China, Africa and the International Aid Architecture

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Abstract

This paper analyzes China's growing foreign aid and export credit program as an element of the changing international aid architecture. The paper finds that practices governing Chinese aid and development finance diverge from clear OECD standards and norms on transparency and definitions, the management of concessional export credits, and the management of sovereign debt. In the area of environmental and social protections, corruption and governance, the paper finds mixed results. Chinese norms on environmental and social safeguards are evolving rapidly and there is some evidence that the framework for development loans has begun to take these higher standards into account. Regarding governance, both China and the traditional sources of development finance have rules that discourage corruption in the procurement of aid, but export credits are less well policed. Neither seem to have rules for when or how aid should be restricted when a pattern of corruption characterizes an entire recipient government. The global aid regime is not well-institutionalized regarding democracy and human rights. Neither the IMF, nor the World Bank, nor the Chinese apply conditionality in this area. Many bilateral donors do apply such conditions, but relatively inconsistently, and many still lack clear firm standards. In sum, Chinese practice is not as different in this arena as is often believed.

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1. Introduction

The rising prominence of Chinese aid, export credits, and bank finance has aroused both enthusiasm and concern among those concerned with development. Some believe that Chinese practices in official aid, preferential export credits, and other forms of development finance pose a significant challenge to the norms governing the international aid architecture. Others welcome the rise of a new development partner, one with seemingly deep pockets, and suggest that the Chinese might provide new leverage to countries faced with conditionality-based aid advocated by traditional donors. Yet despite the intense interest, debates over the impact of China as a donor and financier have largely taken place with very little information.

China's rise is taking place within a set of rules, norms, and sometimes competing institutions that make up what is known as the global aid architecture. The purpose of this paper is to investigate the potential impact of Chinese aid and development finance on the dynamics of this aid system, particularly in Africa. The paper uses the OECD Development Assistance Committee's standardized definition of aid as "official development assistance" (ODA) which is official financing given at concessional rates to developing countries primarily to promote economic development and normal welfare in the recipient. We also consider other official flows (OOF) such as preferential export credits. While not "ODA", it can be argued that these forms of development finance are nominally part of the aid architecture.

The paper is organized as follows. The next section provides a brief overview of the rise in China's development assistance and other forms of official finance. This is followed by Section 3, which defines what is meant by the "international aid architecture". Following this, section 4 provides explanations of several forms taken by Chinese aid and development finance. Section 5 focuses on China's impact on the global aid architecture, while the last several sections concludes and offers some recommendations.

2. The Rise in Chinese Aid and Other Official Finance

Although often called an "emerging donor," China has in fact had an aid program since the 1950s. Egypt was the first African recipient of Chinese aid (1956). Chinese aid is almost automatic for African countries with whom Beijing has formal diplomatic ties. Every country in

Africa, with the exception of Swaziland, has been a recipient of Chinese aid, although several countries, such as Chad, Burkina Faso, and The Gambia, have switched diplomatic recognition back and forth between Beijing and Chinese Taipei (Brautigam 2008: 12-13). In the peak period of the mid-1970s, after Beijing had won back its United Nations seat from Chinese Taipei, the Chinese had aid programs in more African countries than did the United States (Brautigam 1998: 4). Although the quantity of funding dipped during the 1980s, Chinese aid programs remained, with a focus on sustaining and consolidating the results of aid investments made during the 1970s. Some knew that China continued to support its flagship project, the Tanzania-Zambia Railway, but it was less well-known that in the 1980s and 1990s, the Chinese sent teams to dozens of African countries to repair rebuild and otherwise consolidate many of their earlier infrastructure and production projects (Bräutigam 1998; 2009).

It is widely said that China does not have a central aid agency, but in fact, China's aid program is organized by the Department of Foreign Aid in the Ministry of Commerce (MOFCOM), which cooperates with the Ministry of Foreign Affairs (Brautigam 2009b). The Department of Foreign Aid operates China's grant program, zero-interest aid loans, youth volunteer program, and technical assistance. Under direction from the Ministry of Commerce, China's Export-Import Bank (Eximbank) administers China's concessional foreign aid loan program, using subsidies from the foreign aid budget to soften the terms of its concessional loans.

China Eximbank is one of three "policy banks" (along with China Development Bank, and China Agricultural Development Bank) set up in 1994 to better enable the government to directly finance its development goals as it transitioned to a market economy. As a Chinese analysis put it, "policy loans are heavily influenced by government policies and are not to operate in full compliance with market rules", (Institute of Economic and Resource Management, 2003: 129). Policy banks may offer subsidies for export credits, or foreign investment, but these do not qualify as aid. In 2008, the China Development Bank's plan to transition to "commercial" status was approved. In time, only two policy banks will remain.

Since 1994, China has developed other sources of official finance: equity funds (the China-Africa Development Fund, managed by China Development Bank, for example); non-concessional loans from the China Development Bank; and a growing mix of market-rate and preferential export buyer's credits offered by the China Eximbank and frequently mistaken by

outsider observers as official aid. The Bank of China has a branch in Lusaka, Zambia, and both it and the China Construction Bank have branches in Johannesburg. These banks now operate largely on commercial principles, however. The Ministry of Commerce through its "going global" policies has other funds that enable companies to apply for interest rate subsidies for commercial bank loans undertaken to support their overseas activities. These various vehicles create considerable confusion among some observers over which of the financial flows coming from China should be called "aid".

3. The International Aid Architecture: Institutions, Rules and Norms

The international aid architecture is a subset of the global architecture of development finance (Figure 1). It can be defined as the system of institutions, rules, norms, and practices that govern the transfer of concessional resources for development. It comprises four major areas: (1) Institutions and actors; (2) Volumes and composition; (4) Instruments and modalities, and (4) Rules and standards. As Figure 1 points out, only a small subset of global financial flows qualify as "foreign aid": private grants (these would include funding from individuals, foundations, NGOs, and the new "global funds" such as the Gates Foundation) and official development assistance (this would include bilateral and multilateral donors).

[Figure 1 about here]

3.1. Institutions and Actors

These comprise the players -- bilateral and multilateral donors, as well as non-governmental organizations (NGOs), global funds, and private foundations -- that provide assistance to developing countries, and the agencies within developing countries that receive the aid. By one estimate, more than 1000 financing mechanisms currently exist in the global aid architecture (Hammad and Morton 2009). The traditional bilateral donors have been joined by up to 18,000 international NGOs, and up to 233 multilateral agencies (Kharas 2007). Included here as well are forums such as the Paris Club, the Group of 8 (G-8), the Commonwealth, the OECD's Development Assistance Committee, and the United Nations' Development Cooperation Forum, all of whose members contribute to the rules and norms that try to regulate aid practices.

3.2. Definitions, Volume and Composition

While organizations make up the skeleton of the aid architecture, aid flows make up its circulatory system. The definition of "official development assistance" is central to the aid architecture, and to any discussion of China as a donor country. As agreed by the members of the Development Assistance Committee of the OECD in 1969, and revised in 1972, official development assistance (ODA) comprises concessional funding (with a grant element of at least 25 percent) given to developing countries (those with a per capita income below a regularly adjusted threshold) and to multilateral institutions primarily for the purpose of promoting welfare and economic development in the recipient country. In 2009, for example, all countries with per capita incomes in 2007 of $11,455 or less were counted as "developing countries".[1]

The DAC members agreed to define "other official flows" (or OOF) as money that comes from governments but does not meet the ODA criteria. These could be loans with a grant element less than 25 percent, or they could be "official bilateral transactions, whatever their grant element, that are primarily export facilitating in purpose" (emphasis added). Thus, for the DAC, official development assistance or ODA excludes, by definition, export credits given by state-supported (official) export credit agencies primarily to promote exports. It also excludes government funds that support equity or portfolio investment in development countries, and military aid.

The volume of aid and the sectors supported by aid change over time. Public commitments to change the volume of aid are another important element of the global aid system. In 1970, at the United Nations General Assembly, "economically advanced" countries agreed to an official development assistance target of 0.7 percent of gross national income by the middle of the 1970s (United Nations, 1970, para 43). Other more recent pledges made separately by both the OECD donors and by the Chinese have focused on "doubling aid" to Africa.

The changing sectoral composition of aid, and specifically the proportion directed to social sectors, infrastructure, productive activities, or debt relief, all fit in this central component of the aid architecture.

[1] "DAC List of Aid Recipients", http://www.oecd.org/dataoecd/32/40/43540882.pdf [accessed September 2, 2009].

3.3. Instruments and Modalities

Aid instruments and modalities comprise the ways in which aid is programmed and delivered. Concrete instruments of aid include projects and programs, technical assistance, food aid, budget support, debt relief (for example, the Highly Indebted Poor Countries or HIPC program), humanitarian assistance, and so on. Modalities for the use of aid include agreed codes of "best practice" such as those embodied in the 2005 Paris Declaration on Aid Effectiveness with its emphasis on ownership, harmonization, alignment, results, and mutual accountability. But modalities would also include practices such as the project cycle, the use of cost-benefit analysis and other methods of appraisal, the application of conditionality or measures for greater selectivity. Economic and political conditions imposed on aid are a central feature of the aid architecture. Sometimes, but not always, conditionality is backed by clear rules and standards.

3.4. Rules and Standards

Compared with regimes that govern international trade (codified in the World Trade Organization), the rules of the international aid architecture are much less universal. Many were agreed upon by the Development Assistance Committee, founded in 1960 with eight member countries, and since expanded to include 23 members. Others originated in the Bretton Woods institutions: the World Bank and the International Monetary Fund, while still other rules have come via the informal "Paris Club" of official creditors. Few of these rules have sanctions or other built-in enforcement mechanisms; most depend on informal practices, expectations, and public opinion for their enforcement. Of these rules and standards, the most codified and concrete involve norms, agreements or conventions in five areas: (a) transparency; (b) tied aid and export credits; (c) social and environmental protections; (d) corruption and governance, and (e) the management of debt.

a) Transparency

The members of the Development Assistance Committee agreed long ago to transparently report their financial flows (particularly ODA and OOF) to developing countries using standardized categories and definitions. The strength of the norm of transparency is apparent in that eighteen donors that are *not* members of the DAC nevertheless report their official development assistance

through the DAC.[2] However, Russia, China, India, and Brazil, four of the countries believed to be among the most important of the non-DAC donors, do not report their aid. While ODA is usually very transparent in the traditional donor countries, officially supported export credits are much less so. While the amount of the credit is usually available, it was long common practice for export credit agencies to treat almost all other information about officially supported export buyers' credits and official guarantees as confidential due to its commercial nature (Hawley 2002). In the past decade, this secrecy has begun to change, but by and large it remains the norm.

b) Tied Aid and Export Credits

Evolving rules and principles address both the tying of ODA, and subsidies ("aid", but not "ODA") used to make export credits more concessional. In 1978, DAC members developed "Recommendations" (or norms) on aid tying (the practice of requiring that recipients use aid to purchase goods and services from the donor country), but until recently, the process of untying aid was quite slow. In 2001, DAC members agreed in principle to untie financial aid and investment-related technical cooperation for the Least Developed Countries although they did not reach agreement on untying other forms of technical assistance (TA) or food aid (Manning, 2006: 378). In 2008, they agreed to completely untie ODA to the 39 most highly indebted countries, although food aid and TA were again omitted (OECD 2009). These agreements have no built-in sanctions; nevertheless, the level of tying has dropped substantially since the late 1990s.

A related component of the international aid regime is the separation between ODA and export credits, and the level playing field for export finance agreed upon by the OECD members. In the early years of official development assistance, donor countries commonly competed with each other in part by drawing on their ODA to subsidize attractive financing packages for their exports. Concessional financial support linked to the procurement of capital goods or construction services could involve heavily subsidized export credits, or mixing official development aid with other kinds of credits. Led by the United States, OECD members negotiated a more level playing field through the voluntary 1978 Arrangement on Guidelines for Officially Supported Export Credits, and the1992 Helsinki Package, which stipulated minimum

[2] As of May 2009, these included Chinese Taipei, Czech Republic, Estonia, Hungary, Iceland, Israel, Korea, Kuwait, Latvia, Lichtenstein, Lithuania, Poland, Saudi Arabia, Slovak Republic, Slovenia, Thailand, Turkey, United Arab Emirates. http://www.oecd.org/document/2/0,3343,en_2649_34447_41513218_1_1_1_1,00.html [accessed May 6, 2009].

levels of concessionality, based on current market rates (CIRR) rather than the standard 10 percent used to calculate ODA, and transparency via required notification to other members of one's own offers of concessional export credits. These voluntary norms have apparently been quite effective in policing this second area of subsidized export credits.

c) Environmental and Social Protections

Development finance and aid now take place within a framework that emphasizes the protection of people and the environment. Most major funding agencies now require social and environmental impact studies for their major projects and a variety of voluntary guidelines exist. For example, the World Commission on Dams developed standard guidelines for the implementation of hydropower projects in 2000, based on five core values: equity, efficiency, participatory decision-making, sustainability and accountability. Standards in the oil and mineral extractive industries have developed rapidly in the last few years, including those embedded in the Extractive Industries Transparency Initiative (EITI). Codes of conduct are being established for industry groups in forestry, many based on the pioneering Code of Conduct of the UK Timber Traders' Federation, published in 2002.

In December 2003, OECD members agreed to adopt voluntary "Recommendations on Common Approaches on Environment and Officially Supported Export Credits." Yet although these "Common Approaches" were revised several times, their voluntary nature and measured coverage led them to be critiqued as "weak" and "non-transparent" by advocacy groups (ECA Watch 2007). Similar standards are also increasingly applied in private sector finance. In 2003, with the assistance of the World Bank's International Finance Corporation, a group of private banks agreed on a set of voluntary standards for socially and environmentally responsible lending: the Equator Principles. For example, hydropower or other infrastructure projects must have environmental assessments as well as consultation, compensation, and funded resettlement for people affected by the project. Yet there appears to be no overarching convention or agreed set of rules on environmental and social protections similar to the rules on officially supported export credits, or the standard definition of ODA.

d) Corruption and Governance

What kind of rules govern corruption, democracy and the protection of human rights when it comes to aid and development finance? The global rules on corruption rest on binding international treaties, in particular, on the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which has the status of law. This convention made it mandatory for OECD members to make bribery of foreign officials (i.e. kickbacks or corrupt "facilitation payments") a domestic crime in their countries. The United Nations Convention against Corruption, which entered into force in 2005, takes many of the OECD agreements to the level of international law.

However, in practice, creating a framework so that these crimes can be detected and punished is an ongoing challenge (Ölcer and Reisen 2009). For example, as Transparency International (TI) has noted, OECD members have resisted calls for companies receiving officially supported export credits to be required to name agents receiving commissions, to make the size of commissions public, or to bring facilitation payments ("greasing the wheels") into the remit of these conventions (Wiehen 2002). A 2009 analysis by TI also pointed out that only four of the 38 countries that had signed the OECD Convention were actively enforcing the Convention; there was "little or no" enforcement by 21 signatories (Heimann and Dell 2009: 6). Further, the Convention itself focuses on combating specific practices by companies. It does not contain broadly agreed rules or standards for engaging with countries whose governments are thought to be highly corrupt. Individual donors, or even agencies within a donor government, might withhold aid from corrupt countries. In the United States, for example, the Millennium Challenge Corporation uses levels of corruption as one of the markers for whether a country qualifies for assistance, but the United States Agency for International Development does not have such a specific criterion. Furthermore, practices in areas outside of aid suggest problems with application of the convention. As an obvious example: few if any export credit agencies have mandated international competitive bidding for the projects they finance.

How solid is the aid and development finance architecture when it comes to democracy and human rights? Since the end of the cold war, the idea that that wealthy governments should not provide aid to governments that have come to power by force or through flawed elections, or that tolerate extensive corruption or human rights abuses has been embraced by most donor country governments. The United States has been a leader in this regard. In 1975, an amendment (Section

116) to the 1961 Foreign Assistance Act of the United States required the suspension of US aid to countries with a "consistent pattern of gross violations of internationally recognized human rights … unless such assistance will directly benefit the needy people in such country". Section 7008 of the Foreign Operations Bill requires the termination of aid to countries whose governments have been overthrown by a military coup or decree. Many other donors have similar provisions.

These principles are also reflected in many regional organizations. For example, Article 30 of the constitution of the African Union, which entered into force in 2001, states that "Governments which shall come to power through unconstitutional means shall not be allowed to participate in the activities of the Union". While one of the core principles of the constitution remains "non-interference in the internal affairs" of other member countries, the AU reserves the right to intervene in "grave circumstances, namely: war crimes, genocide, and crimes against humanity," Jean Ping, the Chairperson of the AU, has condemned persistent and recurrent violations of democratic norms that could lead to unconstitutional changes (African Union 2010).

Yet while the norm is widespread, the rules for how it should operate in the area of foreign aid and development finance are a work in progress. The European Parliament has accused its own European Council of having "double standards" in application of conditionality based on human rights violations (Bartels 2008). Even in the United States, security concerns and other political and economic ties frequently trump concerns about election abuses or generalized repression. Defining terms such as "consistent pattern" or "gross violations" or sometimes even "*military* coup" can be more an art than a science.

Further, the Bretton Woods institutions which are one of the largest sources of development finance, have a much narrower concern with governance. World Bank has allocated aid to the 78 low income countries eligible for its concessional loans in part on the basis of their rank on the Country Policy and Institutional Assessment (CPIA), a tool with 16 broad indicators (World Bank 2008). These include "Property Rights and Rule-based Governance" as well as "Transparency, Accountability, and Corruption in the Public Sector." The CPIA indicators include some protection of human rights (particularly equal rights for women) but there is no

reference to democracy, elections, or general political freedoms, in keeping with the World Bank's Articles of Agreement, which ban it from interfering in a country's political affairs or making decisions based on the political character of the member country. The International Monetary Fund has similar restrictions.

In short, although few donors ignore issues of human rights, democracy, and recipient country corruption in their allocations of aid, in many cases criteria are not always clear or standardized. No conventions or even international agreements provide global rules for how donor countries should act in situations like this.

e) Debt

The global architecture for the management of foreign aid debt has four main parts: (1) an agreed forum for negotiation and rule-making at the "Paris Club", an informal group of mainly OECD creditor governments; (2) specific rules for conditional debt relief for highly indebted poor countries, or HIPCs; (3) agreement that the World Bank and the IMF are to be "preferred creditors"; and (4) new rules for poor countries regarding the taking on of new debt (the 2005 Debt Sustainability Framework, or DSF).

The debt regime is most formalized for low income countries, those with few alternative sources of capital or political leverage. For these countries, debt relief is normally granted only after countries follow a schedule of conditions that usually include good macroeconomic management (certified by the IMF), some form of economic liberalization, and, frequently, good governance practices such as budget transparency. In 1996, these conditions and procedures began to be further institutionalized for HIPC countries, which at that time became eligible for the first time to have their multilateral debts reduced or cancelled through an intricate system of rules and benchmarks. The majority of countries in Africa qualify as HIPCs. The Debt Sustainability Framework imposes sanctions on HIPC countries that take on new debt that does not meet the DSF guidelines on concessionality.

4. Unpacking Chinese Aid and Export Credits

Before we go further, it is useful to explain the differences between the various funding vehicles used by the Chinese government in Africa, and similar funding vehicles used by OECD and multilateral donors, and to specify which would qualify as foreign aid or ODA (official development assistance).

China's grant aid and zero-interest loans usually promote broad diplomacy objectives, while the concessional foreign aid loans operated by China Eximbank mix diplomacy, development, and business objectives. Because of the significance of diplomacy in Chinese aid, their aid is spread across every country in Africa with which they have diplomatic ties, even those wealthier than China, such as Botswana, Namibia, Mauritius and South Africa (Brautigam 2008). At the same time, the Chinese use concessional lines of credit to promote exports of goods and services to creditworthy countries that can repay the loans or for bankable projects in less creditworthy countries.

The Chinese have their own definition of which funds constitute foreign aid or "external assistance" and this has evolved separately from the definition used by the OECD's DAC. In several instances, items that the OECD/DAC count as "official development assistance" (ODA) are not included as foreign aid in Chinese practice. For example, the DAC counts the value of debt relief as official aid, the Chinese do not. China's budget for external assistance also includes military aid, and loans for foreign-aided joint ventures and cooperative projects, while excluding scholarships for students studying in China. DAC rules do not count assistance in support of private investment as ODA, but scholarships do count. Subsidies for "preferential export credits" are not part of the Chinese external assistance budget.

Three of these instruments create some confusion about what should be termed "aid" (or official development assistance) and what should not: (1) preferential export buyer's credits; (2) mixed credits and (3) natural resource-backed lines of credit. As the discussion below explains, much of what is believed by outside observers to be "Chinese aid" is actually a market-rate line of credit.

4.1. Preferential Export Buyer's Credits

As noted above, China's Eximbank has two separate subsidized credits: concessional foreign aid loans, and preferential export buyer's credits. China's concessional loan program has been

designed to reflect the norms of the OECD/DAC for official development assistance. As the website of China Eximbank explains, concessional loans are "…medium and long-term, low interest rate credit extended by the China Eximbank under the designation of the Chinese Government, to the Government of the Borrowing Country *with the nature of official assistance"* (i.e. ODA). The objective of these loans is to "promote economic development and improve living standard in developing countries," and "boost economic cooperation between developing countries and China." Examples of areas that can be financed by concessional loans include: energy, transportation, telecommunication, manufacturing, mining, health-care, and housing. Projects need to have "good social benefits" and use Chinese enterprises as contractors or exporters.[3] These loans are always denominated in Chinese currency.

On the other hand, preferential export buyer's credits are export credits that are negotiated to have a better-than-market rate. They are subsidized, but their primary purpose, as the name suggests, is to promote Chinese exports. Therefore, they do not qualify as ODA (and the Chinese do not classify them as "external assistance"). Preferential export credits can be offered at modestly concessional rates (usually three percent), to support specific deals such as the purchase of Chinese commercial airplanes (Zambia) or a Chinese satellite (Nigeria). These loans are always denominated in foreign currency.

Chinese finance is frequently far below what is portrayed in the media. For example, although reports of Chinese loans in Nigeria have often mentioned figures of $5 billion or even more, according to Nigeria's debt management officials, the Chinese had actually provided only a total of $589 million in five separate loans to Nigeria between 2000 and May 2009.[4] The interest rate of these loans varied between 3 percent and 6 percent, grace periods varied between 3 and 6 years, and maturities were between 8 and 12 years. If we were to apply OECD-DAC guidelines for calculating ODA concessionality, which compares the terms of a loan to a very high standard 10% interest rate, the grant element of these loans would vary between 22% and 37% (author's calculations). If they were issued as export credits, however, they would not be considered ODA by the OECD, which would also evaluate the concessionality of the loan on the basis of prevailing market rates at the time the loan was issued.

[3] China Eximbank, "Chinese Government Concessional Loans," http://english.eximbank.gov.cn/business/government.jsp [accessed May 5, 2009].

[4] Personal communication, Debt Management Office, Federal Government of Nigeria, May 2009.

4.2. Mixed Credits

In 2006 the Chinese Eximbank announced that it had developed a "package financing mode" that can combine lines of export buyer's credit (given to a borrowing country), export seller's credit (short term credits given to a Chinese company) and concessional loans (foreign aid) which can be offered together, sometimes, but not always, for a specific project. In 2006, the Eximbank signed preliminary agreements on package financing with Congo-Brazzaville, Ethiopia, Equatorial Guinea, Nigeria, and Mauritania (not all of these packages were used). They were negotiating packages with Ghana, Namibia, and Eritrea. This model of package financing parallels the mixed credits used by OECD countries. Sometimes, these packages can be secured by a country's main exports.

4.3. Natural Resource-Backed Loans and Line of Credit

Chinese finance for large-scale infrastructure is one of the most frequently noted elements of Beijing's economic embrace of Africa. As credit markets dried up in the global financial crisis that began in 2008, some observers noted China's apparent ability to draw on its estimated $2.1 trillion in foreign reserves to continue financing large scale infrastructure projects in Africa. Although considerable information is available about these projects, it is not always easy to access, or it is in Chinese, French (DRC), or Portuguese (Angola), which creates additional barriers to those without a background in those languages.

These projects are commonly misunderstood. First, this kind of project is believed to be *widespread*. Second, the media attention given to the few projects like this that do exist has led some analysts to conclude that most Chinese government-funded projects are somehow connected to getting resources. As a recent World Bank study put it: "Most Chinese government funded projects in Sub-Saharan Africa are ultimately aimed at securing a flow of Sub-Saharan Africa's natural resources for export to China" (Foster, et al, 2008: 44). Third, these projects are frequently believed to be *"aid" financed*. None of these common assumptions seem to be supported by the evidence.

Are these projects widespread? From another angle, are Chinese projects in Africa *mainly* concerned with resource extraction? The World Bank study's own database of Chinese projects in Africa, supplemented by more recent research, reveals that only seven African countries have

actually used large, natural resource-backed lines of credit from China Eximbank for infrastructure projects not directly connected to the exploitation of the resource: Congo Brazzaville 2001; Nigeria 2002; Angola 2004, 2007; Equatorial Guinea 2006; Ghana 2007; DRC 2008; Sudan various years (World Bank 2008 and author's research). However, China Eximbank has financed more than 300 projects in Africa since 1996. The Ministry of Commerce through the Department of Aid has financed more than 900 foreign aid projects in Africa, over time. In 2007 alone, the Chinese signed 154 financial aid contracts in 48 African countries (Coordination Office of Department of Western Asian and African Affairs 2008: 488). Although significant in size, only a tiny minority of these have involved the complications of the loan-infrastructure-resource packages. Most have been simple turnkey projects: a building, a bridge, or a health clinic.

Although they are relatively rare, the large, complicated infrastructure-resource loans epitomize what the Chinese mean when they talk about "win-win" cooperation. A country uses its natural resources to attract and guarantee an infrastructure loan from China on better commercial terms than it is likely to get from commercial banks (see below). The loan is used to build infrastructure, either a specific project (Ghana's Bui dam), or a range of projects (Angola, DRC). In some cases, as in Ghana, Nigeria's power plants, and Angola, existing natural resource exports are used as *security to guarantee repayment.* In other cases, the loan will be contingent on a Chinese company gaining preferential access to a block of natural resources that will be developed, and the proceeds used to repay the loan, as in the DRC.

The business for Chinese contractors engendered by these packages may be as important as the ties to natural resources. Chinese contractors signed construction contracts in Africa worth $40 billion in 2008, for example (Ministry of Commerce 2009). In fact, these complicated packages seem often to be initiated by either the China Eximbank, or the Chinese engineering contractor that wants to win the business. China's petroleum companies and state-owned minerals firms generally seem to shy away from these complicated packages, preferring to bid in auctions, obtain concessions directly, or purchase shares of existing oil/mineral companies.

Although there is much speculation that the practice is widespread, the existing evidence suggests that it is not common for the Chinese to use their official foreign aid (or concessional finance) to support bids for oil investments or natural resource projects. Three of most highly

publicized examples described below involved market-based export credits. One involved a zero-interest shareholder loan from a Chinese consortium to its own commercial joint venture, but none involved Chinese official development assistance.

Angola. Several rounds of oil-backed infrastructure loans used in Angola were issued by China Eximbank at market rates: LIBOR plus 1.5%. The first of these infrastructure framework agreements was signed in late 2003, with the first package of projects approved in March 2004 (Campos and Vines 2008: 6). Although financed at non-concessional rates, the loans paid for the rehabilitation of Angola's war-ravaged infrastructure: electricity, railways, telecommunications, hospitals, secondary schools, polytechnics, water treatment plants, and irrigation. They also financed imports of Chinese agricultural machinery, fishing boats, and coast guard vessels.

DRC. In 2007, the DRC signed initial agreements on a very large package project initiated by two Chinese construction firms, China Railway Engineering Corporation (CREC) and Sinohydro, with partial finance from the China Eximbank. The two construction firms were joined later by China Metallurgical Group Corporation (MCC), which took a 20% share in the joint venture, Sicomines. Two successive tranches of Eximbank finance, $3 billion each, were slated to pay for infrastructure: 3402 km of paved roads, 3213 km of railway construction or rehabilitation, 145 health centers, 31 hospitals, 5000 units of low-cost housing, and 2 universities (République Démocratique du Congo 2007). The infrastructure loans were to be secured by a copper-cobalt mining venture, of which the Chinese would own 68 percent. The Chinese would also provide a loan to finance the mining investment, estimated at $3.25 billion. The initial reports of the agreement stated that the Eximbank loans would be made at LIBOR plus 1%, while the mining venture would be financed through a combination of shareholder equity and loans, with the majority at a fixed interest rate of 6.1% (Lumbi 2008). Although none of this finance seems to qualify as concessional, negotiations between the International Monetary Fund, the World Bank, and the Congolese government succeeded in revising the terms enough to allow the Bretton Woods institutions to sign off on the deal as acceptable under their Debt Sustainability Framework. More precisely, the negotiations focused on reducing the commitment to finance infrastructure from two $3 billion tranches to one, and removed the government guarantees from the loans for the mining venture.

Nigeria. In 2007, China Eximbank made an offer to Nigeria of a $2 billion line of credit at a very competitive commercial rate to finance infrastructure projects in connection with preferential access to oil blocks.[5] Separately, the Chinese government offered Nigeria a $500 million preferential line of export credit for uses to be determined between the two sides. There was no ODA involved in the discussions or in the package. Some sources have stated that the $2 billion was offered on concessional terms (Vines, Wong, Weimar and Campos, 2009: 23). However, other sources disagree. An exclusive April 2009 interview with Nigerian president Yar'Adua printed in *The Guardian* (Lagos) commented that he had also believed it to be concessional. However, "[w]hen I visited China and we discussed, I was told this 500 million dollars was given on concessionary rate from the Chinese government but the $2 billion dollars was given at commercial rate from the Chinese Exim Bank."[6] The proposed "infrastructure-for-oil" deal fell through. The framework agreements and memoranda of understanding on both lines of credit would normally have expired after two years, although the Chinese government later extended the $500 million preferential export credit offer until 2010, possibly to assist in the resuscitation of a large contract awarded to a Chinese construction company to rebuild the Lagos-Kano railway, but later suspended after a change of government.

As this brief discussion indicates, none of these offers of credit or actual loans appear to involve foreign aid (ODA) and they should be viewed as examples of credit for investment, or for trade. Nevertheless, the benefits of resource-secured loans are obvious as an instrument for development. The country is able to use its natural resource exports for infrastructure, construction of which usually begins almost immediately. For projects that also finance the development of a natural resource, the project (usually a joint venture with the local government) begins to repay the infrastructure loan, and the costs of developing the resource, with the proceeds from the mine or oil wells. The practice also helps as an "**agency of restraint**" against embezzlement: the financing essentially stays within China, being used to pay a Chinese exporter of goods or construction services. It operates as a line of credit, **not as a blank check** deposited into the borrower's bank account. In addition, the signing of a memorandum of understanding, or even a framework agreement for a line of credit should not itself be an indication of a formal

[5] Author interviews, Nigeria, May 2009.

[6] "Umaru Yar'Ardua: President … on a mission incredible," *The Guardian* (Lagos) April 29, 2009. The proposed exchange of the line of credit for preferential access was also confirmed in author's interviews with Chinese authorities in Nigeria, May 2009, as well as the failure of the proposed package.

loan commitment. Loans must be negotiated individually, for individual projects, each of which is generally appraised separately.

The downside is equally obvious. When the same companies develop the resource and do the infrastructure projects without competitive bidding (Angola does require that three pre-approved Chinese companies bid on each project), there is a huge risk that the country might not get value for money on the infrastructure projects. Without safeguards, the selection of projects might be made on the basis of political patronage rather than need. Marketing of the resource needs to be transparent, to ensure correct pricing. Little is transparent in the few projects that already exist. In some cases, Nigeria and Angola, for example, leaders ran these systems directly out of their own offices, by-passing existing institutions. In Angola at least, this was also true for credit lines from Brazil, Germany, and Spain (Tang 2008).

At the end of the day, the system might be seen as an improvement over the current system in many weak states, where natural resources are exported, and the proceeds disappear into off-budget accounts, and from there, often, to off-shore accounts. Some steps have already been taken to address concerns like those raised above. In the case of Equatorial Guinea, foreign architects were brought in to evaluate the work to ensure quality control (Esteban 2009). In Angola, the Ministry of Finance published details on the internet about the budget for infrastructure projects being completed under the loan, and used an independent third party to oversee construction. The president's office and executive branch in the DRC has engaged extensively in discussions with the DRC parliament to answer their questions about the package there.[7] More moves like these should ameliorate some of the risks engendered by the lack of transparency.

5. Chinese Aid and The International Aid Architecture

[7] See, for example, documents on the DRC presidential website, including «La Communication officielle du Gouvernement présentée par le Ministre des Infrastructures, Travaux Publics et Reconstruction sur les critiques et observations des Députés lors de la présentation de ces accords à l'Assemblée Nationale,» http://www.presidentrdc.cd/chinois_et_nous.html [accessed September 3, 2009].

A small number of recent studies have begun to address the possible impact of Chinese engagement on the international aid architecture. Humphrey and Messner (2006) note that China's rise could challenge the priorities and agenda-setting success of the industrialized countries, and undermine the credibility of their advice and message. Particular areas where China's influence might be felt include: the power and governance structure of the Bretton Woods institutions (the World Bank and the IMF); the dominant ideologies and prescriptions that currently shape recommended development policies and strategies; and the evolving standards in arenas such as human rights and the environment. They also point to many unknowns: "just how China's development diplomacy will work out is far from clear (2006: ii)."

Brautigam (2008, 2009b), Davies (2008) and the Center for Chinese Studies (2008) all provide overviews of China's African aid program. All three studies outline the general concerns raised by Chinese aid practices, particularly the issues of governance and corruption, debt sustainability, and aid effectiveness. In an article focused on China and the international aid architecture, Stefan Stähle (2008: 130) picks up the theme of Chinese competition, noting concerns about competition between China's development ideas (called by some the "Beijing Consensus") and those known as the Washington Consensus. Stähle contrasts Chinese aid with that from the traditional donors, who, he contends, have agreed in principle that the goal of aid should be to reduce poverty, foster good governance, liberal democracy and market economies, while not harming the environment. On the other hand, some observers argue that finance from China may help to counter the "power of the World Bank and the International Monetary Fund to impose strict and often ill-suited economic policy conditions on their borrowers" (Bosshard and Brewer 2008: 3).

A study by the Center for Chinese Studies (2008) describes many aspects of Chinese aid and economic engagement practice. They note that China has increasingly aligned its statements on partnership with Goal 8 of the United Nations' Millennium Development Goals (pledging better partnerships between aid donors and recipients), and recommend that China practice greater transparency in its aid and finance agreements.

Taken together, these reports give a picture of several different principles at play within the Chinese hierarchy. Below, we look more deeply into these issues, comparing China's approach with that operating in the global aid architecture, as outlined above.

5.1. Institutions and Actors

China's aid and export credit system was outlined above. China is in an unusual position, being both a recipient of aid within the global aid architecture, and a donor of aid. The institutional structure of China's aid and export credit system resemble several others in the OECD system, in particular, the aid/export credit systems prevailing in two other powerful exporting countries: Germany and Japan.

5.2. Definitions, Volume and Composition

Aid figures for donors that are members of the DAC are reported and published annually. In 2007, the largest DAC-reporting donor to Africa was the United States, which in that year alone gave $7.6 billion in official development assistance. The World Bank was second, with $6.9 billion, the EC third, with $5.4 billion, and France fourth, with $4.9 billion.

The Chinese do not report their aid to the DAC, and estimates of China's own ODA are often vastly exaggerated. For example, some reporters have written, mistakenly, that China's Africa loans were "three times" larger than *all* African aid from OECD countries (Harman 2007). In fact, although all areas of Chinese external economic relations -- trade, investment, finance -- with other developing countries have risen sharply (trade declined in the wake of the global financial crisis of 2008-2009), official *aid* figures themselves remain relatively modest.[8]

In 2008, Chinese Premier Wen Jiabao announced that over more than fifty years, China had provided a total of $30 billion in official aid to other developing countries, including grants worth approximately $13.3 billion. Historically, Asian countries have received the bulk of Chinese aid (North Korea and Vietnam, in particular). Countries in the African continent received about $5.7 billion (*RMB* 44 billion) in aid from China (Zhang 2006). These figures, however, are not very useful as they simply add the aid year after year without accounting for inflation.

[8] Researchers at the World Bank with access to internal data on debt reporting concluded that Chinese loans made to Zimbabwe were non-concessional, and the total of loans and grants was relatively modest (Foster, Butterfield, Chen, and Pushak 2008: 46).

The aid figures reported by the Chinese are not calculated using the standard reporting categories applied by the members of the Development Assistance Committee (DAC) of the OECD and thus they are not truly comparable. Most importantly, the Chinese aid figures include only the interest subsidy for concessional loans from China's Eximbank rather than the full face value of the loans. By contrast, DAC members report the full face value of an ODA loan just as if it was a grant, but then in later years, they have to deduct any repayments. Relying on Chinese sources for figures on concessional loans and external assistance, but using DAC reporting categories, it can be estimated that China's aid to Africa was approximately $1.4 billion in 2008, making China one of Africa's main bilateral donors, but by no means the largest.

There are no breakdowns for the composition of Chinese aid by value, but Chinese reports on their aid make it clear that the primary sector financed through aid is infrastructure, ranging from bridges, roads, and water systems to the so-called "prestige" projects: stadiums, conference halls, Ministry of Foreign Affairs buildings. Productive activities such as agriculture have also been important areas for aid. Both of these important sectors have received relatively little aid in recent decades from the DAC donors, although these trends have recently begun to reverse.

5.3. Instruments and Modalities

The main financing instruments for Chinese aid and export credits were outlined above and compared with those in the OECD countries. Within these financial vehicles, aid from China and the OECD countries are programmed in similar ways, including technical assistance, food aid, debt relief, humanitarian assistance, and so on. The Chinese rarely give budget support and do not contribute to common pool "basket financing" of sectors, a growing trend among the OECD donors.

Principles governing the modalities of how aid is delivered include those embodied in the 2005 Paris Declaration on Aid Effectiveness, which emphasized that aid should be given in ways that support ownership, harmonization, alignment, results, and mutual accountability. Since 1964, the delivery of Chinese aid has been governed by eight principles (Box 1), which emphasize some of the same principles enshrined in the Paris Declaration. In many ways, Chinese aid supports country ownership well, financing projects desired by governments but which other donors have declined to finance, such as the Bui Dam in Ghana.

Box 1: Eight Principles for China's Aid to Foreign Countries about here

Although not enshrined in the Paris Declaration, it has been common practice among DAC donors to attach extensive political and economic conditions or "strings" to their aid. As noted in Box 1, the Chinese promise that they give aid without requiring political or economic conditions, and that they will not intervene in the internal affairs of other countries. On the other hand, some conditions do apply. Aid and bank credits from China are largely tied to goods and services from China (as much aid and all export credits continue to be from DAC countries) and are only given to countries with whom China has diplomatic ties.

5.4. Rules and Standards

In this section, we look more closely several of the rules and norms identified above, considering the impact China is likely to have (or is already having) on these aspects of the global aid architecture. For reasons of space, the paper discusses only a subset of these emerging rules and principles.[9]

a) China and the OECD Arrangement on Officially Supported Export Credits

OECD donors have a long history of using ODA to support exports. As recently as the mid-1990s, Germany directed 85 percent of its ODA to infrastructure projects, rail, and ships that used German firms and technologies (Evans and Oye 2000: 129). However, although the OECD norms on the use of foreign aid in officially supported export credits are voluntary, they have been successful in gradually bringing conformity into a contentious area.

As noted above, links between aid and exports began to be reduced when, after long negotiations, the OECD members agreed to the 1978 Arrangement on Officially Supported Export Credits, and its extension in the 1992 "Helsinki Package". Today, the revised Arrangement, a "gentleman's agreements" stipulates:

(1) No concessional export credits allowed for wealthier countries above a certain income level; (such as Botswana, Gabon, or Brazil)

[9] These three topics were selected by the directors of this project from a longer list.

(2) No concessional export credits for "commercially viable" projects anywhere. These must be at specific Commercial Interest Rates of Reference (CIRR)

(3) When allowed, concessional export credits must be given at least 35 percent as a grant, calculated using the relevant commercial interest rate in the exporting country (CIRR) as comparison. Sometimes referred to as "tied aid", this definition of "aid" is different from the definition of "official development assistance" used for the DAC.

Thus, only commercially non-viable projects in lower income countries are eligible for concessional export credits ("tied aid") as defined above.

In 2005, at a UN meeting on financing the Millennium Development Goals, Chinese president Hu Jintao announced that China would provide developing countries with $10 billion in concessional loans and preferential export credits. A year later, Africans learned that their countries would receive half of this: $3 billion in concessional loans, and $2 billion in preferential export buyer's credits. This offer of what looked like "tied aid" heightened concerns that the Chinese might not play by the rules developed for concessional export credits by the OECD countries, the "Arrangement" outlined above.

Many years ago, Europe, the U.S., Canada and Japan regularly had trade disputes concerning tied aid. Tied aid in the context of export credits is considered somewhat separate from the issue of general tying of aid to domestic goods and services. It was defined as "aid credits for which the motivation is largely (or significantly) connected to promoting the sale of goods from the donor government's country" (Export-Import Bank of the United States, 2003: 112). In one account:

> These are big-ticket items, important for job creation and economic growth, [creating] strong economic and political incentives for governments to sweeten export credits to improve their export competitiveness. In the past, this was done by subsidizing interest rates, by subsidizing prices charged for credit risk, or by combining development aid with export credits to create "mixed credits" – soft loans tied to purchases from the donors (Evans and Oye 2000: 116).

As noted above, for OECD countries today, no tied aid is allowed for exports to middle income countries, and low-income countries can only get concessional loans for commercially nonviable

projects. Although the Arrangement's limit of tied aid to commercially nonviable projects might seem to mean that concessional loans can only be used for projects like the construction of primary schools or health clinics, in fact many kinds of projects are considered commercially nonviable, including power transmission lines, telecommunications systems in rural areas; roads and bridges; airport terminals; water treatment and sanitation; housing; urban rail and metro systems. Tied aid is allowed for these, but at controlled rates that must be reported to the OECD (but not to the public).

In much of Africa, then, OECD countries are limited to offering only standard commercial rate export credits for power plants, urban telephone systems, and manufacturing equipment. The Arrangement is supposed to ensure that exporting countries compete for business on the basis of the merits of their goods and projects, rather than on the financing package. Aid for capital goods and construction services was supposed to be limited to projects and countries that could not attract commercial loans.

These reforms seem to benefit exporters, who avoided a race to the bottom, rather than recipient countries, which quite likely ended up paying more for the commercially viable projects like power plants, once the Arrangement eliminated tied aid for projects like these. But advocates of the system also saw it as a way to reduce "white elephant" projects (those entered into not because of local needs, but because of an exporter's promotion or even kickbacks to government officials), and inject more competition.

China Eximbank is clearly well aware of the evolving norms for export credits. Several years ago, the text of the Arrangement was translated into Chinese. China Eximbank's website stresses that even though China is not a member of the OECD, its export buyers' credits "generally" follow the Arrangement. At the same time, the Chinese believe that companies in wealthier countries got a head start with assistance from their governments, under rules that were changed before Chinese firms became global players. For example, the United States' Eximbank was established in 1934 and China's Eximbank sixty years later, in 1994. The Chinese are unlikely to agree to put their new multinational companies on a level playing field without spending a few more years learning how to manage their drive to "go global".

This issue will continue to be a bone of contention between China and the OECD countries, but it need not be a loss for developing countries, which could now enjoy the benefits of more competition for the power projects and other infrastructure, and the lower prices this could bring. To ensure that developing countries win, their governments need to insist that all procurement be subject to competitive bidding. Chinese bids could follow current OECD practice by including pledges or guarantees of official export credits. If procurement is not done through international bidding, government officials should take the time to investigate comparable products and services in order to ensure that an offer is actually good value for money.

b) China, HIPC and the Rules on Debt

The most frequently expressed concerns over China's role in the system of debt management come from the OECD countries and involve concerns about debt sustainability, "free riding", China's lack of conditionality for debt relief, and the problem posed by China's resource-backed loans for the IFI's preferred creditor status. None of these concerns have been central to African critics of China's role. However, should Chinese lending, combined with the weaknesses generated by the global financial crisis, provoke a "new debt crisis" all countries' access to credit would suffer.

The free-riding issue arose early, with concerns raised that China was "taking advantage" of debt cancellation by giving loans to countries whose balance sheets were lightened by debt cancellation paid for by the OECD countries. Debt sustainability is also an issue. In 2005, after nearly a decade of HIPC debt relief, the World Bank and the IMF jointly adopted a "Debt Sustainability Framework" that aimed to protect low income countries from taking on new loans (like those from China) without being able to properly manage the debt. A second goal of the policies was to forestall the possibility of grants and debt relief from the World Bank being used to subsidize less concessional borrowing (World Bank 2006). All multilateral development banks, export credit agencies, bilateral donors, and commercial creditors were asked to "adhere to the framework" making it a powerful, if voluntary, norm. Countries breaching the concessionality guidelines would be sanctioned by either reduced access to concessional finance through the World Bank, or by harder terms (higher interest rates and/or shorter repayment periods). No sanctions were proposed for lenders who violated the guidelines.

While the debt management issue is an important point, critics of this policy note that one of the roles of the World Bank (as a subsidized public institution) has traditionally been to catalyze investment and finance from other sources. They also note that the DSF may push some low income countries to conceal their borrowing from countries like China so as to avoid a sensitive topic with the World Bank (Reisen and Ndoye 2008).

The principles of Chinese aid (Box 1) note that Beijing will reschedule aid debt on request (although there is no such principle for commercial debt or export credits). Rescheduling aid debt was done multiple times in some countries. Starting in the 1980s, the Chinese dealt with the unpaid debts for some productive projects (mainly factories) by swapping them for equity shares in the projects. But although China lacked any leverage to compel repayment, the debt was almost never cancelled outright. Rescheduling, even for a year, has involved the signing of formal agreements.

Starting in 2000, this changed. By 2009, China had canceled or pledged to cancel about $2.7 billion in overdue debt from African countries, about 60 percent of the amount owed (Qi 2007). China's debt relief resembles the Paris Club HIPC norm, in that it is targeted to low income and least developed countries. Mauritius, for example, with an excellent record of repaying its debts received no debt relief, and Zimbabwe, which is not a HIPC, also received no debt relief. Highly indebted Zambia reportedly received $211 million. There are no HIPC-style conditions imposed for debt cancellation, however. Countries do have to request it; the process is not automatic, and it is only available for countries that have continued to have diplomatic relations with Beijing. Chinese announcements make it clear that only overdue debt is cancelled, and the debts are those linked to loans proffered for specific foreign aid projects. Announcements of 156 "debts" cancelled by 2002, 172 debts cancelled by 2005, and 154 cancelled in 33 African countries by the end of 2007 make this very specific (Wu 2007).

With regard to debt sustainability, China Eximbank president Li Ruoguo has argued that his bank takes debt sustainability into account when making loans, but he has also emphasized that his bank's lending is based on *development* sustainability (Li 2007). He has argued that the IFI's debt sustainability analytical framework is too static, a concern shared by some African borrowers who believe that investments in infrastructure such as power, even if financed at a commercial rate, will increase their ability to repay loans, changing the assumptions under which

sustainability is calculated. An OECD study pointed out that in Angola and Sudan, Chinese investment and the higher prices stimulated by China's demand for raw materials seem to have contributed to the considerable improvement seen in debt-distress indicators in both countries (Reisen and Ndoye 2008: 30). In Angola, total debt dropped from 100 percent of GDP in 2000, to 30 percent in 2006, and in Sudan, from 162 percent to 75 percent, even when actual debt numbers were rising. In late 2009, Angola announced that it was seeking its first bond rating from Standard & Poors in preparation for a Eurobond issue of between $500 and $4 billion, another sign that its large Chinese loans may not have unduly impaired its debt position (Mendez 2010).

c) China, Conditionality and Standards

It is widely believed that official finance from the OECD countries and multilateral development banks conforms to an agreed set of standards on governance, good economic policy, and social and environmental protections. As one report puts it, China's engagement in Africa "may unpick the strategy carefully knitted deal between the West and key African players for economic liberalisation accompanied by 'good governance', leading to stability" (*Africa Research Bulletin* in Taylor 2007: 959). The Chinese position was summarized by Liu Guijin, China's special envoy for Africa, in 2008: "We don't attach political conditions. We have to realize the political and economic environments are not ideal. But we don't have to wait for everything to be satisfactory or human rights to be perfect" (in Morris 2008).

We can disaggregate the issue of standards into two areas. The first would be standards applied to specific loans, such as the protection of environmental and social rights in an irrigation, hydropower, or road project that might involve resettlement, and so on. The second would be country-level conditionality in which decisions to lend (or not) might be made based on the quality of governance or economic policy in a country. In both areas, standard are informal and works in progress.

Social and Environmental Standards

As noted above, the standards for socially and environmentally responsible project appraisal are becoming more concrete, as supported by the Equator Principles as well as lending guidelines in use by all of the traditional donors. Extending beyond aid into private finance, they have broadened into principles that can be regarded as widely shared, even if their application in areas such as private lending or official export credits are still far from perfect.

There is some evidence that as Chinese domestic awareness has been raised on environmental issues, China's overseas financing may also raise its standards. At present, Chinese projects overseas use either China's own standards, or those of the borrowing country, not the standards that have evolved over time in the richer countries. However, standards on the environment are rapidly changing within China. China's State Environmental Protection Agency (SEPA) adopted the Equator Principles in January 2008. In March 2008, China's State Council established a new "super ministry" of Environmental Protection, reflecting leaders' growing concerns about the impact of pollution, energy consumption, and global warming on China, as well as concerns about pressures on China to reduce its share of the problem.

These are now being reflected in China's development finance. The Chinese Academy for Environmental Planning has drafted environmental guidelines for Chinese companies involved in aid and overseas investment (Li 2008). According to one report, China Development Bank had pledged to apply the "highest standards including social and environmental impact assessments …. to companies benefiting from its funding" (Wissenbach 2007: 7). Although CDB does not give foreign aid loans, this may be reflective of current thinking in the Chinese government. In July 2008, China Eximbank published new guidelines for social and environmental impact assessments, aligning the bank's approach with the central government's "Green Credit" policy, and including land rights and resettlement as new concerns (Matisoff and Chan 2008: 47). The Exim-bank's new guidelines are the strongest signal yet that China's largest providers of development finance understands the standards at work shaping development finance in more socially and environmentally responsible ways, and that in principle, at least, they agree. Yet, as critics have noted with other export credit agencies, there can be a wide gap between guidelines and actual project funding. Without considerable more transparency, it will be difficult to know the extent to which these guidelines are actually applied by China.

Governance Standards

Many fear that the rise of China as a significant source of finance presents a threat to improved governance in Africa. These concerns center on two issues: (1) Chinese finance may fuel corruption directly through the transfer of large funds to poorly governed regimes (the resource curse); (2) it could provide a financial lifeline to repressive, authoritarian governments that might otherwise be forced to bow to sanctions or governance conditionality.

It is well known that the Chinese do not impose any conditions on governance or human rights before financing projects in other countries, regarding this as interference in the internal affairs of other countries. China is not an OECD member and thus is not a signatory to the OECD Corruption Convention, although it has ratified the UN Convention against Corruption that requires similar legal reforms (Bräutigam 2009a). Chinese aid projects organized by MOFCOM use competitive bidding to select Chinese companies, but there is a different system for the concessional loans provided by the China Eximbank. These tend to work either as lines of credit (for example, a $58 million credit offered to Zimbabwe and channeled through Farmer's World, a local company that then traveled to China to select agricultural equipment and machinery to be imported under the loan, with all payments going from the Chinese bank to the Chinese exporters) or finance provided to a single project, usually proposed by a Chinese company (such as the rural telecoms project proposed by a Chinese company in Sierra Leone and later financed by a concessional aid loan). While Farmer's World was able to do comparison shopping in China, the Sierra Leone project ran the risk not receiving the best value for money, as there was no competitive bidding. On the other hand, the Chinese almost never transfer any actual money through their loans, and only rarely give aid as cash grants. Keeping the money in China, with payments to Chinese companies and their subcontractors authorized by the borrowing government, actually aids in avoiding large-scale embezzlement, although kickbacks might still take place.

With regard to democracy and human rights abuses in countries such as Sudan and Zimbabwe, the Chinese position is generally that "development would come first, standards, rights and rules would fall into line, standards need to be worked out by Africans not imposed by outsiders" (Liu Guijin in Wissenbach 2007: 4). The Chinese position is far from consistent with the norms that have evolved in Europe and North America, even if those norms are unevenly applied in practice.

Yet the Chinese respect for sovereignty, while also convenient for Chinese companies, appears to be closer to the African norm. For example, the Chinese have generally followed the lead of prominent countries in Africa (South Africa) and African organizations -- the African Union, in particular -- in their positions on these issues in the United Nations. Despite the problems in Zimbabwe, no other government has actually imposed sanctions that would impede their companies from trading with or investing in that troubled country (a limited arms embargo is an exception).

Legal sanctions and embargoes have been more restrictive for Sudan, where the government has been accused of brutally suppressing a tragic rebellion in Darfur. Yet there is also nothing like a global set of rules regarding Sudan. A limited, UN-sanctioned arms embargo and a full EU arms embargo are in place. The United States is nearly alone in imposing a full trade embargo on Sudan, and has also prohibited US firms from participating in the petroleum and petrochemical industry in Sudan. In general, other western companies that have left Sudan have done so not because of sanctions but because of effective pressure from advocacy groups or their own concerns about security and stability and justice.

6. Chinese Cooperation with Other Donors

So far, the Chinese have been reluctant to participate in established donor-led groups (such as the Paris Club, or the Consultative Groups) in part because they generally do not see aid from the West as having been very effective in reducing poverty in Africa. But there have been a number of cases of tripartite cooperation, including the South-South Cooperation Program run through the Food and Agriculture Organization's Food Security Program.

China contributed 514 experts and technicians to Nigeria under the first five year phase of this program, between 2003 and 2007. Sierra Leone has also hosted Chinese teams under the FAO tripartite program. The Chinese have a history of working cooperatively under the UN umbrella, and this may offer a more promising way to engage them.

The OECD's DAC has a China-DAC study group with participants from China and the major donor agencies. The British aid agency, Department for International Development (DFID), and the German Ministry of Economic Cooperation and Development (BMZ), and the French aid

agency Agence Francaise de Dévelopepment, AFD have taken the lead among bilateral donors in engaging the Chinese. Several have created small teams in Beijing just for this purpose. DFID has asked its Africa missions to try to "build relationships" with Chinese counterparts (DFID 2007). DFID also invited the Chinese Ministry of Commerce's Department of Foreign Aid to send an observer to participate in a peer review of the DFID aid program being undertaken by the OECD-DAC, and the Chinese ministry obliged. DFID has sponsored several research projects in order to learn more about the subject, and they have held several workshops. In March 2008, for example, together with Canadian International Development Agency (CIDA), the World Bank Institute, and the International Poverty Reduction Centre in China, DFID co-sponsored a workshop to share aid experiences. Several other donor countries, Chinese officials, and senior government representatives from Malawi and Mozambique participated. The representative from China's Ministry of Commerce "encouraged the other donors to find out where China has comparative advantage and start building partnerships and joint action" (CIDA/DFID/WBI/IPRCC 2008: 8). The BMZ has worked closely with the OECD's China-DAC Study Group and the International Poverty Reduction Center of China to sponsor several mutual learning events focused on China and Africa, in Paris and in Beijing.

On the multilateral front, China contributed $30 million to the Asia Development Bank's Asian Development Fund in 2005, and set up a $20 million PRC Regional Cooperation and Poverty Reduction Fund, also with the ADB (the first developing country to establish a fund like this). China also pledged to contribute to the World Bank's concessional loan operations (IDA) for the first time in 2007, with the IDA15 replenishment ($30 million). An MOU signed between the World Bank and the China Eximbank in July 2007 was intended to lead to "joint action" but has so far had little concrete result aside from the secondment of some Eximbank staff to Washington. The idea of staff exchanges is one with a great deal of potential for mutual learning, and might be adopted by other multilateral banks. The Chinese have reportedly been enthusiastic partners with the World Bank's IFC and its social responsibility team in trainings on the Equator Principles.

China has concluded a bilateral agreement on technical co-operation with the African Development Bank, and set up a China Trust Fund of 2 million $US. [10] In addition, the AfDB has two memorandums of understanding (MOUs) with Exim-Bank and China Development Bank and African officials have pointedly urged the Chinese government to "vigorously" move forward on parallel and co-financing with Africa's regional banks, and the China Development Bank has responded with offers of lines of credit to the East African Development Bank ($30 million) and the Eastern and Southern African Trade and Development Bank ($50 million), while China Eximbank has provided a line of credit to the Africa Eximbank ($100 million). Chinese officials have also attended Consultative Group meetings in some countries: post-war Sierra Leone, for example. These Consultative Group meetings are efforts to share information and coordinate donor activities; they have traditionally been chaired by the World Bank. Even if they do not attend at first, Chinese representatives should continue to be regularly invited to attend donor coordination meetings. When the host government takes the lead on donor coordination, the Chinese will be more likely to attend.

7. African Countries: Engaging China

The evidence suggests that Chinese finance will be a significant, continuing source of capital for African countries. In 2007, the head of China's Eximbank noted that his bank expected to lend $20 billion in Africa over the next three years (Xinhua 2007). This finance will be entirely for Chinese exports of capital goods (including power plants), Chinese construction companies, and Chinese investment (including joint ventures). Although most of this finance is likely to be at market rates, the rates will be attractive, given China's own very low cost of capital and foreign reserves that remain enormous, even as the global economy slows. This is particularly relevant as the opportunity cost for this Chinese capital is the very low rates offered by US Treasury Bonds.

Countries that propose bankable projects will likely be able to access some of this finance, whether or not they have natural resources, but for the most part, *it is not being made available as ODA*. In some cases, such as in Angola and the DRC, China Eximbank has agreed that a percentage of the contracts financed by these loans can be subcontracted to local companies,

[10] Forum on China-Africa Cooperation, "Programme for China-Africa Cooperation in Economic and Social Development," September 20, 2006, http://www.focac.org/eng/wjjh/t404122.htm.

something that can spur local development. Export credits from the OECD countries have been declining since 1995 (Wang, et al, 2005: 8-9). Even in the current global financial crisis, China's Eximbank continues to insist that it is more than ready to fill the gap.

How can African countries position themselves to get the best from this newly important partnership? To what extent should they encourage China to play by the rules set up by the OECD countries in the international aid and export credit regime? Transparency is an important norm, but African governments themselves already know how much aid and development finance they are getting from China. Transparency is not an issue for individual country governments, which could supply this information if they wished, but it would be helpful for their citizens. It is not clear that African countries would benefit if China strictly followed the OECD Arrangement on Officially Supported Export Credits, as their financing costs would likely rise. However, to ensure value for money it is critical that African governments insist on competitive tenders for their procurement requirements, no matter how concessional the associated export credit. If a competitive tender is not possible, officials can still do comparison shopping by soliciting estimates from comparable companies for the goods and services offered under Chinese finance.

The AU has developed a workable compromise between the well-entrenched sovereignty norm, and the evolving norm of the responsibility to protect (R2P). This gives the African Union an opening to firmly condemn military coups and other violations of democratic norms. It could move further and signal that engagement with abusive regimes would place companies or banks at a disadvantage with other African Union members. This would be welcomed by those seeking peaceful resolution of these conflicts and would help pressure those within countries like China (and others, such as India, Korea, Malaysia, and the Arab countries) who have used African inaction as a justification for their own active engagement with abusive regimes.

Corporate social responsibility is a new area in China, but one that is gaining as Chinese companies grow to understand that they have a "triple bottom line" (profit, social, environmental). Lenders such as China Exim-Bank are already aware of the importance of being seen to be responsive to these issues, but continued advocacy pressure on the Exim-Bank (along with other export credit agencies) to be "responsible partners" is not out of place. But countries can do more themselves. For example, African governments worried about technology transfer

and training can require Chinese (and other) companies to partner with local firms when submitting bids, as Senegal does. They can require subcontracting to local firms (Angola, DRC), and can insist on (and enforce) limited imports of expatriate labor, as do Tanzania and many countries.

Building up local capacity to negotiate favorable natural resource deals with China Eximbank and Chinese companies should also be a priority. Decades ago, Botswana showed how the use of strategic international consultants from highly regarded legal firms could enable the country to negotiate very favorable contracts for its natural resources with DeBeers, a South African mining giant. An international presence from a highly capable, respected firm could provide a form of credibility that is lacking in some of the deals presently on the table, although third parties like this – outside engineering firms, for example, are in fact a part of several high profile Chinese deals, even in places like Zimbabwe. A high-level, closed-door workshop where African officials who have worked on these deals can meet to exchange experiences and information would also be useful.

Continued engagement with Chinese working in the area of foreign aid and export finance will build relationships and increase the knowledge that each side has of the other. Workshops should involve Chinese officials from the Ministry of Commerce and the China Exim-Bank, not simply academics.

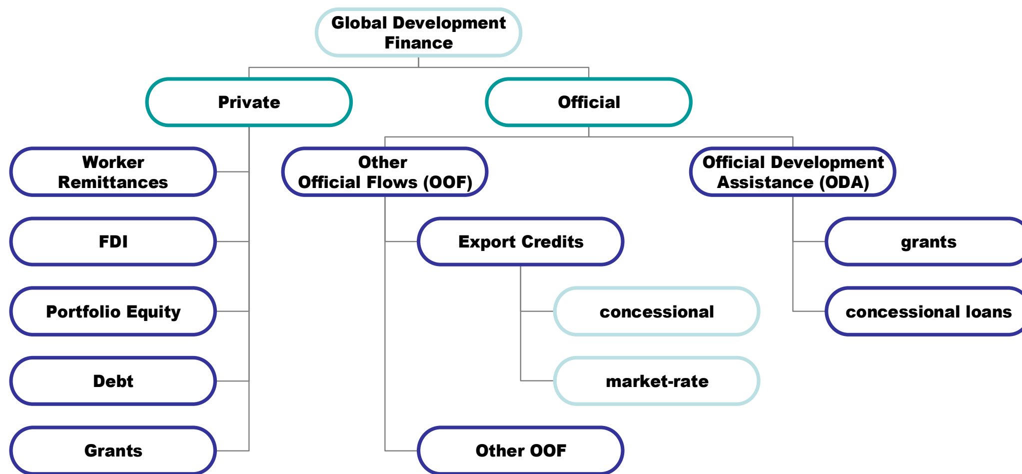
It is also useful and appropriate to focus not simply on China, but on the other non-DAC donors and financiers: Brazil, South Africa, India, and so on inviting Chinese officials to join project and program evaluations of other donors would also be a useful way to exchange ideas.

8. Conclusion

The Chinese have built an economic development success with relatively little outside aid. As the Chinese ambassador to Malawi reportedly said not long ago: "No country in the world can develop itself through foreign aid … To develop your economy is your job; you have to do it yourselves" (quoted in Masina, 2008). Yet China does provide aid and development finance, although the Chinese approach is not very transparent and it is generally poorly understood.

This paper analyzed China's growing foreign aid and export credit program as an element of the changing international aid architecture. The paper finds that practices governing Chinese aid and development finance generally diverge from clear OECD standards and norms on transparency and definitions, the management of concessional export credits and the management of sovereign debt. In the area of environmental and social protections, corruption and governance, we find mixed results. Rules in these areas are less clearly spelled out, enforcement and monitoring less well-developed, and although guidelines exist, the traditional donors and financiers do not always have clear, unambiguous rules to apply. Chinese norms on environmental and social safeguards are evolving rapidly and there is some evidence that their framework for development loans has begun to take these higher standards into account. Both China and the traditional sources of development finance have rules that discourage corruption in the procurement of aid; but neither (with some exceptions, such as the US MCC and the World Bank's CPIA) seem to have rules for when or how aid or development finance should be restricted when a pattern of corruption characterizes an entire recipient government. Many countries have not done enough to put in place rules that would help ensure that business supported by their export credits is free from corruption. With regard to democracy and human rights, the global aid regime is not well-institutionalized, although it has improved over the past several decades. Neither the IMF, nor the World Bank (nor the Chinese) apply conditionality over democracy or human rights. Many bilateral donors do apply such conditions, but sometimes inconsistently or without well-defined, objective triggers or standards. Export credit agencies are only slowly being brought into compliance with expectations for transparency, social and environmental impact, or the protection of human rights. In sum, China's practice as a provider of aid and development finance is not as different from the practice of others as is commonly believed. Across the board, there is much room for improvement from all the major players in the global regime for aid and development finance.

Fig. 1: Global Development Finance



Box 1: Eight Principles for China's Aid to Foreign Countries (1964)

1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.

2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.

3. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for repayment when necessary so as to lighten the burden of the recipient countries as far as possible.

4. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.

5. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.

6. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.

7. In providing any technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.

8. The experts dispatched by China to help in construction in

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