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China, Africa and the International Aid Architecture

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China, Africa and the International Aid Architecture [(1)]

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Abstract

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This paper analyses China's growing foreign aid and export credit programme 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. 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 characterises an entire recipient government. The global aid regime is not well-institutionalised regarding democracy and human rights. Neither the IMF, the World Bank nor the Chinese apply conditionality in this area. Many bilateral donors do apply such conditions, but relatively inconsistently. Many still lack clear and firm standards. In sum, Chinese practice is not as different in this arena as 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 within development circles. 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 standardised 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 they are not "ODA", it can be argued that these forms of development finance are nominally part of the aid architecture.

The paper is organised 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 conclude and offer 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 programme since the 1950s. Egypt was the first African recipient of aid from China in 1956.
Chinese aid is almost automatic for African countries with formal diplomatic ties with Beijing. Every country in Africa, with the exception of Swaziland, has been a recipient of Chinese aid. Countries such as Chad, Burkina Faso, and The Gambia, have switched diplomatic recognition back and forth between Beijing and Chinese Taipei (Brautigam 2008, p. 12-13).

In the peak period of the mid 1970s, after Beijing had won back its United Nations seat from Chinese Taipei, China had aid programmes in more African countries than did the United States (Brautigam 1998, p. 4). Although the quantity of funding dipped during the 1980s, Chinese aid programmes 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 known that in the 1980s and 1990s, China sent teams to dozens of African countries to repair, rebuild, and 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 programme is organised 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 programme, zero-interest aid loans, youth volunteer programme, and technical assistance. Under direction from the Ministry of Commerce, China's Export-Import Bank (Eximbank) administers China's concessional foreign aid loan programme 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 analyst 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, p. 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.

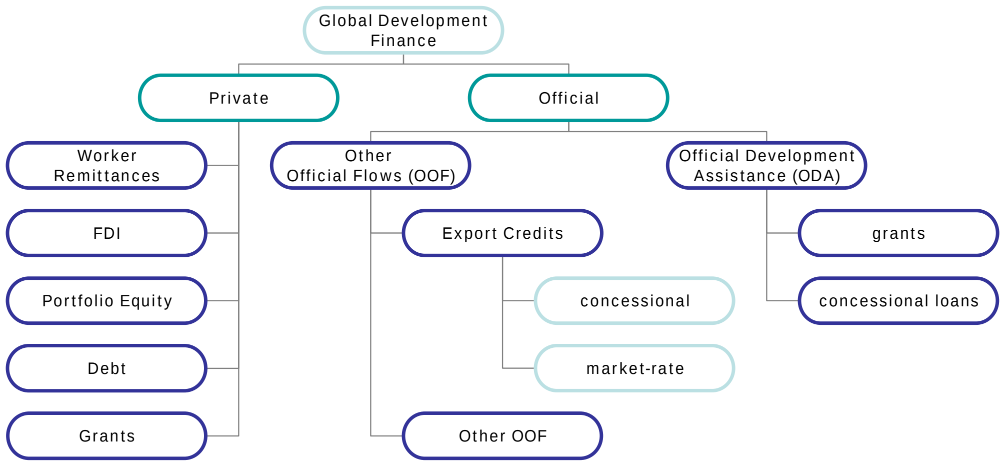
Since 1994, China has developed other sources of official finance: Equity funds (the China-Africa Development Fund, managed by China Development Bank, for example); non-concessional loans from the China Development Bank; and a growing mix of market-rate and preferential export buyer’s credits offered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

The Bank of China has a branch in Lusaka, Zambia, and another in Johannesburg, where the China Construction Bank also has a branch. These banks now operate largely on commercial principles. 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”, classified as private grants (funding from individuals, foundations, NGOs, and the new “global funds” such as the Gates Foundation) and official development assistance (bilateral and multilateral donors).

Fig. 1: Global Development Finance



2.1. Institutions and Actors

These comprise the players -- bilateral and multilateral donors, as well as non-governmental organisations (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 (an informal group of mainly OECD creditor governments), the G-8, the Commonwealth, the OECD's Development Assistance Committee (DAC), and the United Nations' Development Cooperation Forum, all of whose members contribute to the rules and norms that try to regulate aid practices.

2.2. Definitions, Volume and Composition

While organisations 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 DAC of the OECD in 1969, and revised in 1972, official development assistance 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 of 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, 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 developing 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.

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

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

2.3. Instruments and Modalities

Aid instruments and modalities comprise the ways in which aid is programmed and delivered. Concrete instruments of aid include projects and programmes, technical assistance, food aid, budget support, debt relief (for example, the Highly Indebted Poor Countries or HIPC programme), 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, harmonisation, 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.

2.4. Rules and Standards

Compared with regimes that govern international trade (codified in the World Trade Organisation), the rules of the international aid architecture are much less universal. Many were agreed upon by the DAC, 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 DAC agreed long ago to transparently report their financial flows (particularly ODA and OOF) to developing countries using standardised categories and definitions. The strength of the norm of transparency is apparent in that 18 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, but until recently, the process of untying aid was quite slow. Aid tying is the requirement that recipients use aid to purchase goods and services from the donor country.

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 an agreement on untying other forms of technical assistance or food aid (Manning 2006, p. 378). In 2008, they agreed to completely untie ODA to the 39 most highly indebted countries, although food aid and technical assistance were again omitted (OECD 2009). These agreements have no built-in sanctions. Nevertheless, the level of tying has dropped substantially since the late 1990s.

[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].

A related component of the international aid regime is the separation of ODA from 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 subsidise attractive financing packages for their exports. Concessional financial support linked to the procurement of capital goods or construction services could involve heavily subsidised 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 the 1992 Helsinki Package, which specified minimum levels of concessionality, based on current market rates (CIRR) rather than the standard 10 percent used to calculate ODA. They also stipulated 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 subsidised export credits.

c) Environmental and Social Protections

Development finance and aid now take place within a framework that emphasises the protection of people and the environment. Most major funding agencies require social and environmental impact studies for their major projects. A variety of voluntary guidelines also exist. For example, the World Commission on Dams developed standard guidelines for the implementation of hydropower projects in 2000, based on five core values, these being 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 of these are 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." However, although these "Common Approaches" were revised several times, their voluntary nature and measured coverage led them to be critiqued by advocacy groups (ECA Watch 2007) as “weak” and “non-transparent”.

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 called 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, particularly the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This convention enjoys the status of law. It 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 came into force in 2005, lifts many of the OECD agreements to the level of international law.

In practice, however, it is a challenge to create a framework for detecting these crimes and punishing offenders. For example, as Transparency International (TI) has noted, OECD members have resisted calls for companies receiving officially supported export credits 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 it. There was “little or no” enforcement by 21 signatories (Heimann and Dell 2009, p. 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 parameters for assessing whether a country qualifies for assistance or not, 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 export credit agencies, if any, have mandated international competitive bidding for the projects they finance.

How solid is the aid and development finance architecture in terms of democracy and human rights?

Since the end of the cold war, most donor country governments have embraced the idea that wealthy governments should not provide aid to governments that have come to power by force or through flawed elections, or those that tolerate extensive corruption or human rights abuses. The United States has been a leader in this regard.

In 1975, an amendment to the 1961 Foreign Assistance Act of the United States (Section 116) required the suspension of US aid to countries with a "consistent pattern of gross violations of internationally recognised 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 organisations. 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”. But the rules for how it should act in the area of foreign aid and development finance are a work in progress.

The European Parliament has accused the European Council of having “double standards” in the 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 up concerns about election abuses or generalised 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 among the largest sources of development finance, have a much narrower concern with governance. The 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). This tool has 16 broad indicators (World Bank 2008). They 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. This is because World Bank’s Articles of Agreement 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 corruption in recipient countries in their allocations of aid, in many cases, the criteria for the allocations are not clear or standardised. No conventions or international agreements provide global rules for how donor countries should act in such situations.

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; (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 formalised 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 liberalisation, and, frequently, good governance practices such as budget transparency.

In 1996, the process to further institutionalise these conditions and procedures for HIPC countries began. It was in that year that these countries became eligible 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 DSF imposes sanctions on HIPC countries that take on new debts that do not meet its guidelines on concessionality.

3. Unpacking Chinese Aid and Export Credits

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 their attachment to diplomacy, Chinese aid is spread across every country in Africa with which China has diplomatic ties, including those that are wealthier, such as Botswana, Namibia, Mauritius, and South Africa (Brautigam 2008). At the same time, China uses 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.

China has its own definition of what constitutes foreign aid and what qualifies as “external assistance”. Its definition has evolved separately from the one 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. China does not.

The country’s budget for external assistance also includes military aid and loans for foreign-aided joint ventures and cooperative projects. It excludes scholarships for students studying in China. DAC rules do not count assistance in support of private investment as ODA, but scholarships count. Subsidies for “preferential export credits” are not part of China’s external assistance budget.

Three of these instruments create some confusion about what should be termed as “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 aid from China is actually a market-rate line of credit.

3.1. Preferential Export Buyer’s Credits

As already noted, China’s Eximbank has two separate subsidised credits: Concessional foreign aid loans, and preferential export buyer’s credits. The country’s concessional loan programme 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 standards in developing countries,” and to “boost economic cooperation between developing countries and China.” Examples of areas that can be financed by concessional loans are 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 subsidised, but their primary purpose, as the name suggests, is to promote Chinese exports. Therefore, they do not qualify as ODA (China does 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.

Funds from China are frequently far below what is portrayed in the media. For example, although reports about Chinese loans in Nigeria mention figures like $5 billion or more, according to Nigeria's debt management officials, China had actually provided only a total of $589 million in five separate loans to Nigeria between 2000 and 2009.[4] The interest rate of these loans varied between three percent and six percent. The grace periods ranged from three and six years, and maturities were between eight 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 percent interest rate, the grant element of these loans would vary between 22 percent and 37 percent (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.

3.2. Mixed Credits

In 2006, the Chinese Eximbank announced that it had developed a "package financing mode" that would combine lines of export buyer's credits (given to a borrowing country), export seller's credit (short-term credits given to a Chinese company), and concessional loans (foreign aid), to be offered together, but not always, for a specific project. In 2006,

[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.

the Eximbank signed preliminary agreements on package financing with Congo-Brazzaville, Ethiopia, Equatorial Guinea, Nigeria, and Mauritania. Not all of these packages were used. The bank was also negotiating packages with Ghana, Namibia, and Eritrea. This model of package financing parallels the mixed credits used by OECD countries. The packages can sometimes be secured by a country's main exports.

3.3. Natural Resource-Backed Loans and Line of Credit

China's financing of 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. When available, it is in Chinese, French (DRC), or Portuguese (Angola), which keeps away those without a background in the languages.

These projects are commonly misunderstood. First, they are believed to be *widespread*. Second, the media attention given to the few projects of this nature has led some analysts to conclude that most China-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, p. 44). Third, these projects are frequently believed to be *"aid" financed*. None of these common assumptions seem to be supported by evidence.

Are these projects widespread? Are Chinese projects in Africa *mainly* concerned with resource extraction? The World Bank'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. They are Congo Brazzaville, 2001; Nigeria, 2002; Angola, 2004, 2007; Equatorial Guinea, 2006; Ghana, 2007; DRC, 2008; and 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, China signed 154 financial aid contracts in 48 African countries (Coordination Office of Department of Western Asian and African Affairs 2008, p. 488). Although significant in size, only a tiny minority of these have involved the complications of the loan-infrastructure-resource packages. Most of them have been simple turnkey projects: A building, a bridge, or a health clinic.

The large, complicated infrastructure-resource loans, though relatively rare, epitomise 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 in form of a specific project such as Ghana's Bui dam, or in terms of a range of projects as in Angola and 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. That is the case in DRC.

The business for Chinese contractors engendered by these packages may be as important as the ties to natural resources. For example, Chinese contractors signed construction contracts in Africa worth $40 billion in 2008 (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 mineral 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 China to use its official foreign aid (or concessional finance) to support bids for oil investments or natural resource projects. Three of most highly publicised 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. 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 percent. The first of these infrastructure framework agreements was signed in late 2003, and the first package of projects approved in March 2004 (Campos and Vines 2008, p. 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. There was partial finance from the China Eximbank. The two construction firms were joined later by China Metallurgical Group Corporation (MCC), which took a 20 percent 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 centres, 31 hospitals, 5000 units of low-cost housing, and two universities (République Démocratique du Congo 2007). The infrastructure loans were to be secured by a copper-cobalt mining venture, of which Chinese firms 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 one percent. 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 percent (Lumbi 2008). Although none of these funds seem to qualify as concessional, negotiations between the International Monetary Fund, the World Bank, and the Congolese government succeeded in revising the terms to allow the Bretton Woods institutions to sign off the deal as acceptable under their Debt Sustainability Framework.

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 use in areas to be determined between the two sides. There was no ODA involved in the discussions or in the package. Some observers have stated that the $2 billion was offered on concessional terms (Vines et al. 2009, p. 23). Other analysts 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, until he visited China and held discussions. He is quoted as having said: "When 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). 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

[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.

also finance the development of a natural resource, the venture, usually a joint mission with the local government, begins to repay the infrastructure loan and the costs of developing the resource using 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 for construction services. It operates as a line of credit, **not as a blank cheque** 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 loan commitment. Loans must be negotiated individually for individual projects, each of which is appraised separately.

The downsides is that 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, leaders ran these systems directly out of their own offices by-passing existing institutions.

At the end of the day, the structure 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, from where they are eventually transferred to off-shore accounts.

Further, some steps have been taken to address concerns raised above. In the case of Equatorial Guinea, for example, 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 of moves like these should ameliorate some of the risks engendered by lack of transparency.

4. Chinese Aid and The International Aid Architecture

A few studies have begun to address the possible impact of China's 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 industrialised countries, and undermine the credibility of their advice and message. Particular areas in which China's influence might be felt include the power and governance structure of the Bretton Woods institutions; 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 Centre for Chinese Studies (2008) all provide overviews of China's African aid programme. 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 focusing on China and the international aid architecture, Stähle (2008, p. 130) picks up the issue 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 aid from China with those 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, without harming the environment. On the other hand, some observers argue that finance from China may

[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].

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, p. 3).

A study by the Centre for Chinese Studies (2008) notes that China has increasingly aligned its statements on partnerships with Goal 8 of the United Nations’ Millennium Development Goals (pledging better partnerships between aid donors and recipients). The study recommends that China should practice greater transparency in its aid and finance agreements.

Below, we look more deeply into the different principles that inform China’s approach to aid in seeking to elaborate how it compares and contrasts with the global aid architecture.

4.1. *Institutions and Actors*

China is in an unusual position, being both a recipient of aid within the global aid architecture, and a donor. 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.

4.2. *Definitions, Volume, and Composition*

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

China does not report its aid to the DAC, and estimates of its ODA are often vastly exaggerated. For example, some reporters have written, mistakenly, that China’s loans to Africa were “three times” larger than *all* aid to the continent 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 remain relatively modest.[8]

In 2008, Chinese Premier, Wen Jiabao, announced that over more than 50 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, particularly North Korea and Vietnam, have received the bulk of aid from China. African countries 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.

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 Ministry of Finance's interest subsidy for concessional foreign aid loans from China's Eximbank rather than the full face value of the loans, as is the practice for the DAC. Relying on Chinese sources for figures on concessional loans and external assistance, it can be estimated that China's aid to Africa, using DAC reporting categories, 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 reports ftrom China on the country's 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, such as stadiums, conference halls, and Ministry of Foreign Affairs buildings. Productive activities such as agriculture have also been important areas for aid. Both of these sectors have received relatively little aid in recent decades from the DAC donors, although the trend has recently begun to reverse.

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[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, p. 46).

4.3. Instruments and Modalities

The main financing instruments for Chinese aid and export credits are already outlined in earlier pages. 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 they do not contribute to common pool "basket financing" of sectors, which is 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 emphasised that aid should be given in ways that support ownership, harmonisation, alignment, results, and mutual accountability. Since 1964, the delivery of aid from China has been governed by eight principles (Box 1), which emphasise some of the same ideals 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. An example is the Bui Dam in Ghana.

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 the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

Source: Speech by Chinese premier Zhou Enlai, Accra, Ghana, January 15, 1964.

Although not enshrined in the Paris Declaration, it has been common practice among DAC donors to attach extensive political and economic conditions 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 the country, as much aid and all export credits continue to be from DAC states and are only given to nations that China has diplomatic ties with.

4.4. Rules and Standards

This section discusses in deeper detail, several of the rules and norms of aid as earlier identified, considering the impact China could have (or is already having) on these aspects of the global aid architecture. For reasons of space, the paper analyses 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, p. 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 for wealthier countries above a certain income level (such as Botswana, Gabon, or Brazil);

(2) No concessional export credits for “commercially viable” projects, which must be at specific Commercial Interest Rates of Reference (CIRR);

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

(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”).

In 2005, at a UN meeting on financing the Millennium Development Goals, China’s president, Hu Jintao, announced that the country would provide developing nations 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.

Many years ago, Europe, the US, Canada, and Japan regularly had trade disputes concerning tied aid. In the context of export credits, tied aid is considered somewhat separate from the issue of general tying of aid to domestic goods and services. It is defined as “aid credits for which the motivation is significantly connected to promoting the sale of goods from the donor government’s country” (Export-Import Bank of the United States 2003, p. 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 subsidising interest rates, by subsidising 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, p. 116).

As noted above, for OECD countries today, no tied aid is allowed for exports to middle income countries. 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 the real sense, 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, and 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, 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 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 such as 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 60 years later. 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 enjoy the benefits of more competition for the power projects and other infrastructure, and the possible lower prices. 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. They involve fears over debt sustainability, “free-riding”, China’s lack of conditionality for debt relief, and the problem posed by the country’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 2007/2008 global financial setback provoke a “new debt crisis”, all countries’ access to credit would suffer.

The free-riding issue arose from concerns that China was “taking advantage” of debt cancellation by giving loans to countries whose balance sheets were lightened by cancellation of debts paid for by the OECD states.

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 subsidise 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 norm. Countries breaching the concessionality guidelines would be sanctioned by either reduced access to concessional finance through the World Bank, or by harder terms, such as 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 subsidised public institution, has traditionally been to catalyse 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 ventures (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 either cancelled 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 at low income and least developed countries. Mauritius, for example, with an excellent record of repaying its debts, received no debt relief. 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 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 by 2005, and 154 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 emphasised 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, p. 30). In Angola, total debt dropped from 100 percent of GDP in 2000 to 30 percent in 2006. In Sudan, it dropped 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. This was 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 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, p. 959). The Chinese position was summarised by Liu Guijin, China’s special envoy for Africa, in 2008. He said (in Morris 2008): “We don’t attach political conditions. We have to realise 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."

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 on the basis of quality of governance or economic policy in a country. In both areas, standards are informal and work in progress.

Social and Environmental Standards

As noted above, the standards for socially and environmentally responsible project appraisal are becoming more concrete. They are supported by the Equator Principles as well as lending guidelines in use by all 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 pressure 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 (CBD) had pledged to apply the "highest standards, including social and environmental impact assessments …. to companies benefiting from its funding" (Wissenbach 2007, p. 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, p. 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 in 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

There is a concern 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 others. China is not an OECD member, and is therefore not a signatory to the OECD Corruption Convention. Even though, it has ratified the UN Convention against Corruption that requires similar legal reforms (Bräutigam 2009a). Chinese aid projects organised 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 or as finance provided to a single project, usually proposed by a Chinese company. In the case of the former, a good example would be the $58 million credit offered to Zimbabwe and channelled through a company called Farmer's World. The company's officials then travelled 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. An example to support the latter case would be 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 of 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 through payments to Chinese companies and their subcontractors authorised by the borrowing government actually aids in avoiding large-scale embezzlement of funds, 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 once development is achieved, standards, rights and rules would fall into place. They also argue that "standards need to be worked out by Africans, not imposed by outsiders" (Liu Guijin in Wissenbach 2007, p. 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 organisations, particularly the African Union, in their positions on governance issues, in the United Nations. Despite the problems in Zimbabwe, no 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 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 the country. 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, stability, and justice.

5. 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 Programme run through the Food and Agriculture Organisation's Food Security Programme.

China contributed 514 experts and technicians to Nigeria under the first five-year phase of this programme. That was from 2003 to 2007. Sierra Leone has also hosted Chinese teams under the FAO tripartite programme. The Chinese have a history of working cooperatively under the UN umbrella. 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, the Department for International Development (DfID), and the German Ministry of Economic Cooperation and Development (BMZ), have taken the lead among bilateral donors in engaging the Chinese. They 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). It has 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 programme being undertaken by the OECD-DAC. The Chinese ministry has obliged.

DFID has sponsored several research projects in order to learn more about the subject. In that respect, 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, p. 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 (AfDB), and set up a China Trust Fund of $2 million.[10] In addition, the AfDB has two MoUs with Exim-Bank and China Development Bank. African officials have pointedly urged the Chinese government to "vigorously" move forward on parallel and co-financing with Africa's regional banks. China Development Bank has responded

[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.

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). Also 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. Sierra Leone is one of them. 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 the 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). This finance is likely to be at very attractive rates, given China's own very low cost of capital and enormous foreign reserves. 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. For the most part, however, *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, something that can spur local development. Export credits from the OECD countries have been declining since 1995 (Wang *et al.* 2005, p. 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 so wished, but it would be helpful for their citizens. It is not clear whether or not 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 is. 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 human right to protection. 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 countries that 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 popularity as Chinese companies begin to understand that they have a “triple bottom line” (profit, social, environmental).

Lenders such as China Eximbank are already aware of the importance of being seen to be responsive to these issues, but continued pressure on the bank (along with other export credit agencies) to be “responsible partners” is not out of place. Nonetheless, countries can do more themselves. For example, African governments worried about technology transfer and training can demand that Chinese (and other) companies partner with local firms when submitting bids. Senegal does that. African governments can also insist on subcontracting to local firms, like Angola and DRC do. They can further put a ceiling on imports of expatriate labour, as do Tanzania and many countries. Building up local capacity to negotiate favourable 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 favourable contracts for its natural resources with DeBeers, a South African mining giant. An international presence from a highly respected firm could provide a form of credibility that is lacking in some of the deals presently on the table. A high-level closed-door workshop where African officials who have worked on these deals can meet to exchange experiences and information would be useful.

Continued engagement with Chinese working in the area of foreign aid and export finance will build relationships and increase knowledge on both sides. Workshops should involve Chinese officials from the Ministry of Commerce and the China Eximbank, and driven by experience sharing rather than pure academics. The invitation of Chinese officials to join project and programme evaluations of other non-DAC donors and financiers 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 in 2008: "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 provides aid and development finance through a not very transparent and poorly understood approach.

This paper analysed China's growing foreign aid and export credit programme as an element of the changing international aid architecture. The study 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, and their enforcement and monitoring less well-developed. 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. 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 characterises an entire recipient government.

Many countries have not done enough to put in place rules that would help ensure that businesses supported by their export credits are free from corruption. With regard to democracy and human rights, the global aid regime is not well-institutionalised, 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 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 aid and development finance regime.

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