

CHINA'S AID FLOWS AND MECHANISMS

In recent years, there has been much discussion about Chinese aid. However, understanding how much, where, what and why is challenging for a range of reasons, including lack of definitive, disaggregated data and the different forms of development financing China uses.ⁱ This has led to some misperceptions and stereotypes around Chinese aid's motivations and mechanisms.ⁱⁱ In April 2011, the Ministry of Commerce (MOFCOM) released its first Foreign Aid White Paper, which indicates efforts towards increased openness. It is likely that a second White Paper will be published in 2013.

How much?

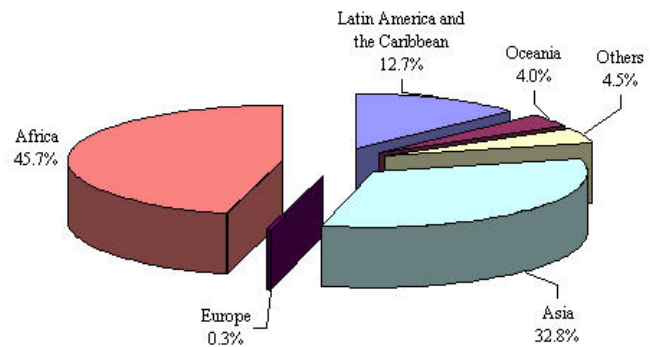
Commentators' estimates of Chinese aid vary, depending on which elements of Chinese aid are included in calculations, and whether budget or actual expenditure figures are used. Determining exact numbers is complicated by the strong links Chinese aid has with trade and investment. Official bilateral aid figures are released annually by Ministry of Finance (MoF), however these do not include the capital of concessional loans.

In 2012, the total budgeted figure for non-military aid excluding concessional loans was RMB19.2b (USD3.05b), and expenditure was RMB16.7b (USD2.72b). The 2013 budget excluding concessional loans is RMB19.8b (USD3.23b). Exact figures for Eximbank concessional loans (commencing in the mid-1990s) are not available, but reliable sources suggest that the annual amount has been around RMB10b (USD1.63b) in recent years, and is likely to be around RMB12b (USD1.96) in 2013. Debt relief is not included in calculations of total aid expenditure.

Geographic and sectoral distribution

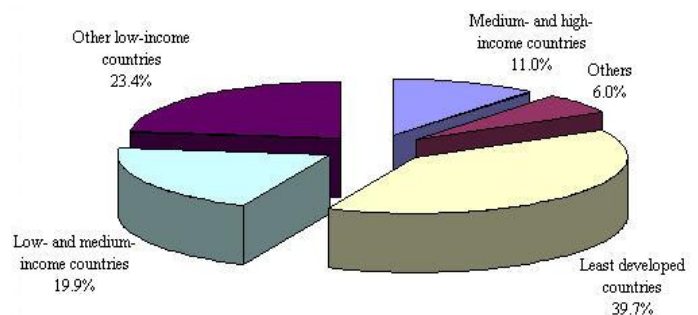
As Figure 1 shows, much of China's aid is spent in Africa, and nearly 40 percent is distributed to least developed countries. The criteria for how countries are selected are not known. By numbers of projects, the major areas towards which Chinese aid is directed include agriculture (10.6 percent), industry (31.4 percent), economic infrastructure (19.3 percent), public facilities (33.1 percent) and 'other', including education, medical and health care (5.7 percent).ⁱⁱⁱ The 2011 White Paper also notes that climate change has become a new area of Chinese aid in recent years.

Figure 1: Geographical distribution of China's foreign aid funds in 2009



Source: China's Foreign Aid White Paper 2011, p. 19

Figure 2: Distribution of China's foreign aid according to income level of recipient countries in 2009



Source: China's Foreign Aid White Paper 2011, p. 19

What kind of aid?

China is not a member of the OECD Development Assistance Committee (DAC) and considers itself not as a 'donor' but a South-South cooperation development partner. Within its preferred bilateral modality, China provides three kinds of overseas aid:

Grant Aid: Mostly used to help the recipient country government construct social welfare projects such as hospitals, schools, housing, etc. It is also used to provide goods and materials, emergency humanitarian disaster relief aid, and to train personnel, etc.

Interest-free loans: Designed to help the recipient country construct infrastructure and facilities.

Concessional loans: Mid- and long-term low-interest loans for government assistance provided by financial institutions as designated by the Chinese government and administered by Eximbank. 61 percent of concessional loans were used to help construct transportation, communications and electricity infrastructure, and 8.9 percent have been used to help develop energy and resources. The remainder is divided among industry (16.1 percent); agriculture (4.3 percent); public facilities (3.2 percent) and others (6.5 percent).^{iv}

The Chinese Government makes a distinction between financing packages and its aid programme. One element of financing packages not part of the aid programme is Eximbank's export buyer's credit (for a borrowing country) and export seller's credits (short term credits for a Chinese company). These can sometimes be offered together for a specific project, alongside concessional loans, as part of an overall development financing package.^v

In addition, China has in recent years been working trilaterally on development cooperation, including with UNDP, which signed a Memorandum of Understanding for trilateral cooperation with China in 2010.^{vi}

China's aid is provided in eight different forms: complete set of projects (turnkey projects); commodity aid (goods and materials); technical cooperation projects; cooperation on human resources development projects; sending Chinese medical teams; emergency humanitarian aid; volunteers programmes, and debt forgiveness.^{vii}

Who manages what?

In February 2011, China established an inter-agency foreign aid coordination mechanism. It is led by MOFCOM, with the Ministry of Foreign Affairs (MoFA) and MoF holding deputy-director member roles. It has around 30 member ministries.

Chinese aid policy is drafted by the agency responsible for its management, for example MOFCOM, the Ministry of Health, etc., and approved by the State Council. The Chinese Economic and Commercial Counsellor's office in the beneficiary country designates one or two staff members to oversee the aid programme in that country.^{viii}

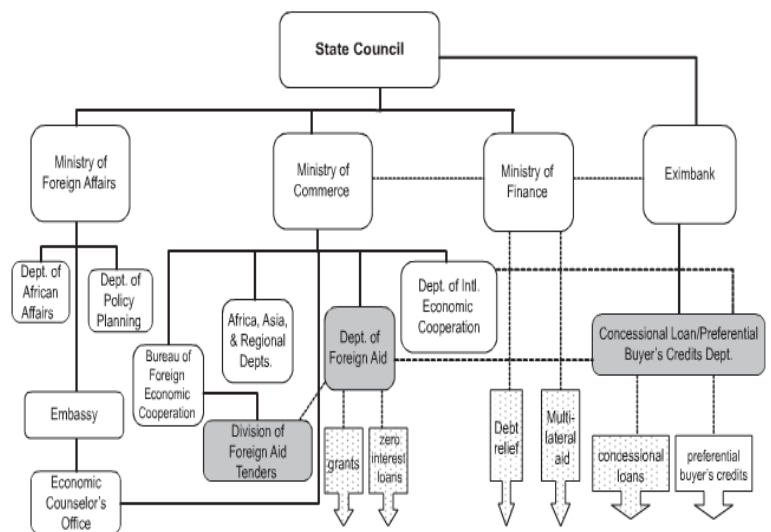
MOFCOM's Department of Foreign Aid (DFA), with about 70 officials, manages over 90% of the bilateral aid funding allocated by MoF. In addition, line ministries like the Ministry of Health and Ministry of Education manage part of the bilateral aid in specific areas. Some provincial governments run small aid programmes from their own budgets, much of which consists of in-kind assistance. MoFA is responsible for the triennial Forum on China-Africa Cooperation (FOCAC).

China's multilateral aid is administered by different ministries. For example, MoF's International Department provides contributions to the World Bank and the Asian Development Bank; MOFCOM's Department of International Trade and Economic Affairs contributes to UNDP, UNICEF, and UNIDO; and the Ministry of Agriculture manages funding for the World Food Programme and FAO.

China Eximbank and the China Development Bank (CDB^{ix}), provide the bulk of China's overseas development financing. However the Chinese Government does not regard CDB finance as aid. Eximbank disburses concessional loans, administered by MOFCOM.

Some aspects of bilateral project implementation are contracted out to Chinese state-owned or private enterprises. Representatives both from China and the beneficiary country supervise project implementation.

Figure 3: China's system of aid



Source: Brautigam (2009), p. 108, Fig. 4.1

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ⁱ See for example Brant (2013), *Chinese Aid to Africa, A Detective Story*, <http://www.lowyinterpreter.org/post/2013/05/02/Chinese-aid-to-Africa-A-detective-story.aspx>

ⁱⁱ For example, the assumption that China is primarily using its aid to obtain resources, based on China's involvement in resource-rich areas. In 2004 Beijing provided Angola a \$2b line of credit from Eximbank to be repaid in oil. The package of loans and aid included funds for Chinese companies to build railroads, schools, roads, hospitals, bridges, and offices; lay a fibre-optic network; and train Angolan telecommunications workers. However, "the notion that aid is offered mainly as a quid pro quo exchange for resources ignores several facts", including the fairly even distribution of grants and zero-interest loans across resource and non-resource rich countries (Deborah Brautigam (2009), *The Dragon's Gift*, Oxford University Press, p. 278). For more detail on the 'Angola model', see for example Brautigam (2011), 'China and Oil-backed Loans in Angola: The Real Story', <http://www.chinaafricarealstory.com/2011/10/china-and-oil-backed-loans-in-angola.html>

ⁱⁱⁱ MOFCOM *Foreign Aid White Paper* 2011, p. 11 (in table format)

^{iv} For the statistics, please refer to MOFCOM *Foreign Aid White Paper* 2011, p. 8

^v Brautigam (2010), 'China, Africa and the international aid architecture', *Working Paper Series, 107*, [Côte d'Ivoire], African Development Bank Group, p. 19

^{vi} See UNDP China website:

<http://www.undp.org.cn/modules.php?op=modload&name=News&file=article&catid=10&sid=14>. China also has MOUs with UK's DFID (2011) and Australia's AusAID (2013)

^{vii} For more detail on this, please refer to MOFCOM *Foreign Aid White Paper* 2011, pp. 10-17

^{viii} Deborah Brautigam (2009), *The Dragon's Gift*, Oxford University Press, p. 109

^{ix} Eximbank is a policy bank, but CDB has not been since 2009