1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

China’s Foreign Aid Expenditure (1998-2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>ODA Gross Disbursements (US$ mio)</th>
<th>as % of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,000</td>
<td>0.07%</td>
</tr>
</tbody>
</table>

1.2. Future Quantity Intent
The only publicly available indications about China’s future aid intentions relate to Africa, with commitments made at the 2006 Forum On China-Africa Cooperation (FOCAC). These include doubling aid to Africa by 2009, which Brautigam (2007a/b) estimates would be worth USD 500 million (rising to USD 1 billion by 2009).

In addition, China promised US$3 billion in preferential loans (mainly through the China Export-Import (EXIM) Bank) to African countries, which would in the DAC definition be counted as ODA (and US$2 billion of preferential credit to Chinese exporters to Africa, which would not).

During the same Forum, China also committed to “cancel government interest free loans that had become due by the end of 2005 contracted by HIPCs and LDCs in Africa with diplomatic ties with China” (FOCAC, 2006). This implies 31 countries getting relieved of some of their Chinese debt. Brautigam (2007a/b) values this at US$1.4 billion, whilst Alden (2007) values it at US$ 1.27 billion (for the amount of debt relief actually delivered so far by China, see section 4.2).

2) KEY AGENCIES/MECHANISMS

2.1 Bilateral Agencies and Structures

Ministry of Commerce (MOFCOM)
Chinese aid is mainly managed by the Ministry of Commerce (MOFCOM). The relevant part of MOFCOM’s main mandate reads: “To be in charge of China's efforts in providing aid to foreign countries and regions. To formulate and implement China's foreign aid policies and plans, and sign the relevant agreements. To compile and execute annual foreign aid programmes. To supervise and inspect the implementation of China's foreign aid projects. To manage China's foreign aid fund, concessional loans, special funds and other foreign aid funds of the Chinese government. To facilitate the reform on foreign aid provision modalities” (MOFCOM, no date). Within MOFCOM, the Department of Aid to Foreign Countries/Bureau for International Economic Cooperation is responsible for setting aid policy, whilst also handling aid co-ordination (including putting together the aid budget) with other ministries (see Brautigam, 2007a, p7; MOFCOM, 2007a).

Ministry of Finance (MOF)
China’s Ministry of Finance is in charge of budgetary allocations, including MOFCOM’s aid budget. It also deals with and is responsible for Chinese contributions to international institutions such as the IMF, World Bank, Asian Development Bank, African Development Bank, etc (see MOF (no date) for the Ministry’s Mission Statement).

Other Ministries
The Ministry of Health manages medical teams, whilst the Ministry of Education manages scholarships for developing country nationals to study in China. The Ministry of Agriculture is involved in agricultural projects, including TA (Brautigam, 2007a, p7).
Local authorities

Local Chinese authorities have also initiated relations with developing countries, notably in Africa: “Provincial and municipal authorities were given special privileges, policy concessions and financial assistance from Beijing to both facilitate foreign investment and to engage in foreign trade” (Alden, p29-30). It is not clear however, whether these engagements involve foreign aid.

Export-Import Bank of China (EXIM Bank) (see also Moss and Rose 2006)
The Export-Import Bank of China, founded in 1994, is a fully government-owned bank under the leadership of the State Council of China (the highest level of authority in the Chinese Government). It is the major bank for loans to foreign governments and the sole lending bank for Chinese Government Concessional Loans (EXIM Bank, no date). In recent years, EXIM Bank lending has seen a dramatic expansion (Moss and Rose, 2006), with 2006 disbursements equalling USD20 billion (EXIM Bank, 2007), but only a small portion of this would count as ODA.

2.2 Key Policies and Legislation

Zhou Enlai 8 Principles of Foreign Aid (People’s Republic of China, 1964)
In 1964, then Chinese Premier Zhou Enlai visited 10 African countries. In a speech in Mali, he outlined 8 principles that still guide China’s foreign aid (see Brautigam 2007a and 2007b): equality & mutual benefit; no interference in internal affairs, no conditions; interest-free loans with easy rescheduling; projects to emphasize self-reliance; income-generation, rapid construction, quick results; top quality equipment at prices competitive with the market; maximum transfer of technology; and TA experts to live at local standards with no special treatment.

The document embeds China’s African Policy in the long history of interchange between the two regions and reiterates China’s policy of respect for national sovereignty and non-interference in internal affairs of other states. It describes the objectives of China’s Africa policy and the measures needed to achieve these. The key principles relating to aid are:
- respecting African countries' independent choice of the road of development and supporting African countries' efforts to grow stronger through unity.
- mutual benefit, reciprocity and common prosperity.
- strengthening cooperation with Africa in the UN and other multilateral systems (..) and continuing to appeal to the international community to give more attention to questions concerning peace and development in Africa.
- learning from each other’s experience in governance and development.

The policy also specifies areas of cooperation: (i) political, (ii) economic (trade, investment, infrastructure, natural resources, aid, debt reduction & relief), (iii) education, science, culture, health and social sectors, and (iv) peace & security.

The most recent Ministerial Conference of FOCAC, in Beijing in November 2006, made substantial progress in implementing China’s Africa Policy. The resulting Beijing action plan charts a roadmap for cooperation between China and 48 African countries for 2007-2009. It specifies cooperation in the broad areas covered by the China Africa Policy, with concrete commitments by the Chinese mainly on trade and
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investment, but also on aid and debt relief (for more detail on these commitments see sections 1.2, 4.2 and 4.4)

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries
Chinese aid statistics do not give a breakdown by region/country. As of 2006, China had ongoing aid projects in 86 developing countries, and counted more than 114 countries as current or former recipients of Chinese aid (Brautigam, 2007a).1

Between 2000 and 2003, 44% of Chinese aid went to Africa (Li Zhaoxing, 2003), and China intends to double aid to Africa to US$1 billion a year by 2009. However, there has recently been a dramatic expansion of Chinese EXIM loans to Africa, which reached US$19 billion of commitments by 2006. Based on various sources (BBC 2007a; Gill and Reilly 2007; Jacoby 2007; Moss and Rose 2006; Reisen and Ndoye 2007), the most important recipient countries of Chinese aid in Africa seem to be: Angola, Congo-Brazzaville, DRC, Ethiopia, Equatorial Guinea, Ghana, Mozambique, Sudan, Zimbabwe and Zambia. These countries are estimated to account for over 80% of Chinese loans to Africa. However, most of the loans to middle-income and/or oil-rich countries (such as Angola and Equatorial Guinea) are non-concessional and therefore do not count as ODA.

There is much less information available on Chinese aid to non-African countries, although engagement in Asian countries such as Cambodia, Laos, North Korea and Viet Nam is sizeable.

As can be seen from the list in the footnote, Chinese aid does not necessarily focus on the poorest or least developed countries, with aid programmes existing for at least 15 middle-income countries. The relative scale of aid to low-income and middle-income countries is impossible to estimate, though the list of Chinese aid recipients is dominated by low-income countries.

3.2. Allocation Criteria
3.2.1. Pre-selection criteria
The only pre-selection criterion for Chinese Aid is that recipient countries need to recognise the “One-China” policy (i.e. not recognise or have any diplomatic ties with Taiwan). This policy is paying off. Only 4 African countries for example maintain

1 Based on information from Brautigam (2007a), Hubbard (2007) and the HIPC Capacity Building Programme, these include at least the following 69 countries:
- 16 Asian countries: Bangladesh, Cambodia, Indonesia, Laos, Maldives, Mongolia, Myanmar, North Korea, Pakistan, Philippines, Syria, Tajikistan, Turkmenistan, Uzbekistan, Vietnam, Yemen
- 8 Latin American and Caribbean countries: Bolivia, Guyana, Honduras, Jamaica, Nicaragua, Suriname, Trinidad & Tobago, Venezuela; and
- 4 countries from Oceania and Pacific: Samoa, Fiji, Papua New Guinea, Tonga.
diplomatic relations with Taiwan. However, “government-sponsored economic cooperation for profit” can continue even in other countries: Chinese firms for example compete for contracts in Swaziland and Malawi, both staunch allies of Taiwan (Brautigam, 2007a, p24).

As for EXIM concessional loans, Brautigam (2007a) indicates that they can fund only projects with a minimum size of US$ 2.4 million that involve at least 50% use of Chinese goods and services.

3.2.2. Allocation criteria:
Allocation criteria for Chinese aid are not precisely specified. Until the recent rapid economic growth and liberalisation in China, allocation was dominated by strategic concerns – the durability and scale of joint political alliances. However, more recently another dominant factor has been the opportunity to gain access to natural resources (especially oil) through trade and investment. Nevertheless, this factor has mainly determined the dramatic expansion of some very large new EXIM loans, and most other Chinese aid continues to go to relatively resource-poor countries.

4) AID POLICIES

4.1. Concessionality
Most Chinese bilateral aid is highly concessional, in the form of either grants or interest-free loans with a maturity of around 20 years for Government-to-Government loans. Terms of the EXIM Bank’s Concessional Loans (as collected from recipient countries and translated from Chinese sources (notably: Gansu Province Legislative at http://www.gsfz.gov.cn/law-1/news/searchresult.asp) are slightly different (see table below).

Terms of China EXIM Bank Concessional loans:

<table>
<thead>
<tr>
<th></th>
<th>Government of China loans</th>
<th>EXIM Bank loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Element (%)</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Maturity (years)</td>
<td>20 years</td>
<td>10 - 25 years</td>
</tr>
<tr>
<td>Grace Period (years)</td>
<td>10 years</td>
<td>0 - 7 years%</td>
</tr>
<tr>
<td>Interest Rate (%)</td>
<td>0%</td>
<td>1% - 3 %</td>
</tr>
<tr>
<td>Service charge (%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Currency denomination</td>
<td>?</td>
<td>Mostly US$, some renminbi</td>
</tr>
</tbody>
</table>

Source: Hubbard (2007), own calculations.

Based on these terms, almost all EXIM concessional loans would qualify as ODA using the OECD DAC calculation method (which has been a deliberate policy by China – see also Brautigam 2007a). In addition, where necessary China has applied the most concessional possible terms to meet IMF minimum concessionality levels (35% or 50% calculated using the IMF method).

According to HIPC’s, Burundi, Guinea-Bissau, Mali, Nicaragua and Sierra Leone received all of their Chinese aid in grants. Almost all others except those without an IMF programme (e.g. Angola, Sudan, Zimbabwe) received loans which were concessional (grant element over 35% - using the IMF calculation method) or even highly concessional (over 50%), and often some grants.
Finally, some Chinese aid (for example in Angola, Sudan and Zimbabwe) is being repaid using ‘barter trade’. Funds are lent not to the recipient country, but to a Chinese construction company to undertake a project. In exchange for this, the developing country government gives the same or another Chinese company the right to mine oil or mineral resources by acquiring equity stakes in a national production company, or licenses for production (Kurlantzick 2006; Jacoby 2007; Reisen and Ndoye 2007).

4.2. Types of Assistance
China does not provide any budget support, with most of its aid coming as projects, in-kind aid, technical assistance and debt relief (see Section 1). This is well reflected by HIPC analysis, where virtually all indicate that China does not provide programme aid.

China is estimated to have delivered debt relief worth US$ 281 million (in 2006 NPV terms) to 17 HIPCs (by mid-2007). The debt relief accorded in 2006 (calculated as the difference between total debt relief given by end-June 2007 and end-July 2006) was US$ 19.8 million (IDA and IMF, 2006 and 2007).

China is strongly committed in principle to building recipient capacities (Qi Guoqiang 2007). There has been a lot of negative publicity (including of resentment among recipient country labour) about Chinese supervisory and manual labour being flown in to help with project implementation, to ensure that projects get implemented quickly (see Moss and Rose 2006; Gill and Reilly 2007). Nevertheless, there is considerable evidence that Chinese companies do hire local people when skills are adequate and recipient governments indicate this is important, as in Ethiopia, Ghana and Tanzania, where 80-100% of hiring is local (HIPCs CBP; Centre for Chinese Studies 2006).

According to HIPCs, the degree to which Chinese technical assistance is coordinated under recipient government-led plans varies considerably, with best practice being found in Sierra Leone and Uganda (100% aligned), followed by Ethiopia and Mali (between 67% and 99% aligned). HIPCs are less positive about the degree to which the TA builds sustainable capacity, with only Mali classifying more than 50% in this way.

4.3. Channels of Assistance
China makes contributions to most of the international organisations, including the IMF, World Bank (it made contributions to the IDA15 replenishment process for the first time in 2007), AfDB/AfDF, AsDB, and the UN core budget, as well as UN agencies such as the FAO, UNCDF, UNFPA, UNICEF and WFP. It has also contributed to the direct costs of some institutions, for example cofinancing the AfDB Annual Meetings in Shanghai in 2007, and constructing the African Union Conference Centre in Addis Ababa (MOFCOM, 2007b). It is not possible to quantify the proportion of multilateral/total aid.

China has no experience providing aid to NGOs, and Chinese officials appear weary of designing aid projects that support NGOs (Kurlantzick, 2006, p3).

Almost all Chinese aid is government-to-government. Traditional grant or low-interest loan aid has generally been captured on budget, but concessional export credits in particular are not always captured on-budget, especially if the financing is
provided to the exporting company rather than the recipient government. As a result, among HIPCs, while Bolivia, Ethiopia, Mauritania and Rwanda indicate that all Chinese aid is on-budget, around half of the countries indicate that most of it is off-budget.

4.4. Sectors and Projects
China’s traditional aid grants and interest-free loans continue to be broadly balanced between transport infrastructure (rail, roads), social sectors and construction works (ministries, parliament buildings, conference centres, sports stadiums etc). As a result, when referring to aid during the 2006 Africa-China Forum, the Chinese made the following sector-specific commitments – all to be honored by 2009 (FOCAC, 2006):
- Provide 4000 university scholarships per year by 2009;
- build 100 rural schools, 30 hospitals, and 30 malaria prevention and treatment centres;
- build 10 agricultural technology demonstration centres staffed by 100 senior agricultural experts;
- set up 3 to 5 special economic cooperation zones for Chinese investment;
- send 300 youth volunteers to work in Africa

However, the recent economic development in China and the use of concessional export credits has allowed it to diversify sectors dramatically, especially moving into higher technology sectors such as telecommunications, energy and mining. The table below shows two estimates of the sectoral breakdown of China’s export credit loans.

<table>
<thead>
<tr>
<th>Sector</th>
<th>World Bank (unpublished)</th>
<th>Hubbard (2007) and HIPC-CBP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>28%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>19%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Transport</td>
<td>13%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>Not reported</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

2 Source: Based on Hubbard (2007 + personal communication) and loan agreements made available by HIPCs. Data from 40 projects/programmes in 26 countries between 1995 and 2007 for a total amount spent US$ 853 million.

This diversification has made Chinese aid very popular with HIPCs, because it will fund infrastructure and natural resource production, whereas DAC donors remain largely focused on health, education and governance. Three-quarters of HIPCs value Chinese aid highly because it will cover these additional sectors. However, their assessment of whether Chinese aid overall is aligned with their priorities and strategies shows more variation, with 3 countries (Ethiopia, Guyana and Sierra Leone) indicating 100% alignment, two thirds of countries more than half-alignment, and one third less than half.

4.5. Flexibility
As China does not normally give aid through Programme Based Approaches (PBAs), it equally does not provide assistance to a recipient country experiencing a negative external shock or a budgetary/BoP gap. Most HIPCs therefore give China relatively low scores for flexibility, except a few countries (Guinea-Bissau, Guyana,
Mozambique) where it has shown strong willingness to change aid allocations to match changing HIPC government priorities.

4.6. Predictability
Traditional Chinese aid generally is supplied within a multi-year framework agreement which may be reviewed annually or every 2-3 years through high-level visits and negotiations. However, the EXIM project commitments are often made for individual projects on a one-off basis with no multi-year plan and are therefore less predictable. As a result, HIPC assessments of the multi-year predictability of Chinese aid vary considerably, depending on which types of funding the government is receiving. Ethiopia, Guinea-Bissau and Uganda indicate that almost all Chinese aid is provided via multi-year programming, but half of the HIPCs indicate virtually no such programming.

On the other hand, all types of Chinese aid appear to disburse relatively reliably and rapidly (in some cases due to the tying and therefore easy procurement of machinery and labour). Half of HIPCs (including Ethiopia, Guinea-Bissau, Guyana, Mali and Nicaragua) indicate that 100% of aid is disbursed within the intended fiscal year, and a further quarter says disbursements are 75-99% on schedule. This would imply a predictability level above that of many DAC donors as reported in the Paris Declaration survey. It also reduces to minimal levels any commitment fees due semiannually on the undrawn balance of any export credit.

4.7. Conditionality
In line with its policy of non-interference in internal affairs, China does not attach any macroeconomic, political or sectoral conditionality to its aid programmes. As a result, conditionalities are assessed as neither onerous nor delaying, and HIPCs find this one of the attractive features of Chinese aid. The only type of conditionalities imposed are project-specific (see section 5.1).

4.8. Policy Dialogue
China does not play a significant role in the macroeconomic or sectoral policy dialogue with recipient countries, except where it is a very major lender to a specific sector or sub-sector such as telecommunications or rail. HIPCs indicate that in the majority of cases China has not played any role in the policy dialogue; but a few countries indicate an active role in dialogue supporting Government policies and programmes.

Chinese aid disbursements are not linked in any way to BWI disbursements: indeed, given the scale of its aid programme, some recipient countries (notably those without BWI programmes or which are not receiving much OECD aid, such as Angola, Sudan and Zimbabwe) have seen Chinese aid as a means of diversifying away from OECD and BWI programmes. HIPCs confirm nonexistent links to BWI programmes.

5) AID PROCEDURES

5.1 Conditions Precedent
As is standard for most donors, bilateral loans from China require a legal opinion to become effective. Also, before any funds can be released, the lender (i.e. the Chinese
Government, through the EXIM Bank) needs to have received the following documents:
- Copies of Concessional Loan Agreement;
- Copies of the Commercial Contract and other relevant documents connected to it;
- Drawing schedule;
- Proof of the opening of the Borrower’s account in accordance with the Concessional Loan Agreement;
- Authorization of the borrower of the signatures of its representatives that sign the Concessional Loan Agreement;
- Proof of payment of management and commitment fees.

China does not insist on the establishment of separate project implementation units – largely because in most cases Chinese enterprises run the execution of the projects. China establishes separate bank accounts for each project but does not insist on a separate corresponding bank account being established by the recipient government. HIPCs indicate that practice on counterpart funding varies, with Rwanda, Sierra Leone and Zambia requiring no counterpart funding, and Uganda and Ethiopia almost none.

As a result, according to HIPCs, overall Chinese conditions precedent are not very onerous and the delays they cause in project implementation are relatively short (less than six months in most cases). Burundi, Cameroon, the Comoros and Mozambique all indicate that delays are negligible.

5.2 Disbursement Methods
Most Chinese aid (especially the concessional export credits) comes in the form of projects that are contracted out to and then implemented by Chinese companies. As a result, the disbursement method used is almost always direct payment of the Chinese supplier. Most HIPCs (except for Honduras and Nicaragua) indicate that more than two-thirds of Chinese aid is disbursed in this way, but some aid does come through initial cash advances to Government accounts, followed by reimbursement of subsequent tranches. Least delay in project implementation linked to disbursement methods (0-3 months) can be found in Guyana, Mauritania and Rwanda.

5.3 Disbursement Procedures
For all but the initial withdrawals, a payment instruction needs to be sent by the borrowing entity (i.e. the recipient of the Chinese loan). Any payments need to be in compliance with the disbursement schedule and purposes as stipulated in the agreement.

Some “traditional” Chinese aid uses recipient government financial procedures, and the concessional export credits rely on enterprises to do the financial accounting and reporting. As a result, according to HIPCs, two-thirds of HIPCs indicate that China demands only financial reporting additional to government procedures, with best practice in Cameroon, Comoros, Honduras, Mali, Mauritania, Nicaragua, Rwanda and Zambia.

5.4 Procurement Procedures
Traditional Chinese aid has come with the requirement that a high percentage of contracts go to Chinese companies, and often that inputs (capital goods and labour) be
imported from China. The new concessional export credits are mostly specifically tied to execution by Chinese companies, though such companies have some freedom to procure around 10-30% of the goods, and especially to hire labour, from the recipient country or other third-party countries. Hence, most HIPCs indicate that Chinese aid is 50-100% tied, though Rwanda and Zambia indicate more flexibility.

Nevertheless, the practical consequences of such tying are not as negative as with some other donors. HIPCs indicate that delays caused by procurement issues are relatively short (around 3-6 months), with virtually no delays in Mauritania and Rwanda. In addition, the costs of the projects remain highly competitive compared to OECD counterparts, due partly to cheaper technology and partly to competition among Chinese firms (Centre for Chinese Studies 2006; Global Economic Governance Programme 2007; information from HIPCs).

5.5 Coordination

China has in until recently not been very keen to coordinate with DAC and other donor agencies. It is also not a signatory to the Paris declaration. As a result, HIPCs generally indicate a low level of harmonisation with other donors, except in Ethiopia.

However, it is currently discussing ways to improve its own aid management and to enhance coordination with other donors. It has held high-level discussions with the DAC and several OECD governments, and has been on learning-missions to Sweden and the UK for this purpose. It has also been a partner with OECD donors (notably Japan), and with international organisations (notably the AfDB, AsDB and IDA) in co-financing projects and programmes, and in trilateral agreements where an OECD donor funds Chinese agencies. In December 2007, the World Bank and China agreed to develop joint aid projects in Africa, mainly through China’s EXIM Bank (BBC, 2007b).

Finally, there are also signs that China is engaging more in country-level donor fora, even though so far this has been mostly in a ‘observer’ mode (e.g. in Cambodia, Ethiopia, Tanzania, Uganda and Viet Nam).

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