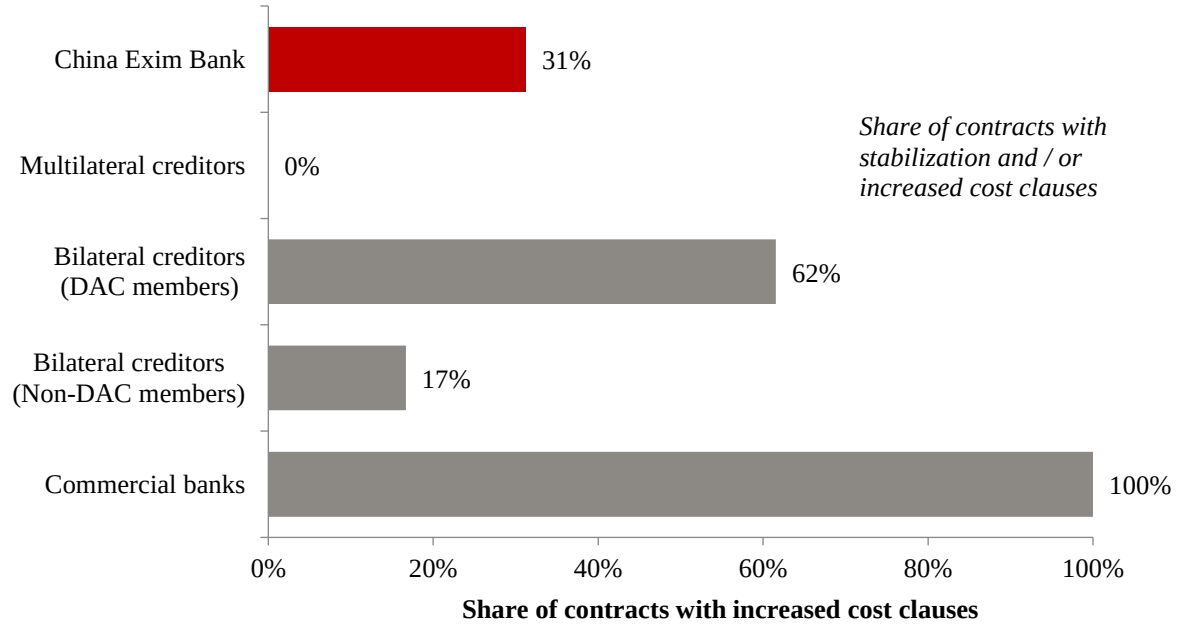


Figure A4. Share of contracts with increased cost clauses: Chinese vs. benchmark lending to Cameroon

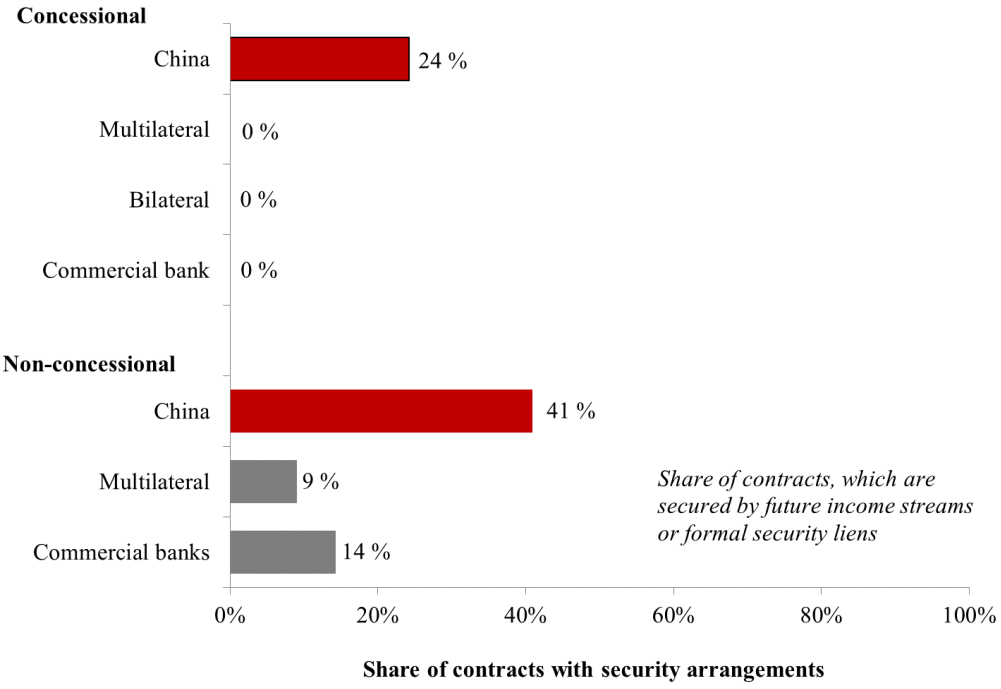


Separate benchmarking exercises of concessional and non-concessional lending

In this robustness check, we compare concessional and non-concessional lending instruments across creditors to understand whether the differences described in the main analysis are driven by a specific subset of loan contracts. For the purpose of this exercise, we make use of the information we gathered on the financial terms of each loan. We classify as concessional all loans that are extended at fixed interested rates of zero to three percent per year. We classify as non-concessional all loans that are extended at fixed interest rates higher than three percent or at flexible interest rates based on a reference rate such as LIBOR plus a margin (between 95 and 450 bps. in our sample).[44]

Figures A5 to A8 show that the key differences between Chinese and non-Chinese contracts persist in both concessional and non-concessional instruments.[45] This result also implies that the observed differences are not primarily driven by Chinese creditors' use of commodity-backed commercial loan instruments.

Figure A5. Share of secured contracts in concessional and non-concessional lending



[44] Our results are robust to different definitions of concessional lending and not sensitive to other cut-off values.
[45] The comparison is not shown for bilateral non-concessional lending since there is only one such loan contract in our benchmark sample.

Figure A6. Share of contracts with “No-Paris Club” Clause in concessional and non-concessional lending

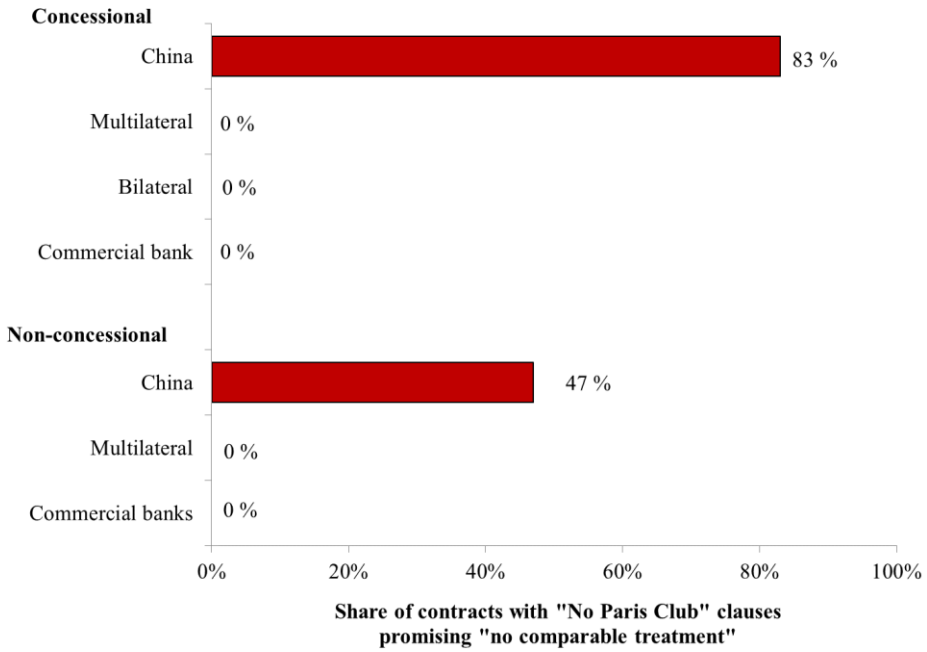


Figure A7. Share of contracts with cross-default clauses in concessional and non-concessional lending

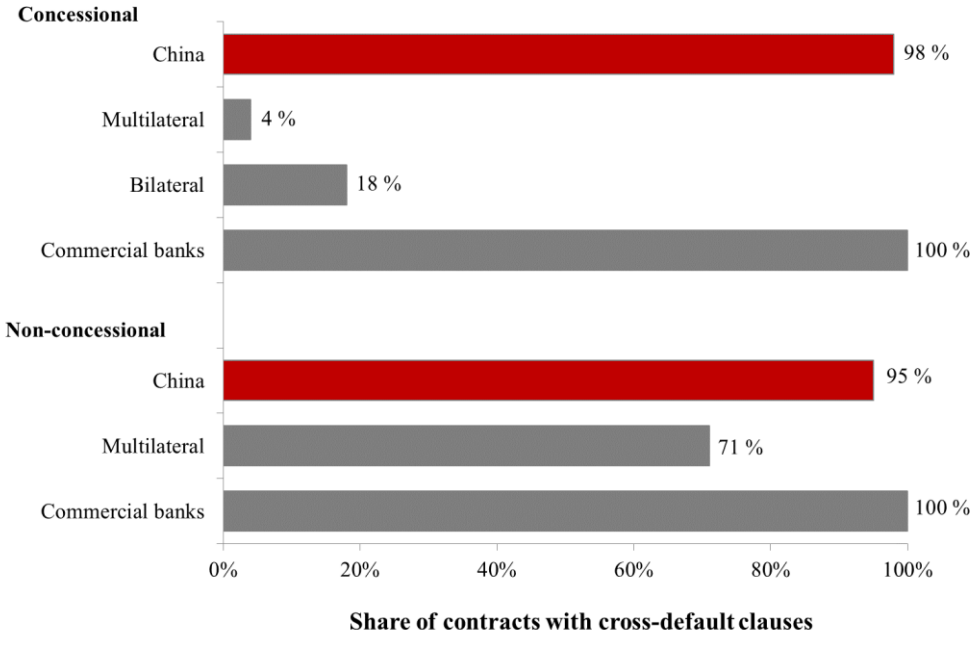
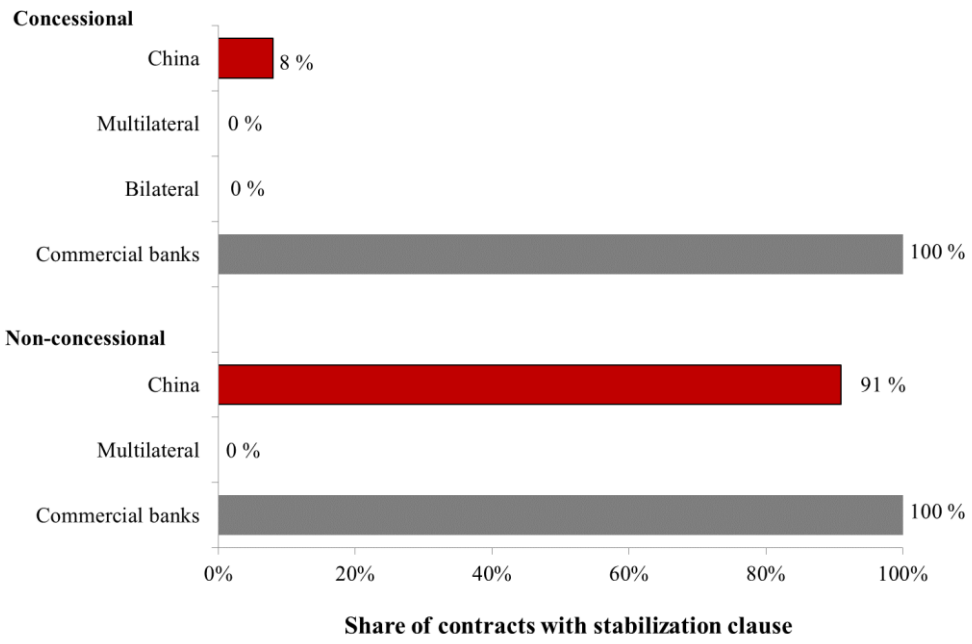


Figure A8. Share of contracts with increased cost clauses in concessional and non-concessional lending



Appendix IV Coding Manual

General comments and coding rules:

The structure and section titles in the coding manual follow the LMA template for single currency secured term facility agreements.

Coding of "zeros" and use of "Not Available"

The coding manual contains a large number of dummy variables that ask whether a given clause is included in a contract or not. If a contract does not mention a certain clause, we always code "0" or "No", unless

- The contract is incomplete in the sense that relevant pages are missing or large parts are unreadable. In this case, we cannot rule out that the clause exists in a part of the contract that is not accessible to us. In this case, code "NA" instead of "0".

- Our primary source is not the actual contract, but a framework agreement or master project agreement that contains general information on the loan, but leaves the definition of legal details to a follow-up agreement. In this case, code "NA" instead of "0".

- Our primary source is a Four-Party Agreement as in the Venezuela and Ecuador oil-backed loans. Both Four-Party Agreements refer to separate Facility Agreements, which we cannot access. In this case, code "NA" instead of "0" if the Four-Party Agreements do not include a specific clause.

- The contract makes references to a creditor's general guidelines, which we cannot access. In this case, code "NA" instead of "0".

Section 1 - Contract ID, source documents and missing information

1. Completeness of contracts and availability of general conditions

1.1. *contract_id*

Unique contract id with format "ISO3_year_#", where # is a unique number assigned by us (see excel overview sheet).

1.2. *source*

Enter either the DAD Number for Cameroon Contracts (see Cameroon Loan Docs folder) or a dropbox link in case of a China contract

1.3. *contract_complete*

Is the contract available in its entirety? Or are parts missing or unreadable? Enter 1 for a complete, and 0 for an incomplete contract. Note that this variable does not refer to completeness of appendix, which is a separate variable (see below)

1.4. *contract_missing_parts*

If the contract was found to be incomplete, describe briefly which parts are missing (very often the missing parts can be identified through the table of contents). If contract is complete, code "NA". Identifying which pages are missing is important to decide whether dummy variables need to be coded as zeros or "NA", if a certain clause cannot be found in the contract.

1.5. *general_conditions*

Does the contract refer to creditor-specific general conditions? Y/N

1.6. *general_conditions_version*

If the creditor's general conditions are an integral part of the loan agreement, which version of the general conditions is used? (If not, set NA.)

1.7. *general_conditions_available*

Is the referenced version of the general conditions available to us? Code 1 if it, 0 if it isn't. If the contract does not refer to general conditions, code "NA".

Section 2 – The Facility

2. General Information

2.1. *date*
Signature date of contract: “dd-mm-year”

2.2. *borrower_name*
Name of borrower

2.3. *borrower_type*
Type of borrower entity: Central government, local government, government agency, state-owned enterprise, private enterprise or special purpose vehicle

2.4. *borrower_country*
Name of borrowing country

2.5. *creditor_name*
Name of creditor agency

2.6. *creditor_type*
Type of creditor agency: central government, state-owned commercial banks, policy banks, state-owned enterprises, commercial banks

2.7. *creditor_country*
Country of nationality of creditor entity; “Multilateral” for international organizations

2.8. *underlying_contract*
Does the financing contract refer to a specific underlying commercial contract? Y/N. Note: Most projects will involve underlying commercial contracts at some stage. It is therefore important to only set this variable to “yes”, if a commercial contract is already in place and is explicitly referenced to in the financing agreement.

2.9. *under_con_purpose_title*
State the title / purpose of the underlying commercial contract

2.10. *under_con_supplier_name*
Name of the supplier under the underlying commercial contract

2.11. *under_con_foreign_importer*
Name of the foreign agency or enterprise that imports the goods or services under the commercial contract

2.12. *contract_length*
Count the number of pages of the financing agreement according to the following three rules:

- exclude all foreign language translations, correspondence, supplementary agreements
- include all missing pages (look at the page numbers), include the title page and the table of contents
- exclude the appendix (all pages after the signing page are considered as part of the appendix for this purpose)

2.13. *appendix*
Is the contract’s appendix available to us? Y/N

2.14. *total_length_plus_appendix*
State the total length of the contract incl. the appendix (apply the same counting rules as under 2.12.)

3. The Facility

3.1. *commitment_orig*

State the commitment amount in the original currency of denomination

3.2. *currency*

Currency of denomination

3.3. *fx*

Exchange rate between currency of denomination and USD

3.4. *commitment_usd*

Commitment amount in current USD

3.5. *disbursement_procedure*

To which party and on what type of account are funds disbursed to? Code Chinese practices of "circular lending" under this variable (direct disbursement of funds by Chinese bank to Chinese supplier)

4. Purpose

4.1. *project_title*

Title of the loan project.

4.2. *loan_purpose*

Description of loan purpose (in contrast to purpose of underlying contract coded under 1.11 above). Specify, how the loan proceeds are used to finance the project or the underlying commercial contract. For the multilateral creditors, this information is most often found in the appendix.

4.3. *sector_code*

OECD CRS Purpose Codes: https://www.oecd.org/dac/stats/dacandcrscodelists.htm

Three-digit DAC 5 Code of main categories (i.e. potential categories: 110, 120, 130, 140, 160, 210, 220, 230, 240, 250, 310, 320, 330, 410, 430, 510, 520, 530, 600, 720, 730, 740, 910, and 998)

4.4. *monitoring*

Is there a monitoring arrangement? Y/N

4.5. *monitoring_desc*

Short description of the monitoring arrangement. State "NA", if there is no monitoring arrangement. Note: In contrast to informational undertakings, monitoring requires active contribution by the creditor, e.g. in the form of visits of project sites.

5. Conditions of Utilization

5.1. *initial_conditions*

Does the contract specify any conditions required for the initial use of the loan? (Y/N)
This includes among many other things environmental or social provisions (ESS), feasibility studies and performance provisions.

5.2. *initial_condition_des*

Description of initial conditions

5.3. *further_conditions*

Does the contract specify any conditions required for subsequent disbursements of the loan? (Y/N)

5.4. *further_condition_des*

Description of further conditions

Section 3 – Repayment, Prepayment and Cancellation

6. Repayment

6.1. *Time to maturity*

State the time to maturity in months. Note: If a specific maturity date is given, assume that the time to maturity starts at the signing day. In the majority of contracts, the time to maturity is the sum of the grace period and the repayment period.

6.2. *repayment_type*

Type of repayment schedule: Sinking fund or bullet repayment

6.3. *installments_no*

Number of installments

6.4. *installments_amount*

Installment amount in original currency

6.5. *installments_currency*

Currency, in which installments are made; repayments can also be made in the form of goods

6.6. *grace_period*

Grace period in months

7. Prepayment and cancellation

7.1. *cancellation_borrower*
Can the borrower cancel the loan? Y/N

7.2. *cancellation_borrower_des*
Short description of borrower cancellation clause

7.3. *cancellation_creditor*
Can the creditor cancel the loan? Y/N

7.4. *cancellation_creditor_des*
Short description of creditor cancellation

7.5. *prepayment*
Is voluntary prepayment possible? Y/N

7.6. *prepayment_des*
Short description of voluntary prepayment clause

Section 4 – Costs of Utilization

8. Interest

8.1. *interest_rate*
Interest rate p.a. in percent

8.2. *interest_schedule*
When is interest paid? E.g. semi-annually in June and December

8.3. *interest_currency*
Currency, in which interest is paid; includes goods or commodities

9. Fees

9.1. *fee_commitment*
Commitment fee p.a. in percent

9.2. *fee_arrangement*
Arrangement fee in percent (might also be called management fee). This should be a one-time payment, rather than an annual service fee. Service fees and other annual fees should be coded in additional payment obligations.

10. Increased Costs

10.1. *increased_costs*
Is there an increased costs clause? Y/N

10.2. *increased_costs_des*
Description of the increased costs clause (also include explicit stabilization clauses in this field)

Section 5 – Additional Payment Obligations

11. Additional Payment Obligations

11.1. *additional_payment_obligations*
Are there any additional payment obligations? List, if applicable

Section 6 – Guarantees, Indemnities and Securities

12. Guarantee and indemnity

12.1. *guarantee*
Is there a guarantee in place? Y/N

12.2. *guarantor_name*
Name of guarantor

12.3. *guarantee_ir*
Is there immediate recourse?

13. Collateral and liens provisions

13.1. *lien*
Is this loan collateralized through a formal lien or security interest? Y/N
Note that we have separate variables for revenue and escrow accounts

13.2. *lien_desc*
Description of the security interests; who serves as security agent?

13.3. *lien_ir*
Is there immediate recourse?

13.4. *escrow_account*
Is there an escrow account, in which project revenue or other funds are deposited by the borrower for repayment of the loan? Note that an escrow account is managed by a separate escrow agent and that the borrower has no access to this account.

13.5. *revenue_account*
Is there a special account, in which project revenue or other funds are deposited by the borrower for repayment of the loan? Note that a special account – in contrast to an escrow account – is managed by the borrower itself.

13.6. *account_des*
Describe the escrow or revenue account, if available. Is there a separate account management agreement? Which revenue stream is used? How much revenue needs to be deposited? And who has control over the account?

Section 7 – Representations, undertakings and events of default

14. Representations

14.1. *representations*

List all representations that the obligor makes to the creditor at the date of the agreement. E.g. adherence to anti-corruption standards, adherence to social and environmental standards

15. Information Undertakings

15.1. *reporting*

List all reporting requirements that the borrower needs to fulfil

16. Covenants / general undertakings

16.1. *status*

Does the contract include any information on the status of the loan: e.g. senior, junior, (at least) pari passu. Does the clause mention ranking only, or ranking and payment? And what debt is in the universe of equally-ranked debt?

16.2. *negative_pledge*

Does the contract contain a negative pledge clause?

16.3. *negative_pledge_desc*

Short description of negative pledge, if applicable

16.4. *confidentiality*

Is there a confidentiality clause? Y/N

16.5. *confidentiality_des*

Short description of the confidentiality clause

16.6. *confidentiality_except*

Are there any exceptions to the confidentiality clause? Can loan terms and conditions be disclosed with the permission of the creditor? Can loan terms and conditions be disclosed to legislative, judicial, and regulatory bodies?

16.7. *procurement*

Is the borrower contractually obligated to import goods, technology and services from the creditor country? If so, is a specific contractor identified? Multilaterals often refer to separate procurement guidelines.

16.8. *paris_clause*

Is there a clause that ensures independent treatment of the loan in the case of a restructuring? Does the clause explicitly ensure exclusion from the Paris Club?

16.9. *paris_clause_desc*

Short description of Paris Club clause

16.10. *other_covenant*

List all other covenants.

17. Events of Default

17.1. *payment_default*
Does non-payment constitute an event of default? Y/N Under what conditions (grace)?

17.2. *other_default*
Are there further clauses triggering a default? Y/N

17.3. *other_default_des*
Description of events other than non-payment triggering default (including grace period where applicable)

17.4. *cross_default*
Does the contract contain a cross-default clause? Y/N
Note: We only code a clause as a cross-default clause, if it pertains to a default on obligations of a different creditor. Clauses that only pertain to other claims of the same creditor can be noted down in the following description, but the cross_default dummy should be set to zero.

17.5. *cross_default_desc*
Short description of the cross-default clause; *acceleration*
Does the contract contain an acceleration clause? Y/N

17.6. *acceleration_desc*
Short description of the acceleration clause (including mandatory prepayment if events not included as default clause)

Section 8 – Change to parties

17. Assignment

17.1. *assignment_borrower*
Is assignment of contract obligations and rights possible for borrowers? Under what conditions?

17.2. *assignment_creditor*

- Is assignment of contract obligations and rights possible for the creditor? Under what conditions?

Section 9 – Administration

18. Amendment

18.1. *amendment*

- Is amendment of the original contract possible? Under what conditions? By separate agreement?

Section 10 – Governing Law and Enforcement

19. Governing Law

19.1. *governing_law*

Which law governs the agreement and any non-contractual obligations arising out of it?

20. Arbitration

20.1. arbitration

Which organization is identified for arbitration? Briefly describe the rules of arbitration: Who designates the arbitrators?

21. Enforcement

21.1. jurisdiction

Which courts have jurisdiction to settle disputes? If no courts are mentioned, state the seat of the ad-hoc arbitrational tribunal or the rules by which the seat is chosen.

22. Waiver of immunity

22.1. immunity_waiver_borrower

Does the contract include an immunity waiver for the borrower?

22.2. immunity_waiver_asset

Does the contract include an immunity waiver for assets?

22.3. immunity_waiver_des

Short description of immunity waiver

Section 11 – Other information / comments

23. Other information

23.1. Comment

List any other relevant information contained in the contract but not captured by any of the above variables