Chinese lenders squeeze African borrowers even harder

Ugandan government has to place all revenue from Entebbe airport into an escrow account

Chinese lenders are imposing even more stringent collateral requirements on low-income country borrowers than previously known as they seek to hedge risks from their extensive overseas development finance programme.

Under a $200mn loan from China Eximbank for the expansion and modernisation of Entebbe airport, the Ugandan government is required to channel all revenue from the country’s only international airport into an escrow account, according to the contract.
obtained by AidData, a US-based research lab.

The document highlights a long-running controversy over the loan to Uganda’s government, which damaged its relationship with the bank.

Although Chinese creditors have required sovereign borrowers to place revenue from the project in escrow as a repayment security more frequently than other development lenders, the Entebbe agreement goes further.

“The sales collection account shall be used to collect the revenues of Entebbe International Airport [including but not limited to revenues generated from the project]],” it stipulates.

“This is more aggressive than what we have previously seen,” said Bradley Parks, executive director at AidData. “[They are] taking all the revenues from the underlying public infrastructure asset. That’s a pretty intrusive condition to impose on a sovereign borrower.”

Almost 30 per cent of 100 Chinese loans examined in an AidData study last year used collateral mechanisms such as sales collection accounts, and 70 per cent of those required borrowers to deposit all project revenues into escrow.

One loan, for building water supplies in Benin, demanded revenue collection not just from the project but from the underlying infrastructure asset. It was different to the Ugandan case in that the contract called for the deposit of just part of those revenues in escrow.


“It would be very difficult to separate income generated by the project’s new and improved assets from other income, and this would forestall any quibbling about what income should go into the escrow account.”

Pointing to a project backed by the US Agency for International Development where the Liberian government hired international financial controllers with cosignatory authority, she called the Entebbe case “pretty mild” in terms of intrusions into sovereignty.

But Nicholas Opiyo, a Ugandan civil rights lawyer, said the requirement to funnel
revenue into an account overseen by China Eximbank was onerous. “From the lender’s side that’s a pretty good deal: it guarantees the value of your loan,” he said. Parliament, he added, did not have proper oversight either.

Experts believe the debate, which drove Uganda to try to renegotiate the agreement, arose because it mixed concessional and commercial elements.

“This is an example of government-to-government borrowing which is designed in largely commercial terms,” said Vijay Bhalaki, co-founder of Athena Infonomics, a development consultancy. He called the revenue collection clause “extraordinary but not unwarranted”.

While the 2 per cent interest rate and seven-year grace period suggest part of the deal is a concessional loan, other parts, such as the collateral mechanism, management and commitment fees and requirements to use Chinese contractors, are “akin to a commercial structure”, Bhalaki said.

China Eximbank did not respond to a request for comment.

Additional reporting by David Pilling from London

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