

Figure 1: Governance and Management Process of China-aid Complete Projects \*

China's foreign assistance has evolved since the 1950s. The last seven decades has seen a number of reforms on the governance system, management structure and approach, as well as programmatic priorities and modalities. ([Annex: Overview on the historic transitions](#))

This brief will focus on the governance structure before and after the 2018 reform of China's foreign assistance and elaborate on the "knowns" and "unknowns" of the current China-aid architecture since the establishment of the first China-aid agency – the China International Development Cooperation Agency (CIDCA).

Albeit these changes in the governance structure concerning the foreign assistance, what remains unchanged is that decision making remains with the central government<sup>1</sup>. From the perspective of the Chinese government, foreign assistance falls under "**central authority**" as a "**state behavior**". Foreign assistance is thus under the guidance of the Communist Party of China (CPC) and under the supervision of the State Council; it is strategically significant to China's foreign affairs, and therefore attracts direct attention of the top leaders; and the financial resources come from the central budget.

\* Note: author's own analysis, in reference to AIECO's management process (<http://jjhzj.mofcom.gov.cn/article/zwgk/gzlc/201708/20170802627698.shtml>)

1: The Information Office of the State Council (SCIO), White Paper on China's Foreign Aid, April 2011.

# I. The MOFCOM dominant structure (till March 2018)

Since 2003, the administrative authority of foreign assistance was under the purview of the External Trade and Economic Cooperation Ministry, which morphed into the **Ministry of Commerce (MOFCOM)**, as part of the government reshuffle in 2003. MOFCOM was designated as the authority by the State Council for the oversight on foreign assistance, and noted as the administrative department.<sup>2</sup> This entailed that the **governance and management of China-aid projects was consolidated in one place, covering the whole project cycle** from feasibility study and approval to implementation, and then to completion, hand-over and ex-poste evaluation.

Within MOFCOM, different departments and agencies were set up for specialized administrative roles :

- The Department of Foreign Assistance (DFA) in charge of the upstream affairs (e.g. policy and strategy formulation, project pre-approval negotiations and feasibility studies, project formulation, ad-hoc issue coordination and ex-poste evaluation).
- The Agency of International Economic Cooperation (AIECO), the China International Center for Economic and Technical Exchanges (CICETE) and the Academy for International Business Officials (AIBO) as designated government implementing agencies in charge of the mid- and downstream affairs (e.g. project management and supervision over complete/turnkey projects and technical assistance projects, in-kind goods/material projects and training programmes respectively).
- The Division of Foreign Assistance under the Department of Finance (DOF) in charge of budget management, statistics reporting and project-level fund allocation<sup>3</sup>.
- Overseas Economic and Commercial

Counselor's Offices in charge of the direct coordination and management of projects in partner countries, as deployed to Chinese embassies; and

- Local Commercial Departments provide necessary support where needed within the jurisdiction.

Externally, MOFCOM communicated regularly with the Ministry of Foreign Affairs (MOFA), Ministry of Finance (MOF) and the Export-Import Bank of China (Ex-Im Bank) to seek suggestions during policy, regulation and project formulation. Some other line ministries and departments under the State Council were also involved if the projects required specialized expertise. From 2008, in order to strengthen the coordination of the government entities involved, the Foreign Assistance Inter-Agency Liaison Mechanism was officially established and then upgraded to an Inter-Agency Coordination Mechanism in early 2011.

On implementing entities, the modality differed between grants and concessional loans. For grants it is the Chinese enterprises meeting certain qualification and going through competitive selection that were responsible for the project implementation. Their role was contract-based and legally-binding (e.g. construction, design/planning, monitoring, consulting or evaluation), according to project construction schemes (e.g. Engineering-Procurement-Construction (EPC), Procurement-Construction (PC) or localization mode). Under concessional loans, the Ex-Im Bank is responsible for project assessment, loan allocation and recovery, while enterprises are responsible for project construction, implementation and operation.

Given that many departments and agencies within MOFCOM as well as other line ministries and enterprises involved, there were concerns regarding fragmentation of the governance structure. However,

2: Ibid

3: Department of Finance, Organization Profile, in Chinese.

as key actors and decision makers, including the Minister of Commerce and the Vice Minister in charge of foreign assistance, sat within the MOFCOM structure, other voices argued that these concerns were addressed to a large extent.

Led by MOFCOM and based on MOFCOM-issued regulations, a diversity of legal and programmatic reforms on foreign assistance were conducted between 2003 to 2018, including:

- Consolidating the government's policy-making and administrative functions;
- Establishing an inter-ministerial coordination mechanism;
- Introducing a contract-based management approach and market-driven measures on risk management;

- Streamlining the process with specialized roles and responsibilities between the government (including both China and partner countries) and the market (e.g. enterprises, consulting firms);
- Diversifying project modalities and introducing innovative piloting models to the bilateral foreign assistance (e.g. localization model);
- Increasing and strengthening collaboration with non-traditional implementing entities (e.g. UN agencies, I-NGOs, C-NGOs); and
- Providing renewed financial commitments (e.g. South-South Cooperation Assistance Fund) and piloting innovative project modalities with multilateral entities as to complement the bilateral aid modalities.

## II. The establishment of CIDCA (since March 2018)

The China International Development Cooperation Agency (CIDCA) was set up in March 2018 as a direct affiliated agency under the State Council, which "integrates the responsibilities of MOFCOM on foreign assistance and the coordinating function of MOFA concerning foreign aid"<sup>4</sup>. As a specialized top-level agency on foreign assistance, CIDCA's priorities includes<sup>5</sup>:

- Giving full play to the role of foreign assistance as a major instrument of China's diplomacy;
- Strengthening the strategic planning and coordination;
- Unifying the administrative power on foreign assistance; and
- Pushing forward relevant reforms, as to optimize foreign assistance to better serve the

needs of China's overall diplomatic setting and the advancement of the Belt and Road Initiative (BRI).

In the renewed aid governance structure, the "implementing agencies remain unchanged in terms of their designated authority"<sup>6</sup>. This essentially means the mid- and downstream administrative work are still under the purview of AIECO, CICETE and AIBO, which are still under MOFCOM. Therefore, CIDCA oversees strategy, policy and project approval (including feasibility study and validation), while MOFCOM's role is more technical and administrative which carries the supervision and management functions during project implementation (including risk and ad-hoc issue management). The previous vertical management model led by one single ministry has now evolved into **an intra-ministerial collaborative management matrix**. [Figure I] Such an arrangement by design may further add complexities to the previously fragmented foreign assistance governance and management structure.

4 &5: Scheme on Deepening the CPC and State Institutional Reform, 21 March 2018, in Chinese.

5: Ibid

6: Scheme on Deepening the CPC and State Institutional Reform, 21 March 2018, in Chinese.

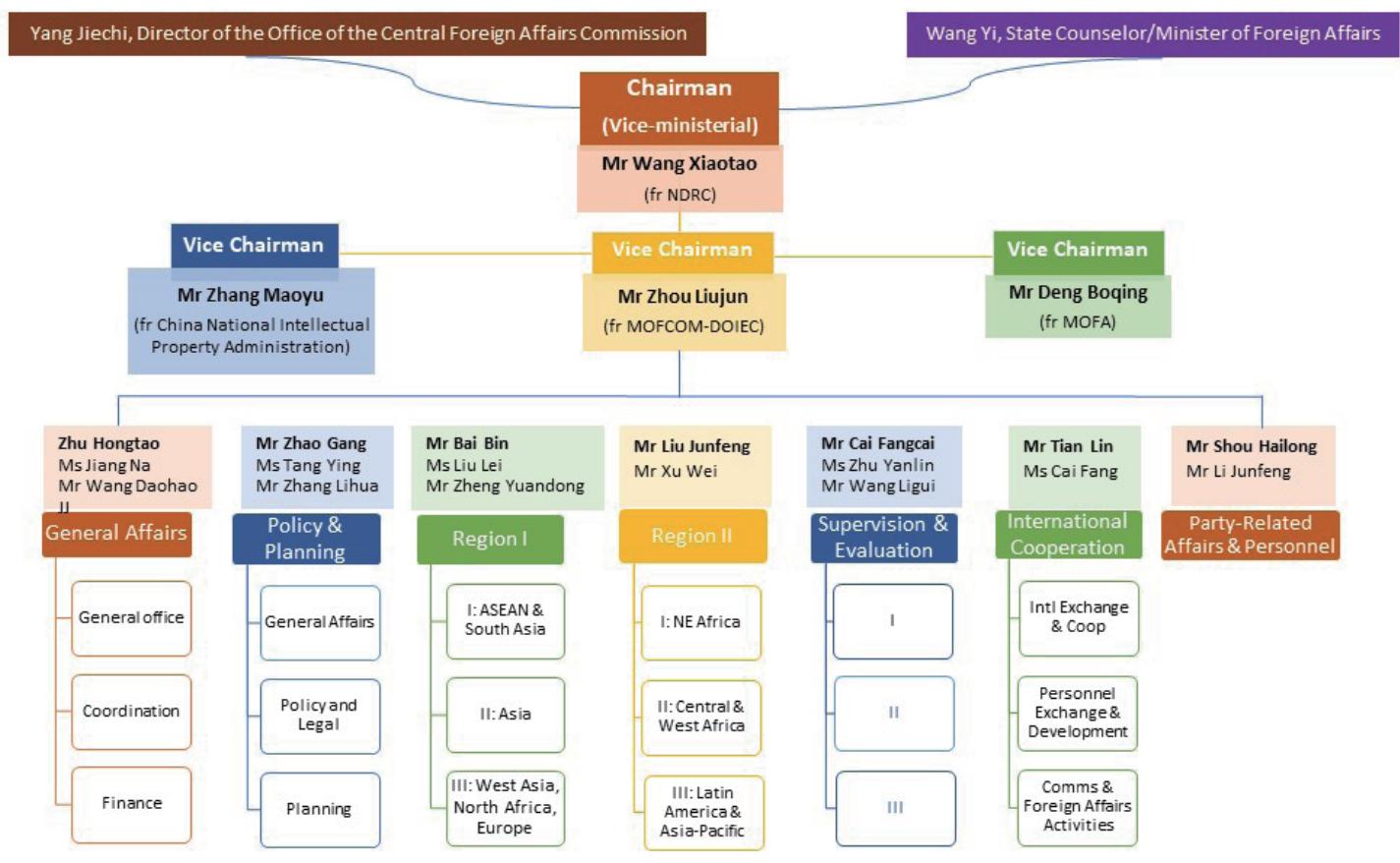
### III. The evolving China-aid structure: the knowns

**On organizational arrangement, CIDCA is much like the previous MOFCOM-DFA.** According to the 2019 government reshuffle scheme<sup>7</sup>, the main function and mandate of MOFCOM concerning “formulating policy and plan, reforming modality and approach, drafting programming schemes, establishing projects and managing funding scale and allocation as well as others” were moved to CIDCA. This resulted in the overall function of DFA and part of the specialized function of the DOF concerning foreign assistance under MOFCOM being “physically” transferred to CIDCA.

In carrying out the State Council’s organizational design for CIDCA, stability has been maintained through lift and shift, with most staff under DFA and under the Division of Foreign Assistance of DOF being relocated to CIDCA and who for the most part continue to work with their previous specialized assignment. [Figure II] There are however minor

organizational changes, which includes some DFA divisions being upgraded into departments supported by specialized sub-functions (e.g. the Department of Strategy and Planning, Department of M&E, Department of International Cooperation); consolidation of other departments/entities under departments and some in fact “downgraded” (e.g. two regional departments composed by six regional divisions – previously eight independent divisions directly reporting to the DFA DG), while other departments gaining new functions (e.g. Coordination Division, Finance Division). In addition, as MOFA’s coordination function on foreign assistance has also moved to CIDCA by design, the relevant capacities (e.g. the Department of International Economic Affairs, Department of International Cooperation, China-ASEAN Center) have been distributed into the DFA-based CIDCA departments.

*Figure II: OrgChart of CIDCA*

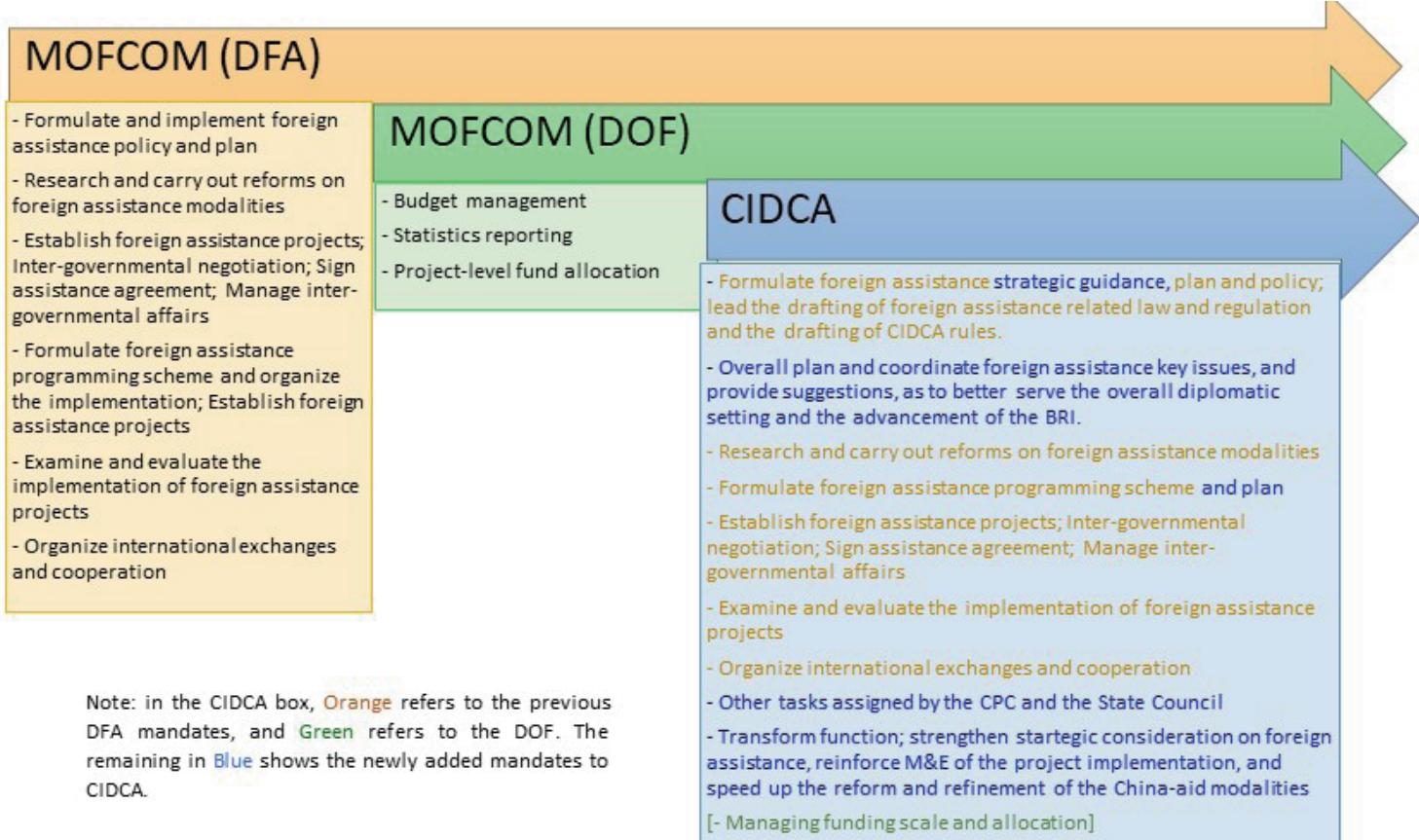


7: Central General Office of the CPC, the Notice of the Office of the State Council on Adjusting the Function, Organization and Staffing of the MOFCOM, September 2018.

**On organizational mandates, CIDCA is far beyond a replacement of the previous DFA.** [Figure III] It has a dual role; on the one hand CIDCA carries DFA's designated authority over China-aid policy and project formulation, or, the upstream of the China-aid governance chain; and on the other CIDCA is also authorized to draw up strategic guidance and plan, coordinate on key issues concerning foreign assistance (part of which is from MOFA's coordination function), and to push forward reforms on the governance and management of foreign assistance based on strategic considerations and enhanced M&E performance<sup>8</sup>. Therefore, CIDCA's functions at the upstream and very end of the downstream of the chain have been upgraded.

In CIDCA's Administrative Measures for Foreign Assistance (Draft for Public Consultation in November 2018), specific chapters stipulate CIDCA's central role in policy making and planning (including top-level institutional design, strategic guidance, mid- and long-term policy plans, country assistance policy, annual plan and overall scheme, reform measures, administrative system, framework agreements and policy on international exchanges and cooperation), project approval and planning (including budgetary plan, SSCAF utilization, inter-governmental agreements, project approval measures), and project M&E (including monitoring system, implementing entity credit evaluation system, statistical system)<sup>9</sup>.

**Figure III: Transitions in Organizational Mandates**

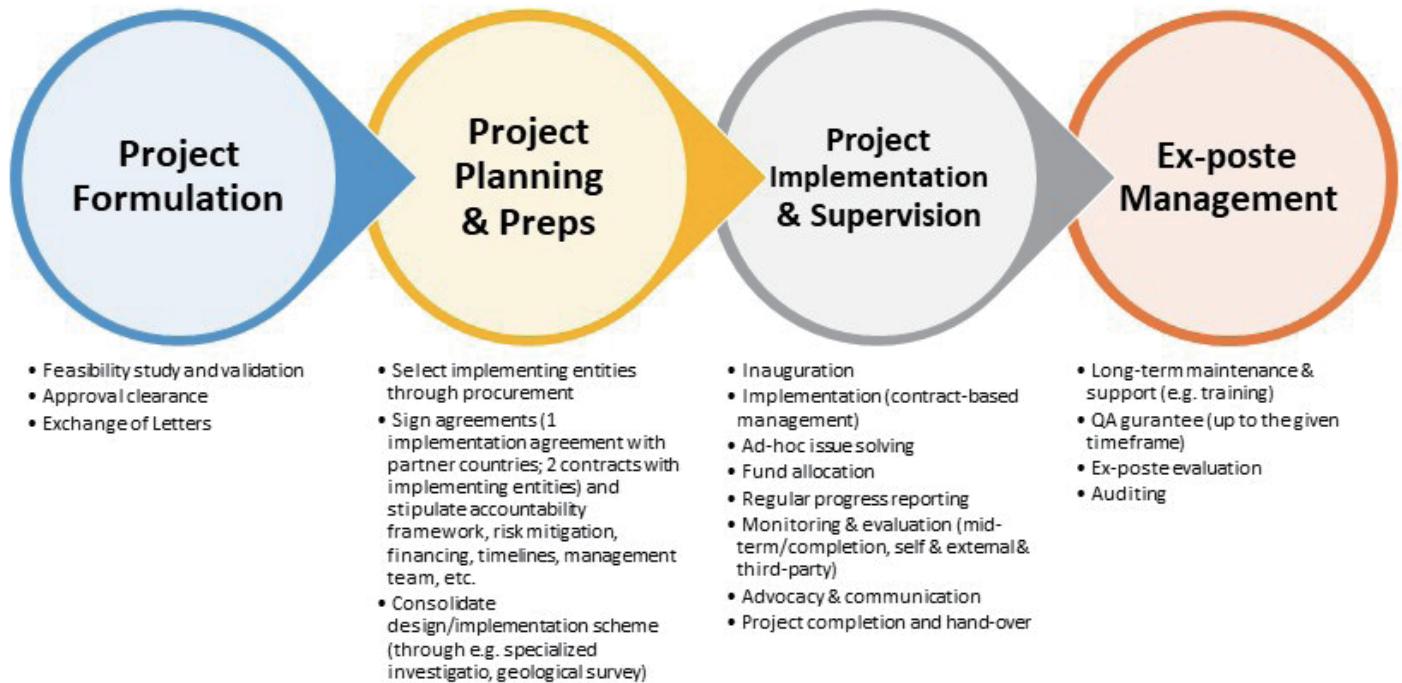


8: CIDCA, 2019 CIDCA Budget Plan, April 2019, in Chinese.

9: CIDCA, Administrative Measures for Foreign Assistance (Draft for Public Consultation), November 2018, in Chinese.

## IV. The evolving China-aid structure: the unknowns

Figure IV: China-aid Complete Project Lifecycle (a simplified version without actors)



**Uncertainties remain on organizational coordination.** To enhance coordination between CIDCA and MOFCOM on both policy and project level, MOFCOM set up the Division of Implementation and Coordination under the Department of Outward Investment and Economic Cooperation (DOIEC).

Through this new division, MOFCOM joins CIDCA in decision-making on key issues at strategic, policy- and project- level. Specifically, during project approval, DOIEC sits with CIDCA in the joint political and strategic review. Upon project approval, it is DOIEC that acts as a central channel to provide guidance and assignments to the three MOFCOM-affiliated implementing agencies. For on-site supervision in partner countries, the Economic and Commercial Counselor's Offices under MOFCOM carry out the specific project-based monitoring function. In the case of ad hoc issues, the responsible MOFCOM agency will elevate it to DOIEC for consultation, including with the implementing enterprises. On financing management, DOIEC as the MOFCOM focal communicates with DOF to

ensure statistical reporting, budget planning and project funding allocation. On new regulations, despite CIDCA's recent attempt, it is under internal discussion whether there will be an updated measure which is to be jointly issued by CIDCA and MOFCOM. Observations are needed on whether such a joint measure could stipulate clear-cut division of roles and responsibilities between CIDCA and MOFCOM entities as well as other government and enterprises involved.

Similarly, it is unclear how the intra-ministerial coordination mechanism will work in practice. As CIDCA is set up at the vice-ministerial level, uncertainties remain whether this new agency can leverage MOFCOM, MOFA and the Ministry of Finance as well as other line ministries that are all at the ministerial level.

Beyond the inter-ministerial authority and practical coordination, it is crucial to bear in mind the top-level institutional design on foreign assistance. Under the CPC, there is the Central Foreign Affairs Commission (upgraded from the previous Small

Leading Group of Foreign Affairs due to the March 2018 government reshuffle<sup>10</sup>), which gives high-level strategic guidance to China's foreign affairs where foreign assistance takes a part. The Commission is chaired by President Xi, supported by the Premier Li as Deputy Chair and the Heads of the key CPC departments and Ministers of Foreign Affairs,

Commerce, Security, etc. as Members. It is noted that the former Minister of Foreign Affairs Yang Jiechi and the current Minister/State Counselor Wang Yi are both key members, while Yang also leads the Secretariat of the Commission. CIDCA Chairman (at the vice-ministerial level) is so far not included in this high-level mechanism.

## Annex: Overview on the historic transitions

To review, the governance system to serve the foreign assistance has basically experienced the following five transitions during its almost-seven-decade history<sup>11</sup>:

**1) Initial stage (1950 – 1963): party-dominant, ideology-focused, “General Deliverer Department System”.** The newly established central government gave direct assignments, and given the specialization of projects, the departments in charge were designated for the overall implementation. From 1954, the then Ministry of External Trade (China's first ministry) was in charge of international negotiations and agreement signing, as the then State Planning Commission was responsible for designating government departments for project direct implementation.

**2) Development stage (1964 – 1982): state-led, pegging with political and diplomatic agenda, “Construction Department Responsibility System”.** A specialized line ministry under the State Council (1960-1964, the External Economic Liaison Bureau; 1964-1970, the External Economic Liaison Commission; 1970-1982, the External Economic Liaison Ministry) gave guidance and assignments at the central level, while relevant departments and entities at local level were responsible for implementation.

**3) Adjustment stage (1983 – 1999): state-led, repositioning with economic cooperation mandate and aligning with the reform and**

**opening up agenda, “Contractor Responsibility System”,** and then the “Enterprise Responsibility System” with the introduction of competitive selection process on the implementing entities since 1993. Accompanied with the country's reforms on government's administration and the role of enterprises, the lead ministry, the then External Economic Trade Ministry (with integrated functions of many ministries) which was renewed as the External Trade and Economic Cooperation Ministry in 1993, had the unified administrative power over the foreign assistance related policies and projects, while the designated entities (including shortlisted qualified enterprises) as general contractors were responsible for project implementation.

**4) Improvement stage (2000 – 2018): state-led and market-driven, complementing to foreign trade and foreign investment when enterprises are “going abroad”, “General Contractor Responsibility System”.** Since its establishment in 2003, the Ministry of Commerce (MOFCOM) was authorized as “the administrative department by the State Council to oversee foreign assistance”<sup>12</sup>. MOFCOM maintained the previous function and mandates that were covered by the previous External Trade and Economic Cooperation Ministry, and continued the process and division of roles with the implementing enterprises when putting in place a set of robust legal and programmatic reforms based on MOFCOM regulations.

Internally, different departments and agencies were

10: Ibid

11: 1)-4) Wang (2018), Director of International Development Cooperation Department, the Chinese Academy of International Trade and Economic Cooperation (CAITEC), MOFCOM, Thoughts on reforming China's foreign assistance governance system. (in Chinese)

12: The Information Office of the State Council (SCIO), White Paper on China's Foreign Aid, April 2011, [http://english.www.gov.cn/archive/white\\_paper/2014/09/09/content\\_281474986284620.htm](http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284620.htm)

set up with specialized administrative roles in the whole process of governance and management of foreign assistance:

- The Department of Foreign Assistance (DFA) in charge of the upstream affairs (e.g. policy and strategy formulation, project pre-approval negotiations and feasibility studies, project formulation, ad-hoc issue coordination and ex-poste evaluation).
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Agency Liaison Mechanism was officially established and then upgraded to an Inter-Agency Coordination Mechanism in early 2011.

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**5) New era (2018 – current):** In March 2018, the China International Development Cooperation Agency (CIDCA) was newly set up as a direct affiliated agency under the State Council, which "integrates the responsibilities of MOFCOM on foreign assistance and the coordinating function of MOFA concerning foreign aid"<sup>14</sup>. CIDCA is targeted at "giving full play to the role of foreign assistance as a major instrument of China's 'major power diplomacy', strengthening the strategic planning and coordination, unifying the administrative power on foreign assistance, and pushing forward the relevant reforms, as to optimize foreign assistance to better serve the needs of China's overall diplomatic setting and the advancement of the Belt and Road Initiative (BRI)." <sup>15</sup>

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13: Department of Finance, Organization Profile, <http://cws.mofcom.gov.cn/article/gywm/201501/20150100880917.shtml> (in Chinese)

14: Scheme on Deepening the CPC and State Institutional Reform, 21 March 2018, [http://www.xinhuanet.com//zgjx/2018-03/21/c\\_137054755.htm](http://www.xinhuanet.com//zgjx/2018-03/21/c_137054755.htm) (in Chinese)

15: Ibid