Official Finance Practices of the PR China.

Distortion of competition, OECD responses and the threat to the Multilateral Official Finance System.

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Annexes:

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List of Abbreviations

ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BIS	Bank for International Settlements
BRI	Belt Road Initiative
BU	Berne Union
CDB	China Development Bank
C-EXIM	China Export-Import Bank
CIRR	Commercial Interest Reference Rate
DFC	Development Finance Corporation
DFIs	Development Finance Institutions
DLP	Debt Limits Policy
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EFIC	Export Finance and Insurance Corporation
EIB	European Investment Bank
EIC	European International Contractors
ESG	Environmental, Social and Governance
EU	European Union
EU DEVCO	EU Development Cooperation
EXIM	Export-Import Bank
FOCAC	Forum for China-Africa Cooperation
GGS	Going Global Strategy
HIPCs	Highly Indebted Poor Countries
IaDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IsDB	Islamic Development Bank
IWG	International Working Group
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LDCs	Least Developed Countries
LIDCs	Low-Income developing Countries
MDBs	Multilateral Development Banks
NCBP	Non-Concessional Borrowing Policy
NDB	New Development Bank
NEXI	Nippon Export and Investment Insurance
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
OECD ECG	OECD Export Credit Group

List of Abbreviations

OECD Arrangement	OECD Arrangement on Officially Supported Export Credits
OOF	Other Official Flows
OPIC	Overseas Private Sector Corporation
S&P	Standards & Poor's
SFI	Sustainable Finance & Insurance
SMEs	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
UN	United Nations
UN SDGs	United Nations Sustainable Development Goals
UK	United Kingdom
USA	Unties States of America
VOG	Vague Official Finance
WB	World Bank
WTO	World Trade Organization

Executive Summary.

The European International Contractors[1] are deeply concerned about the current completely unregulated official finance practices of China, because they distort fair trade and investments and have a great negative impact on the operations of OECD construction companies and other companies that have a business interest (through trade and/ or investments) in developing countries, in particular in Africa. The unfair competition has in particular emerged after the introduction by the Chinese government of the Going Global Strategy (GGS) in 1999 and the Belt Road Initiative (BRI) in 2013.

The term "official finance" for developing countries is used on purpose because, unlike OECD countries, China does not make a clear distinction between (i) official development finance, which includes Official Development Assistance (ODA) and other forms of multilateral and bilateral development finance and (ii) officially supported export credits. Official finance covers therefore any form of officially supported finance for developing countries, irrespective the motive for such financing. Furthermore, "official finance" can be provided through various financial instruments such as grants, concessional and non-concessional loans, guarantees, insurance and equity investments or any other financial instrument that is directly or indirectly supported by one government (i.e. bilateral official finance) or multiple governments (i.e. multilateral official finance).

The Multilateral Official Finance System is based on 7 pillars and has functioned reasonably well during the past 40 – 60 years. Today, the system is at serious risk.

During the past 40 – 60 years the international community built a unique, but rather complex, multilateral system for official finance to developing countries. The system covers multilateral and bilateral development finance, officially supported export credits, multilateral debt rescheduling in the Paris Club and public-sector debt management. It is based on seven key pillars of which some cooperate frequently with one another and some on an ad hoc basis. These seven pillars include the (i) IMF, (ii) Multilateral Development Banks, (iii) Bilateral Development Banks, (iv) OECD DAC and ODA aid agencies, (v) the Paris Club and its permanent members, (vi) OECD Export Credit Group and members to the Arrangement on officially supported export credits and relevant official ECAs and EXIM banks and (vii) the WTO. Behind these various organizations are the "guardian authorities", usually represented by ministries of finance, trade and industry and development cooperation / foreign affairs.

[1] European International Contractors (EIC) is an European association with member construction industry trade associations from fifteen European countries and represents the interests of the European construction industry in all questions related to its international construction activities. For further information, it is referred to EIC's website: http://www.eic-federation.eu

The multilateral official finance system is a rules-based system, developed over 40 – 60 years to ensure an orderly functioning of international official financial markets and includes detailed regulations for development finance, official export credits, financial and technical assistance for countries in debt distress and debt rescheduling for developing countries of bilateral debt to major creditor countries on a multilateral basis in the Paris Club. The system has, thanks to a great level of transparency, functioned reasonably well during the past 40 – 60 years, but this has changed due to Chinese official financial practices and some key developments in the OECD.

The annual gross revenues of Chinese construction companies in Africa reached in 2016 an amount of US$ 50.27 billion, which is almost three times the gross revenues of European contractors (in 2017: US$ 16.1 billion). The success of Chinese construction companies in Africa is mainly attributable to the enormous official finance sources that are made available by the Chinese government to support their national companies in developing countries. There are four official policy institutions involved, namely China EXIM bank (C-EXIM), the ECA-insurer Sinosure, China Development Bank (CDB) and the Agricultural Development of China (ADBC), which are all fully owned and controlled by the Chinese government.

The annual gross revenues of Chinese construction companies in Africa reached in 2016 an amount of $ 50.27 billion, which is almost three time the gross revenues of European contractors.

Global Chinese official finance for developing countries during the period 2005 – 2014 totaled US$ 328 billion, of which US$ 79 billion concessional (ODA-like) US$ 204 billion non-concessional (OOF-like) and US$ 53 billion “Vague Official Finance”, which cannot be identified as concessional or non-concessional.

In September 2018, China announced at the international Forum on China-Africa Cooperation (FOCAC) to invest US$ 60 billion in Africa for the next three years, which is the same amount that was committed in 2015. In the period 2000 – 2017 China provided for a total amount of US$ 143.3 billion financing to African governments, which was in particular used to finance public infrastructure projects in Africa. The top year of Chinese lending was in 2016 with more than US$ 30,4 billion of new loans. China is currently the most important official financier of Africa. It has become far more important than the World Bank. IBRD / IDA committed in 2016 US$ 9,35 billion to Africa of which US$ 8,7 billion of concessional IDA loans and US$ 669 million of non-concessional IBRD loans. Chinese sovereign lending to Africa was in 2016 therefore three times more than that of the World Bank.

China is currently the most important official financier of Africa. It has become far more important than the World Bank.

The massive official finance practices of China in Africa (and other developing countries) cause severe distortions in international trade. Chinese official finance support is completely unregulated, which creates great advantages for Chinese ECAs and Policy banks involved and their construction companies. Annex I to this study provides an overview of 30 distortive factors of which the 10 most concerning topics are explained in the study itself. The most distortive issues concern the following:

A. The unfair competition between commercial construction companies from OECD countries against State-Owned Enterprises (SOEs) in Africa. Commercial enterprises in the OECD operate under complete different market circumstances than Chinese SOEs, which creates a huge competitive advantage for Chinese SOEs in Africa.
B. The fact that Chinese official finance is completely unregulated, which further deepens the unlevel playing field in competing with Chinese SOEs. Key issues regarding the unregulated official finance practices of China are among others:

1. **Minimum risk / market based premiums** for officially export credits agreed in the OECD to comply with WTO regulations do not apply to China. China can easily undercut minimum pricing from OECD ECAs and create competitive advantages for Chinese construction companies. China is highly intransparent about its pricing of officially supported export credits and development finance. It cannot be ascertained whether China violates the WTO obligation that premiums for official export guarantees should not be inadequate to cover operating costs and losses. This is different for OECD governments because they adhere to OECD minimum premiums to comply with the WTO obligation and are transparent about the performance of their export credit programs through amongst others detailed reporting within the OECD.

Minimum risk / market based premiums for officially export credits agreed in the OECD to comply with WTO regulations do not apply to China.

2. **Minimum interest rates** for officially supported export credits developed in the OECD (for both floating interest rates and fixed interest rates (e.g. Commercial Interest Reference Rates: CIRRs) do not apply to China. Again, due to a lack of transparency, it can even not be ascertained whether China violates the WTO rule that interest rates for export credits may not be lower than the funding costs of the Chinese government. Relevant OECD minimum interest rates to safeguard the WTO obligation do not apply to Chinese official finance.

3. **Terms and conditions of export credits** regarding the repayment profile, maximum credit periods, maximum grace periods, max support for local costs and minimum down payments (15%) and minimum interest rates (CIRR) do not apply to China.

4. Very restrictive **tied aid standards and procedures** that are designed to avoid distortion of competition caused by tied aid practices do not apply to China, whereas all Chinese official finance is tied to procurement of goods and services from China. This is a huge advantage for China. As a consequence, OECD construction companies cannot adequately compete against Chinese construction companies. This is one of the greatest distortive factors of financing public infrastructure projects in Africa.

Very restrictive OECD tied aid standards and procedures that are designed to avoid distortion of competition do not apply to China.

5. **International anti-corruption guidelines** do not apply to Chinese official finance, whereas there are many alleged and even proven cases of bribery by Chinese companies or individuals of officials in developing countries. Problem is that these corrupt business practices outside China are not well prosecuted by Chinese authorities, very likely because it often involves Chinese SOEs or individuals representing SOEs. This is completely different for companies in OECD countries. Bribery of foreign officials is in many OECD countries a serious crime, which is prosecuted by OECD authorities. Corrupt business practices obviously also undermine the efforts of the IMF, Multilateral Development banks, bilateral DFIs and bilateral ODA agencies to combat bribery. In this context, it is noteworthy that China is rated 27 out of 28 countries in the Bribe's Payers Index (BPI)[2] developed by Transparency International.

6. China does not apply international best practices on **managing Environmental, Social and Governance (ESG) risks** for projects in Africa, whereas OECD ECAs and multilateral and bilateral DFIs and ODA Agencies do. China applies local ESG standards of borrower countries, which are less strict, weakly implemented and poorly managed. Undercutting international best ESG practices are a threat to the business of OECD ECAs, multilateral/ bilateral DFIs and bilateral ODA aid agencies. Obviously, it is also not in the interest of building a sustainable future for developing countries and the UN SDGs.

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7. Chinese massive and highly intransparent official finance practices are a **serious threat for debt sustainability** of developing countries, in particular low-income countries, other vulnerable economies and the IMF/WB Debt Sustainability Framework (IMF /WB DSF). In particular the resource-backed official finance practices have

[2] The 2011 Bribe Payers Index ranks 28 of the world's largest economies according to the perceived likelihood of companies from these countries to pay bribes abroad. It is based on the views of business executives as captured by Transparency International's 2011 Bribe Payers Survey.

a huge negative impact on debt sustainability of countries. This is not the case for lending provided by Multilateral DFIs, bilateral OECD DFIs, ODA aid agencies and ECAs, because they adhere to strict guidelines and procedures concerning lending to sovereign borrowers in low income countries. Non-Paris Club debt of developing countries, in particular debt to China, has risen substantially during the past years, which has already led and will lead to new debt sustainability problems in many countries. Non-Paris Club debt counts now for more than 50% of the external stock of debt of Low Income Developing Countries, which complicates an orderly multilateral debt rescheduling program and IMF assistance. The irony is that debt problems for low-income countries were during the past 15 years substantially reduced by the international debt relief initiative for Highly Indebted Poor Countries (HIPCs).This included multilateral debt relief of US$ 34.1 billion and bilateral debt relief of US$ 38 billion. The majority of multilateral and bilateral debt relief was financed by OECD governments.

Chinese massive and highly intransparent official finance practices are a serious threat for debt sustainability of developing countries.

8. China is **not a member of the Paris Club** and strongly prefers bilateral debt work-outs to benefit from full flexibility, no meddling of other creditors in debt rescheduling discussions, pursue other government policy objectives (e.g. securing access to natural resources or obtaining overseas military bases), maintain secrecy of its lending and obtain better rescheduling terms than what it would be able to get within a multilateral Paris Club setting. Current debt recovery practices of China are a serious threat for the sovereignty of developing countries, the multilateral debt resolution system, the preferred creditor status of the IMF and key multilateral development banks, which allows them to play their role as “lenders in last resort”.

China is not a member of the Paris Club and strongly prefers bilateral debt work-outs.

9. China is **not a member of the OECD DAC** and its’ **development loans lack transparency and are not in line with ODA standards and practices** (e.g. minimum concessionality level, full transparency of ODA performance), which again creates advantages for China. Research from AidData revealed that approximately US$ 79 billion of ODA-like aid and US$ 53 billion of “Vague Official Finance” was provided in the period 2005 – 2014, but Chinese ODA-like aid and most certainly vague aid cannot be characterized as true ODA, because it serves mainly Chinese national interest. It is all tied to procurement of goods and services from China. Chinese official finance does not meet the ODA requirement that development of developing countries should be the main objective of the financial support provided. This implies that not the 25% concessionality level of ODA should be used to determine whether Chinese official finance is

China is not a member of the OECD DAC.

aid, but the minimum concessionality levels that apply to tied aid, which are substantially higher (50% for Least Developing Countries and 35% for other countries). China would have to use substantial higher subsidy amounts to meet international aid requirements. If AidData would have applied the higher OECD standards for tied aid the highly distortive nature of Chinese official finance practices would have become more apparent. Very likely vague (tied) aid would be at least US$ 132 billion (the sum of ODA-like of US$ 79 billion and Vague Official Finance of US$ 53 billion).

10. **Double standards:** While China is clearly not part of the entire multilateral official finance system, it benefits substantially from it. China participates in 4 pillars of the official financial system (IMF, MDBs, BDBs and WTO), but thus far it managed to stay out of 3 other critical pillars (OECD DAC, Paris Club and OECD Arrangement on officially supported export credits).

While China is clearly not part of the entire multilateral official finance system, it benefits substantially from it.

In 2017, it received new subsidized sovereign loans from key **multilateral development banks** – IBRD and ADB – of in total US$ 4.6 billion. The outstanding loans of ADB and IBRD at year end FY2017 was in total US$ 32.4 bilion. This exposure and other loan exposure of the multilateral DFIs is backed by substantial guarantees / "callable capital" from their shareholders, including all OECD governments. Currently China is one of the largest borrowers of IBRD and ADB.

At the same time China also benefits from **bilateral ODA** from certain OECD donor countries. During the years 2014 – 2016 China obtained new bilateral ODA funds for an amount of US$ 4,4 billion, which is roughly US$ 1.5 billion per year.

Furthermore, Chinese companies, of which many SOEs, benefit substantially from **untied multilateral and bilateral financing for projects in developing countries**. In the period 2007 – 2017 Chinese companies were involved for a total amount of US$ 27,9 billion in IBRD financed projects, followed by India (US$ 16 billion), Italy (US$6,2 billion), Germany (US$ 3.3 billion), France (US$ 3.1 billion) and South Korea (US$ 2 billion).

In the period 2008 – 2016 **untied bilateral ODA** was obtained by Chinese **companies for projects in LDCs and HIPCs** of in total US$ 5.63 billion.

It is clear China benefits substantially from direct or indirect (through multilateral development banks) official finance support from OECD governments. In light of the distortive official finance practices of China in developing countries and its structural unwillingness to adhere to international best standards for "official finance" this is very disturbing.

Since money is fungible, it could even be argued that OECD governments are unintentionally partially financing the international expansion of China and supporting Chinese distortive official finance practices.

Responses from OECD governments.

As a consequence of the Chinese official finance practices important developments took place in many OECD countries. Key developments are the following:

1. ***Non-Arrangement business has increased substantially.***

Non-Arrangement business concerns among others: (i) (untied) investment loans or guarantees provided by OECD ECAs, (ii) development loans or guarantees of bilateral Development Finance Institutions, (iii) equity investments, (iv) import loans and (v) working capital facilities or pre-export financing. These forms of official financing have during the past few years become more important than regular officially supported export credits that are governed by the OECD Arrangement on officially supported export credits. In the period 2013 – 2017 OECD Arrangement business decreased from US$ 107 billion to US$ 63 billion. Non-Arrangement business (including China) increased from US$ 135 billion in 2013 to US$ 157 billion in 2014 and decreased again to US$ 148 billion in 2017. The OECD Arrangement has become substantially less relevant during the past 5 years.

In today's OECD world, there are certain financing modalities that cannot be characterized as development finance or export credits. This concerns so-called untied investment loans or guarantees that are provided by certain OECD ECAs or specialized official investment lenders or guarantors. These untied loans or guarantees have many similarities with untied development finance provided by multilateral or bilateral DFIs. The main objective to provide untied loans / guarantees is not to support development of developing countries, but to support foreign investments of investors from the ECA's home country (e.g. investments in greenfield project finance projects or in subsidiaries of large multinationals with their head office in the ECA country). This is where untied investment loans (or guarantees) differ from development loans (or guarantees) of DFIs.

Japan, but also Korea have responded with a substantial increase of non-Arrangement official finance to the Chinese official finance competition.

In particular, Japan, but also Korea have responded with a substantial increase of non-Arrangement official finance (mainly in the form of untied investment loans) to the Chinese official finance competition. Japan introduced a global strategy for "Partnership for Quality Infrastructure". The main objectives of this initiative are (i) to support quality infrastructure

investments in developing countries, (ii) to increase exports of Japanese infrastructure services to US$ 268 billion by 2020 and (iii) to compete more effectively against Chinese official finance and construction companies. Leading roles in the Japanese export strategy of quality infrastructure are played by the Japanese EXIM bank / development bank JBIC, the ECA insurer NEXI and the ODA aid agency JICA. These institutions cooperate closely with one another to support Japanese national interest. Such a close cooperation among various official financiers does currently not or hardly exist in European countries.

An interesting new development in the US concerns the approval in October 2018 by the US Senate of the so-called BUILD Act, which will create a new U.S. government agency — the U.S. International Development Finance Corporation (DFC). Many people perceive this as the biggest change in U.S. development policy in 15 years. The new agency will combine two existing DFIs (OPIC and part of USAID), obtain additional capital up to US$ 60 billion to increase the US impact on developing countries and combat against Chinese aid activities. Furthermore, it will be allowed to make equity investments (non-Arrangement business). It should be noted that OPIC, the US investment lender and investment insurer, provides already today substantial untied investment loans and guarantees. All these activities serve a clear "US-national interest" and are not regulated by the OECD Arrangement.

The US imposed import tariffs on Chinese goods, which is not only motivated by the US trade deficit with China, but also by the unfair official finance practices of China in developing countries.

In addition, the US imposed import tariffs on Chinese goods, which is not only motivated by the US trade deficit with China, but also by the unfair official finance practices of China in developing countries. Last, but not least: The US also strongly advocates that the IBRD should substantially reduce its lending to China for China no longer needs subsidized development finance.

In response to the growing influence of China in the South Pacific Australia initiated in November 2018 a new facility for the region of in total AUD 3 billion. It consists of a new infrastructure financing facility of AUD 2 billion (approx. US$ 1.450 billion), which will include concessional loans and grants and AUD 1 billion (US$ 715 million) of export finance from EFIC, the Australian ECA. The new infrastructure financing facility will prioritize investments in essential infrastructure like telecommunications, energy, transport and water.

While Japan, Korea, Australia and USA have already made different moves to respond to the Chinese competition, Europe is struggling with its fragmented ODA aid agenda and focus on "soft development" issues and general EU budget support, many bilateral DFIs and ODA aid agencies and unclarity whether and how an EU development bank should be established.

Europe also lacks a common and clear vision on the role of subsidized multilateral sovereign lending to China and other emerging markets (e.g. India, Mexico, Brazil, Turkey).

Concerning is also that the OECD DAC seems to operate in particular within its own ODA-pillar. In its policy work the DAC does not adequately take into account the relevance of official finance practices of China or the impact of its decisions on other forms of finance available for developing countries. As an example: in 2014 the OECD DAC changed the definition of ODA with among others a new higher minimum concessionality level for LDCs (from 25% to 45%), which implies substantial higher ODA subsidies for OECD DAC donors. From a pure development perspective this may make sense, but it complicates substantially the "competiveness" of OECD aid programs with those of non-OECD countries.

The OECD DAC, European ODA aid agencies, the EU ministries of development cooperation, the EU Commission (DEVCO) and many other OECD DAC member countries seem to ignore completely the changing world of official finance (including ODA and other forms of development finance) and the great threat that China poses to multilateral regulations on official export credits, international development finance, multilateral debt rescheduling (Paris Club), debt sustainability, application of best international ESG and anti-bribery standards in official finance and the IMF/WB DSF. A sense of urgency to tackle the unfair official finance practices of China seems to be lacking, which is extremely concerning.

A sense of urgency to tackle the unfair official finance practices of China seems to be lacking in Europe, which is extremely concerning.

The increase of non-Arrangement business is obviously a great threat for the integrity of the OECD Arrangement for officially supported export credits. In November 2018, the Arrangement exists 40 years. During these 40 years the Arrangement was quite successful in creating a level playing for OECD exporting companies and avoiding a credit subsidy race among OECD governments. Today not only the future of the OECD Arrangement is at stake, but this holds true for the entire multilateral official finance system. Unfortunately, this is not adequately recognized, which explains the lack of action on the side of the EU and most other OECD countries.

2. ***Tied aid provided by certain OECD governments has increased substantially.***

In the period 2013 – 2017 tied aid provided by OECD governments increased from US$ 2.3 billion to US$ 5.5 billion. Key providers of tied aid in 2015 are Japan (76% of all tied aid reported) and Korea (12%), reflecting their response to the official finance competition from China. Tied aid is mainly used for public sector infrastructure projects and has obviously a highly distortive impact.

3. ***Untied aid is de facto tied aid.***

A substantial share of untied aid for LDCs and HIPCs reported by OECD DAC donors seems to be de facto tied to procurement of goods and services from the donor country (on average for all DAC countries: 65%). For some countries, this figure is even higher (e.g. USA: 94,9%, UK: 89,8%, Canada: 75,2%). Despite more than 10 years of untying efforts no or hardly any progress has been made on an actual untying of aid to LDCs and HIPCs. An alternative – more nuanced and effective – approach is needed, also in light of the fact that development finance provided by five leading (out of nine) multilateral development banks is de facto partially untied to relevant member countries only and not completely untied to all countries.

Despite more than 10 years of untying efforts no or hardly any progress has been made on an actual untying of aid to LDCs and HIPCs.

4. ***The International Working Group (IWG) for officially supported export has made no or limited progress.***

The IWG was established in 2012 to discuss with leading non-OECD exporting countries, among which China, the development of a new global framework for officially supported export credits. Thus far it made no or hardly any substantial progress. There are indications that in particular China is stalling progress in the IWG. Apparently, there is a lack of willingness of China to join the existing multilateral framework for official finance or to develop a comprehensive new global framework. The attitude of China in the IWG resemblances its reluctance to become a full member of the Paris Club and the OECD DAC. It all gives the impression that China wants to continue to go its own way, because the benefits of "going global" alone are perceived higher than those of multilateral cooperation.

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Concerted action Is urgently needed.

For all these reasons concerted action of OECD and non-OECD governments, Multilateral Development Banks, Bilateral Development Finance Institutions, ODA aid agencies, ECAs and EXIM banks and the guardian authorities behind these official finance agencies is urgently needed to create a global level playing field for internationally operating construction companies. An adequate multilateral framework for all forms of official finance for developing countries need to be developed. The framework should cover all forms of official finance for developing countries, so not only (i) officially supported export credits, but also (ii) ODA, (iii) tied aid, (iv) untied investment loans and guarantees, (v) development

loans and guarantees from multilateral and bilateral Development Finance Institutions, (vi) other forms of official finance (e.g. equity investments, untied investment loans / guarantees) and (vii) debt rescheduling for countries in debt distress. The current focus of the IWG on only conventional export credits is clearly too narrow.

The joint action plan is also of utmost importance to maintain and restore the unique multilateral system for official finance to developing countries. It is currently subject to a serious erosion caused by the massive unregulated and highly distortive official finance practices of China, which is further fueled by the increase of tied aid, unregulated official finance and the problematic untied aid practices of various OECD countries. It has triggered a renewed race to the bottom of all forms of official finance at the expense of scarce government budgets and tax-payers' money. If in the short term no adequate action is undertaken it may even lead to a complete collapse of the multilateral official finance system, which would be extremely unfortunate. The seven pillars of the multilateral official finance system have functioned successfully during the past 40- 60 years, but today these pillars are at serious risk.

The joint action plan is also of utmost importance to maintain and restore the unique multilateral system for official finance to developing countries.

Concerted action is also in the interest to enhance international efforts to achieve the UN Sustainable Development Goals (UN SDGs), maintain the integrity of IMF / WB Debt Sustainability Framework, improve debt sustainability of low-income developing countries and ensure an orderly multilateral management of public debt problems of developing countries.

An enhanced multilateral official finance framework will assist in a better alignment of various forms of official finance (both from multilateral and bilateral sources) with other forms of public and private sources of capital for development. Those pillars of the official finance system that currently mainly work within their own pillar should seek a structural dialogue with other pillars of the system. This will assist in a better alignment of various forms of official finance. An "additionality ranking" of different forms of official finance would be very useful to avoid that for projects in developing countries (highly) subsidized forms of official finance replace or crowd out other forms of finance that do not need or benefit from substantial less official support. Subsidized development finance should be complementary to the market and not the other way around. The higher the subsidies involved the more prudency is required. The agenda is therefore important for the development of successful DFI mobilization strategies

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that truly catalyze additional capital and not replace other existing forms of capital. It can contribute to substantially enhance aid effectiveness and aid efficiency.

During the past ten years China has clearly transformed itself from an aid recipient country into the largest official financier of developing countries. This is a such a positive development and a great achievement of the country. China has also put the importance of infrastructure for development of developing countries high on the international agenda. Today, China is for most African countries (and for many other developing countries) far more important than the World Bank, but with a new leading official finance role for developing countries comes new responsibilities, which go beyond Chinese bilateral national interests.

During the past ten years China has clearly transformed itself from an aid recipient country into the largest official financier of developing countries.

Furthermore, the Chinese government has already for many years adequate access to market based finance and does clearly no longer need ODA and other non-market based / subsidized forms of official development finance from multilateral or bilateral Development Finance Institutions. China has currently a Long-Term Foreign Currency credit rating which is more or less equal to many major OECD countries (S&P: A+, Moody's: A1, Fitch: A+). The recent announcement of Japan to stop providing bilateral ODA to China is in this context exemplary and should be followed.

The US view that multilateral sovereign lending to China should be substantially reduced should be supported by other OECD countries. It will make more multilateral capital available for LDCs and other LICs that are highly dependent on development finance.

Relevant is as well that China had in 2017, after the USA, the 2nd highest military expenditures. This concerned a total amount of US$ 228 billion, which is substantially more than US$ 146 billion of global net ODA provided by all OECD DAC countries to all developing countries in 2017. From 2000 - 2017 Chinese military expenditures increased by 552%. These figures confirm that China does not need ODA or other forms of subsidized development finance.

From 2000 - 2017 Chinese military expenditures increased by 552%. This confirms that China does not need ODA or other forms of subsidized development finance.

In light of all these circumstances the official finance practices of China and the new unregulated official finance practices of some OECD countries should get the highest political attention within each individual EU member country and the EU Commission.

Together with other OECD governments (e.g. USA, Canada, Korea, Japan) the concerns regarding the current unlevel playing field on official finance and the potential collapse of the unique multilateral official finance system should be put as a priority issue on the agenda of the G-7 and G-20 and the multilateral development banks. This all should lead to a comprehensive framework for official finance within 2 years.

Priority issues – in order of importance – for a global framework for official finance should be:

1. Common regulations on all forms of tied aid and (partially) untied aid (e.g. ODA and multilateral or bilateral development finance), including an "additionality ranking" of all forms of official finance.
2. Common risk-based pricing system for all forms of cross border trade- or investment-related official finance / guarantees.
3. Minimum interest rates for all forms of cross border trade- or investment-related official finance / guarantees.
4. China should be strongly encouraged to become a permanent member of the Paris Club and to fully adhere to the IMF/WB DSF and OECD guidelines on sustainable lending to developing countries.
5. Common terms and conditions on maximum repayment periods, maximum grace periods, repayment profiles, minimum officially supported interest rates, maximum amounts for official support for all forms of cross border trade – and investment-related official finance/ guarantees.
6. Adequate and verifiable transparency on all forms of official finance with priority to (i) tied aid, (ii) export credits, (iii) untied development finance (multilateral and bilateral ODA and non-ODA), (iv) untied investment loans and guarantees and (v) other forms of official finance (e.g. equity investments).

Transition phase.

In the meantime, and as long as there is no adequate global framework on official finance, EU institutions (e.g. EIB and EU Commission / DEVCO) and individual EU member states should consider the implementation of the following additional action points:

A. On bilateral ODA and other forms of bilateral non-market based sovereign lending to the government of China.

1. EU Commission and individual EU member states should stop providing bilateral ODA and / or other forms of non-market based sovereign loans to the government of China. In this respect, the EU should follow the recent decision of Japan.

2. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

B. On <u>multilateral</u> concessional and non-concessional sovereign lending to the government of China (e.g. IBRD/IDA, ADB and AIIB).

3. The EU Commission and in particular individual EU member states in their capacity of shareholders in key Multilateral Development Institutions (DFIs) should ensure that relevant DFIs join the initiative mentioned under A and stop MDB sovereign lending to China.
4. In this area, the EU Commission and EU member states should seek support from other leading OECD countries that are shareholders in the DFIs involved. It is likely that this suggestion will be supported by the US government.

C. On procurement of goods and services for projects <u>within the EU</u> that benefit from official finance from EU institutions (e.g. EU Commission, EIB) and / or individual EU member states.

5. Chinese companies should be excluded from procurement for goods and services for projects inside the EU that are financed by the EU and / or individual member states.
6. This restriction should apply for as long as OECD companies do not have equal access to Chinese official finance for projects in the domestic market of China.

D. On procurement of goods and services for projects in developing countries that <u>benefit from official finance from EU institutions (e.g. EU Commission, EIB) and / or individual EU member states.</u>

7. Chinese companies should be excluded from procurement for goods and services for projects in all developing countries (including LDCs and HIPCs of the OECD DAC Recommendation) that are financed with ODA or other forms of bilateral official finance from the EU institutions and/ or individual EU member states. Other forms of official finance in this context includes for example (i) ODA, (ii) non-concessional development finance from EU DFIs, (iii) officially supported export credits and untied investment loans/guarantees from EU ECAs and EXIM banks.
8. As long as the exclusion concerns only one country, ODA remains according to the DAC definition untied aid and DAC members can where relevant continue to report it as untied aid in the OECD DAC. There is also sufficient competition among different suppliers, which ensures that the project can be done at the most favorable terms and conditions.
9. Integrate key sustainability criteria for the pre-selection of potential bidding companies for projects in developing countries that are supported by “official finance” provided by EU institutions and/ or individual EU member states. These pre-selection

sustainability criteria should at least include: (i) a clear verifiable positive track record on sustainability performance of the bidding company, (ii) assurance that the highest international standards and safeguard policies on ESG topics will be complied with for projects that benefit from such official finance from the EU.

10. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

E. On procurement of goods and services for projects in developing countries that benefit from official finance from Multilateral Development Finance Institutions.

11. Chinese companies should be excluded from procurement for goods and services for projects in all developing countries (including LDCs and HIPCs of the OECD DAC Recommendation) that are financed with ODA or other forms of multilateral official finance from Multilateral DFIs in which OECD countries are a major shareholder.
12. Integrate key sustainability criteria for the pre-selection of potential bidding companies for projects in developing countries that are supported by multilateral "official finance" provided by Multilateral DFIs in which OECD countries are a major shareholder These pre-selection sustainability criteria should at least include: (i) a clear verifiable positive track record on sustainability performance of the bidding company, (ii) assurance that the highest international standards and safeguard policies on ESG topics will be complied with for projects that benefit from such official finance from the multilateral DFIs.
13. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

F. On untying of aid.

14. The EU and individual EU member countries should only untie their business to other OECD (and non-OECD) countries on a reciprocal basis. Reciprocity should be fully transparent and verifiable and it must be ascertained that untied aid is not de facto tied.
15. The burden of proof that untied aid is actually untied and not de facto tied should lie with the donor country that reports untied aid. If no adequate proof is provided the aid should be considered as tied aid and future untied aid operations of the donor country involved should meet relevant OECD tied aid criteria.
16. All OECD and / or EU efforts on further untying of aid should be put temporarily on hold for as long as China has not joined a global framework on official finance. Only in this way adequate resources can be allocated for the development of a comprehensive global framework on official finance for developing countries. Moreover, a further untying of aid within the OECD is at this stage not the appropriate measure to tackle the massive unregulated official finance practices of

China and the official finance responses of OECD governments to these Chinese official finance practices.

G. On integrating new additional sustainability terms and conditions in to the OECD frameworks of ODA and / or officially supported export credits.

17. All OECD and / or EU efforts on further integrating new or additional sustainability criteria in the frameworks for ODA and/ or officially supported export credits, with the exception of those mentioned under action points 9 and 12, should be put temporarily on hold for as long as China has not joined a global framework on official finance. Only in this way adequate resources can be allocated for the development of a comprehensive global framework on official finance for developing countries. Moreover, a further integration of new sustainability criteria for OECD official finance is at this stage not the appropriate measure to tackle the massive unregulated official finance practices of China and the official finance responses of OECD governments to these Chinese official finance practices.

H. On maintaining the integrity of the IMF/ WB Debt Sustainability framework.

18. Given the current dominant role of non-Paris Club members in the debt of LDCs and HIPCs countries that fall under the IMF / WB DSF it is important that non-Paris Club members fully adhere to the relevant IMF/ WB guidelines and the OECD guidelines for sustainable lending and officially supported export credits. In this way transparency of official finance provided by non-Paris Club member can be improved. It will also be critical to enhance the cooperation between IMF/WB DSF and non-Paris Club members which is important to avoid unsustainable debt and new financial crisis in developing countries.
19. The cooperation should also cover non-Paris Club lending to other developing countries that have a high risk of debt distress or already face debt distress issues.

SFI hopes that this study contributes to a better understanding of the important issues that are at stake. It is fully prepared to contribute to any further discussion with key stakeholders on the topics raised. A constructive dialogue between key players involved is urgently needed to create a global level playing field and to restore and enhance the multilateral official finance system.

Where there is a will, there is a way, so it must be possible to move successfully forward. The UN SDGs, which include infrastructure, climate change, partnership for development and the importance of mobilizing private capital provide the direction about what needs to be done, so it is now primarily a matter of bringing people and organisations together and build the necessary bridges between them.

I. Introduction.

The European International Contractors[3] are deeply concerned about the current completely unregulated official finance practices of China, because they distort fair trade and investments and have a great negative impact on the operations of OECD construction companies and other companies that have a business interest (through trade and/ or investments) in developing countries, in particular in Africa. The unfair competition has in particular emerged after the introduction by the Chinese government of the Going Global Strategy (GGS) in 1999 and the Belt Road Initiative (BRI) in 2013.

The unfair competition has in particular emerged after the introduction by the Chinese government of the Going Global Strategy (1999) and Belt Road Initiative (2013).

In this study, the term "official finance" for developing countries is used on purpose, because unlike OECD countries, China does not make a clear distinction between (i) official development finance, which includes official Development Assistance (ODA) and other forms of multilateral and bilateral development finance and (ii) officially supported export credits. Official finance covers therefore any form of officially supported finance for developing countries, irrespective the motive for such financing. Furthermore, "official finance" can be provided through various financial instruments such as grants, concessional and non-concessional loans, guarantees, insurance and equity investments or any other financial instrument that is directly or indirectly supported by a government or multiple governments.

The distinction between official development finance and official export credits is very common in the OECD and within individual OECD countries. Development finance concerns financing that is provided to developing countries with the main intention to support their development. Within the OECD Development Assistance Committee (DAC) the developmental objective of developing countries should be key to be recognized as a Development Finance Institution (DFI). This is assessed by the looking at the formal business mandate of a DFI, which is usually explicitly laid down in the legal statutes of the organization. This so-called institutional approach to assess the developmental motive implies that other official financial institutions that have a positive impact on developing countries but do not have an explicit developmental mandate, are not recognized as DFI.

[3] European International Contractors e.V. (EIC) is an European association with member construction industry trade associations from fifteen European countries and represents the interests of the European construction industry in all questions related to its international construction activities. For further information, it is referred to EIC's website: http://www.eic-federation.eu

It also explains why they are usually not involved in OECD DAC discussions on development finance.

The role of official Export Credit Agencies (ECAs).

ECAs exist in many OECD and non-OECD countries. Their main objective is to support exports and foreign investments from their home country. Leading ECAs are member of the so-called Berne Union, which is a global association of credit and political risk insurers. Berne Union members supported in 2016 11.1% of global exports. At the end of 2016 the total MLT exposure of Berne Union members in both Medium and Long Term (MLT) export credits and investments was approx. US$ 961 billion. This amount is more than 200% of the outstanding exposure of leading DFIs on developing countries, which in 2016 stood at approximately US$ 419 billion.

Outstanding exposure of leading MDBs in 2016 (in billion US$)

MDB	Loans	Equity	Guarantees	Total
IBRD/IDA	167.643	0	5.198	172.841
IFC	23.910	10.793	3.478	38.181
ADB	67.599	1.187	2.105	70.891
IaDB	81.952	0	230	82.182
AfDB	21.641	104	565	22.310
EBRD	26.213	5.949	638	32.800
Total	388.958	18.033	12.214	419.205

Source: Berne Union and MDB annual reports 2016.

Official Export Credit Agencies and EXIM banks could be perceived as special national development institutions (more or less comparable to national development banks) that are specifically mandated to support exports and investments from their home country to grow the national economy by generating hard currency income, additional tax income for governments and creating sustainable jobs. Most ECAs / EXIM banks have also special programs to assist Small and Medium-sized Enterprises (SMEs) in their export business. Mandates of ECAs/ EXIM banks and multilateral and bilateral DFIs are therefore different, but the differences are not that big and the financial products that are used are more or less the same. Both play a very critical role in financing the import – and investment needs of developing countries, including those in infrastructure. Both DFIs and ECAs have an important positive developmental impact in developing countries.

DFIs and ECAs have different mandates, but both have an important positive developmental impact in developing countries.

During the past 40 – 60 years the international community built a unique, but rather complex, multilateral system for official finance to developing countries. The system covers (i) official development finance (ODA and other forms of development finance), officially supported export credits, multilateral debt rescheduling in the so-called Paris Club and public-sector debt management. It is based on seven key pillars of which some cooperate frequently with one another and some on an ad hoc basis.

These seven key pillars include (i) the IMF, (ii) Multilateral Development Banks, (iii) Bilateral Development Banks, (iv) ODA aid agencies, (v) the Paris Club, (vi) official ECAs and EXIM banks, and (vii) the World Trade Organization (WTO). Behind these organizations are the "guardian authorities", usually represented by ministries of finance, trade and industry and development cooperation / foreign affairs.

The seven key pillars of the multilateral official finance system.

Multilateral Official Finance System

Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5	Pillar 6	Pillar 7
International Monetary Fund (IMF) Established in 1945.	**Multilateral Development Banks** IBRD established in 1944, followed by many other MDBs.	**Bilateral Development Banks** e.g. KfW established in 1948, followed by other BDBs.	**OECD DAC and ODA aid agencies** OECD DAC established in 1960.	**Paris Club** Established in 1956.	**OECD Export Credit Group and OECD-Arrangement member countries** ECG established in 1963 and OECD Arrangement in 1978.	**WTO** Established in 1995, succeeding the GATT which was signed in 1948.
Key tasks	**Key tasks**	**Key tasks**	**Key tasks**	**Key tasks**	**Key tasks**	**Key tasks**
Helping countries in financial distress. Lender of last resort, combined with preferred creditor status and exemption from Paris Club rescheduling. Technical assistance. Monitoring international finance.	Development finance for public and private sector borrowers in developing countries. Lenders of last resort, combined with preferred creditor status and exemption from Paris Club rescheduling. Technical assistance. Mobilizing private capital for development.	Development finance for public and private sector borrowers in developing countries. Technical assistance Mobilizing private capital for development.	Regulations for ODA and other forms of development finance. Monitoring aid performance of key ODA donors in context of UN target 0,7% of GNI. Transparency regarding ODA to enhance mutual trust and maintain the integrity of ODA regulations. Mobilizing private capital for development (i.e., blended finance) ODA Aid Agencies provide ODA	Six Paris Club Principles Well-coordinated and transparent multilateral debt work-outs for countries in financial distress, in close cooperation with IMF. Debt rescheduling covers bilateral (i) bilateral ODA & other forms of bilateral development finance and (ii) officially supported export credits.	OECD Arrangement for officially supported export credits (incl. tied aid) aimed at a level playing field for exporting companies from member countries and avoiding a credit subsidy race among member countries. Transparency regarding export credit to enhance mutual trust and maintain the integrity of export credit regulations. ECAs/ EXIM banks provide officially supported export credits and investments	Rules for forbidden export subsidies/ export promotion programs. Regulations for orderly functioning of international trade and investments. Arbitration of trade disputes Monitoring developments of international trade.

Source: SFI analysis.

The international official finance system is a rules-based system developed over 40 – 60 years to ensure an orderly functioning of international official financial markets and includes detailed regulations for development finance, official export credits, financial and technical assistance for countries in debt distress and debt rescheduling for developing countries of bilateral debt to major creditor countries on a multilateral basis in the Paris Club. The system has functioned reasonably well during the past 40 – 60 years, because it is to a large extent based on consensus decision making and a great level of transparency on official finance operations and performance to cement mutual trust and joint learning of best practices so that the system can adjust within a reasonable time to a continuous changing business environment.

Paragraph II of this paper describes recent developments in Africa, the increased role of Chinese construction companies in Africa among which mainly State-Owned Enterprises (SOEs). Furthermore, it provides insights into the current official finance practices of China and the key actors involved. There are four official policy institutions, namely China EXIM bank (C-EXIM), the ECA-insure Sinosure, China Development Bank (CDB) and the Agricultural Development Bank of China (ADBC), which are all fully owned and controlled by the Chinese government. The success of Chinese construction companies in Africa and other developing regions is to a large extent attributable to the enormous official finance sources that are made available by the Chinese government to support their national companies in developing countries.

Paragraph III covers the main distortive issues regarding Chinese official finance practices. It explains ten main topics of great concern that cause unfair competition and pose a serious threat to the multilateral official finance framework. Given the dominant official finance role of China in Africa – China is already for many years more important to Africa than the World Bank – the multilateral official financial system continues to lose its relevance. It is subject to a serious erosion. Annex I to this paper provides a comprehensive overview of 30 key distortive factors that triggered this process. At the core of the distortive issues lies the fact that China participates only fully in pillars 1, 2, 3 and 7 of the multilateral official finance system. Thus far, it has refused a formal membership of three other key pillars, namely the OECD DAC, Paris Club and the OECD Arrangement on officially supported export credits.

Paragraph IV describes some key developments in the complex world of official finance in OECD countries. It covers different responses from various OECD countries to the unregulated competition from China. It led amongst others to a substantial increase of tied aid and unregulated official finance practices of certain OECD governments. These OECD developments further fuel the erosion of the multilateral official finance system.

The two forces combined – i.e. the Chinese unregulated and highly distortive official financing practices and the responses of some key OECD countries may, if no adequate action is undertaken, lead to a complete collapse of the multilateral official finance system.

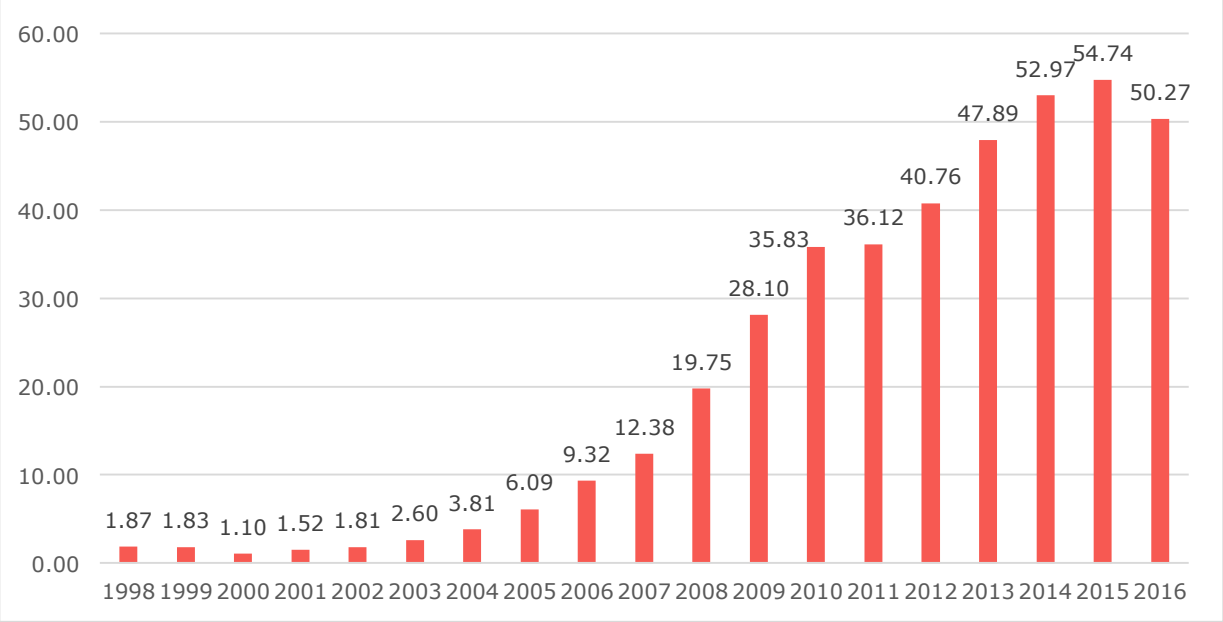
This will amongst others imply a renewed race to the bottom at the costs of government budgets and taxpayers in donor countries.

Paragraph V calls therefore for a concerted action of OECD and non-OECD governments, Multilateral DFIs, Bilateral DFIs, ODA aid agencies, ECAs and EXIM banks and the guardian authorities behind these official finance agencies to create a global level playing field for internationally operating construction companies and restore and even enhance the multilateral official finance system. For this reason, an adequate multilateral framework for all forms of official finance for developing countries needs to be developed. This paragraph provides a detailed action plan for EU and other OECD member countries to achieve the objectives.

II. Infrastructure in Africa: the increasing role of China.

During the past 20 years the role of China in financing infrastructure in Africa increased substantially. In 1998 the annual gross revenues of Chinese contractors in Africa was approximately U$ 1,87 billion, which increased to US$ 54,7 billion in 2015 and dropped slightly to US$ 50,3 billion in 2016. The cumulative gross revenues of Chinese contracting companies in Africa was during the seven-period 2010 – 2016 in total US$ 318,6 billion, which is on average US$ 45,6 billion a year.

Gross annual revenues of Chinese contractors in Africa (in billion US$)



Source: China-Africa Research Initiative.

This impressive growth reflects the success of the "Going Global Strategy" (GGS)[4] and "Belt Road Initiative" (BRI)[5] of the Chinese government. The BRI initiative, which was launched in 2013, has a focus on public sector infrastructure investments (e.g. roads, railways, seaports and airports). It is estimated to cost between US$ 4 and US$ 8 trillion and expected to stretch from East Asia to East Africa and Central Europe and be completed in 2049.

During the years 1998 – 2016 the main African countries that sourced construction services from Chinese construction companies were Algeria (US$ 58.6 billion), Angola (US$ 52.7 billion), Nigeria (US$ 34.5 billion), Ethiopia (US$ 30.7 billion and Kenya (US$ 16.7 billion).

Top 15 key markets for Chinese contractors in Africa (1998 – 2016 and in million US$).

No.	Country	Amount	No.	Country	Amount
1	Algeria	58.614,0	9	Sudan	11.950,2
2	Angola	52.691,6	10	Egypt	11.910,8
3	Nigeria	34.461,7	11	Zambia	11.861,8
4	Ethiopia	30.708,8	12	Ghana	10.508,3
5	Kenya	16.749,0	13	Libya	8.749,0
6	Former Sudan	15.678,6	14	Uganda	6.535,7
7	Equatorial Guinea	15.276,5	15	Mozambique	5.925,9
8	Congo Rep.	14.681,4			
	Total top 15	*306.303,3*			
	Other African countries	102.471,7			
	Total Africa	*408.775,0*			

Source: China-Africa Research Initiative.

In 2017, the international turnover of European contractors affiliated to EIC's Member Federations in Africa amounted to € 14 billion (approx. US$ 16.07 billion)[6]. The turnover of Chinese contractors in Africa in 2016 was almost 3 times more than the turnover of leading European contractors in 2017.

II.1. China and "official finance".

In the international expansion of Chinese contracting companies in Africa officially supported finance provided by the Chinese government plays a crucial role. Unlike OECD countries, a clear distinction between (i) officially supported export credits and (ii) official development finance (e.g. ODA or other forms of development finance) does not exist in China. Official

4 The GGS was launched in 1999 as a call to encourage outward direction investment (ODI) in line with national strategic objectives. In particular, the policy was intended to accelerate the acquisition of foreign technology and expertise. Other goals include managing overcapacity in the Chinese market, access to natural resources (e.g. oil & gas) to meet domestic growth needs, improving the brand recognition of Chinese products, and diversifying product offerings by catering to foreign markets.
5 The BRI was introduced in 2013. It is a major geopolitical strategy to build up infrastructure, trade, investment and human linkages across Eurasia. It comprises of a 'Silk Road Economic Belt' through Central Asia and a 'Maritime Silk Road' extending via the Indian Ocean to the Middle East.
6 Source EIC statistics, which provides data about the construction business of EU construction companies in Euro. The exchange rate used is 1 Euro = U$ 1,14793 (23 October 2018).

finance in this paper covers therefore any form of government supported finance irrespective the motive of such financing[7]. It has to be mentioned that all official finance provided by China is tied to procurement of goods and services from China. This is usually also the case for officially supported export credits from OECD countries, but not for development finance. A substantial part of OECD development finance (bilateral ODA and other forms of development finance) concerns untied development finance.

By providing official finance, China aims to promote three core objectives: diplomacy, ideological values, and business. First, it secures diplomatic support for the One China Policy (i.e. diplomatic recognition of China and rejection of Taiwan). Second, Chinese engagement in other countries is also determined by the need for natural resources of China to develop its own economy. This is the reason why resource-backed financing form an essential part of China's officially supported financing program. Third, China provides official financing to promote its own economic interests. For example, China wants to support their companies among which many SOEs in exporting to developing countries (partially also to manage overcapacity in the domestic market), support development of developing countries, not only for the benefit of developing countries, but also because richer developing markets can buy more Chinese exports, produce key investment opportunities for Chinese firms, and provide natural resources.

In the context of this political agenda China refers to "South-South" cooperation with Africa and other developing regions, but de facto it concerns only or mainly officially supported export credits. An important initiative for enhanced cooperation with Africa was launched at the first international Forum on China-Africa Cooperation (FOCAC) in 2005 where China committed officially supported financing of US$ 5 billion for Africa. In subsequent FOCAC meetings, which since 2005 are held approximately every three years, this commitment increased to US$ 10 billion in 2009, US$ 20 billion in 2012 and US$ 60 billion in 2015. In September 2018 China pledged again US$ 60 billion to Africa[8].

In September 2018 China pledged again $ 60 billion to Africa.

FOCAC commitments of China to Africa 2005 – 2018

Year	Amount in billion U$
2005	5
2009	10
2012	20
2015	60
2018	60
Total	*155*

Source: Forum of China-Africa Cooperation.

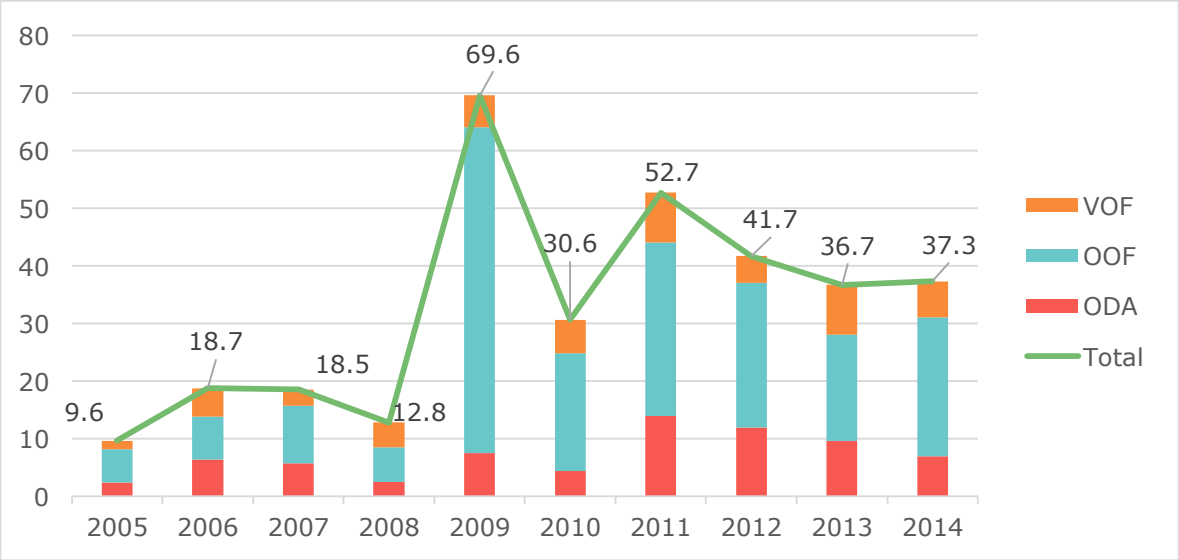
[7] In the OECD world "Official Finance" is separated in (i) officially supported export credits (with the motive to supports exports) and development finance (with the motive to support development in developing countries). Both forms of official finance have their own regulations. Development finance can be split in (i) concessional finance which is Official Development Assistance (ODA) and (ii) non-concessional development finance. Non-concessional finance includes subsidized bilateral development loans to governments with a concessionality below 25% and market-based development finance to private borrowers in developing countries.

[8] The Chinese FOCAC commitments were each time for a period of 3 years. So, the $ 60 billion commitment in Sept 2018 covers an annual financing support of at least $ 20 billion.

The size and growth of these 3-year commitments show the political and business interests of China in Africa.

In a study of AidData[9] it is estimated that China financed globally during the period 2005 – 2014 a total amount of US$ 328 billion, of which US$ 70.9 billion ODA-like, US$ 204.3 billion OOF-like (non-concessional loans and export credits) and US$ 53 billion "Vague Official Finance[10]. It is highly questionable whether Chinese official finance can indeed be characterized as ODA-like, because the "south-south cooperation loans" do not have "*promotion of the* economic development and welfare of developing countries *as its main objective* (see the ODA-definition in annex V).

China global official finance in billion US$ (2005 – 2014).



Source: Aiddata

China is currently the global leader in providing MLT export credits. According to the US EXIM competiveness report 2017 China supported in 2017 US$ 36.3 billion of new export credit transactions, followed by India (US$ 9,7 billion), Italy (US$ 8.9 billion), Korea (US$ 7.9 billion), Germany (US$ 7.0 billion) and France (US$ 6.8 billion). Japan ranked no. 11 with a new MLT export credit business of US$ 2 billion[11], whereas the US ranked 25th with a

[9] AidData. 2017. Global Chinese Official Finance Dataset, Version 1.0. Retrieved from http://aiddata.org/data/chinese-global-official-finance-dataset.

[10] The research by Aid data covers Chinese global official finance. A distinction is made between ODA-like, OOF-like and Vague Official Finance (VOG) of Chinese Government-financed projects. Chinese ODA-like projects refer to projects financed by Chinese Government institutions that have development intent and a minimum level of concessionality (a 25 percent or higher grant element). Chinese OOF-projects refer to projects financed by Chinese Government institutions that have a commercial or representational intent and/or lack a grant element of 25% or more. Projects assigned to the Vague Official Finance category are Chinese Government-financed projects where there is insufficient information in the public domain about concessionality and/or intent to make a clear determination as to whether the flows are more akin to ODA or OOF. Total Chinese Official Finance (OF) is therefore the sum of all projects coded as ODA-like, OOF-like, or Vague (Official Finance).

[11] This figure of Japanese exports credits does not include so-called non-Arrangement business of Japan. See further paragraph IV.1 regarding the increase of so-called non-Arrangement business.

volume of US$ 0.2 billion[12]. China's share in new MLT export credits was in in 2017 33.33% of the total MLT export credits provided by 33 countries. These figures show the impressive official export credit support provided by China for the exports of capital goods and construction services. Annex II provides an overview of the new MLT official export credits in 2017.

Chinese financing packages for infrastructure projects in Africa often consists of a combination of (semi-)concessional loans and export credit loans, which are highly competitive and can normally not be offered by OECD governments, because relevant OECD regulations restrict these type of distortive mixed credit practices[13].

Chinese combination of concessional "development" loans and export credits

Ghana, Bui Dam project, 2013

The Bui Dam project was estimated at $ 622 million. It was financed by China EXIM bank through two loans: a concessional loan of $ 263.5 million, as well as an export credit of $ 298.5 million. In addition, the Ghana Government financed $ 60 million. The two Chinese loans are expected to be repaid in part by the supply of cocoa at the current market prices. Consistent with the Chinese practice of linking their aid to Chinese construction services, the Bui Dam project was undertaken by the Sino hydro Corporation - a state-owned Chinese construction firm.

The terms and conditions of the financing package of a tied concessional loan with a tied export credit are in OECD countries only allowed if the total financing package has a minimum concessionality level of 35%. This is very likely not the case for the Chinese financing package for this dam project.

II.2. Key Chinese government agencies involved.

Key actors in providing Chinese official support are two official Export Credit Agencies (ECAs) of China – China EXIM Bank (C-EXIM) and the official credit and political risk insurer Sinosure – and two Chinese policy banks, namely the China Development Bank (CDB) and the Agricultural Development Bank of China (ADBC). These four institutions are the core of China's official export finance and development finance infrastructure.

Sinosure is the ECA-insurer of the Chinese government and is the largest official ECA-insurer in the world. It offers all kind of credit and political risk insurance products and is not involved in direct lending activities. In particular after the launch of the Going Global Strategy Sinosure expanded its business substantially. In 2008 its total export credit insurance business was US$ 48,3 billion, which increased to US$ 358.2 billion in 2013[14]. The new MLT

[12] USEXIM lacked in 2017 a board quorum, which made it impossible to approve LT export credits in 2017. It is unknown when USEXIM will be able to resume its LT export credit business. These MLT export credit figures exclude "non-arrangement business" of the ECAs and other official agencies concerned. This is further explained in paragraph IV.1.

[13] There are very strict OECD standards and procedures for tied aid to avoid distortion of competition. OECD regulations allow OECD governments to match distortive financing offers of other countries, but this usually requires detailed evidence of the financing packages of competing exporting countries, which is difficult to obtain. Chinese financing is highly intransparent. Matching of competing tied aid offers is therefore not very common.

[14] Source: Chinese export credit policies and programmes, a study for the OECD, published in March 2015. See: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/ECG%282015%293&doclanguage=en
Official Finance Practices of the PR China: Distortion of competition, OECD responses and the threat to the Multilateral Official Finance System. A study for European International Contractors, conducted by Sustainable Finance & Insurance. 12 November 2018.

insurance business, which is in particular of importance for insuring infrastructure projects, totaled in 2013 US$ 48,9 billion.

Sinosure is the ECA-insurer of the Chinese government and is the largest official ECA-insurer in the world.

It is likely that Sinosure expanded further in the years thereafter. Sinosure does not publish annual reports, which makes it impossible to assess whether the Chinese export credit guarantee program is self-sustainable in the long term or whether it concerns forbidden export subsidies (see also below regarding OECD minimum premiums and WTO rule).

Growth of Sinosure's export credit and investment insurance activities 2008 - 2013

Line of Insurance business	2008	2013	% growth
ST export credits	40,6	309,3	761,8%
MLT export credits	2,6	18,2	700,0%
MLT investment insurance	5,1	30,7	602,0%
Total:	48,3	358,2	741,6%

Source: OECD

In lending to governments in Africa the three policy banks, in particular C-EXIM and CDB play an important role[15]. The table below shows the combined annual new sovereign loans to African governments in the period 2000 – 2017. In that period Chinese, cumulative lending to African governments was US$ 143.3 billion. The top year was 2016 with more than US$ 30,4 billion of new loans.[16] To put Chinese financing of African governments in perspective: In 2016 IBRD/IDA committed a total financing of US$ 9,35 billion to sovereign borrowers in Africa, of which US$ 8,7 concessional IDA loans and US$ 669 million of "non-concessional" IBRD loans[17]. Chinese sovereign lending to Africa was in 2016 therefore three times more than that of the World Bank.

Chinese sovereign lending to Africa was in 2016 three times more than that of the World. Bank.

Official Chinese financing is provided to African governments and / or State-Owned Enterprises (SOEs). In the latter case repayment of loans is usually fully guaranteed by an African government and in many cases the repayment obligations are backed by a long-term

More recent information about Sinosure's business is not publicly available. Sinosure does not publish its' annual reports.

[15] Annex IV provides information about the loans that were provided by C-EXIM, CDB and other official financiers in the period 2000 - 2015.

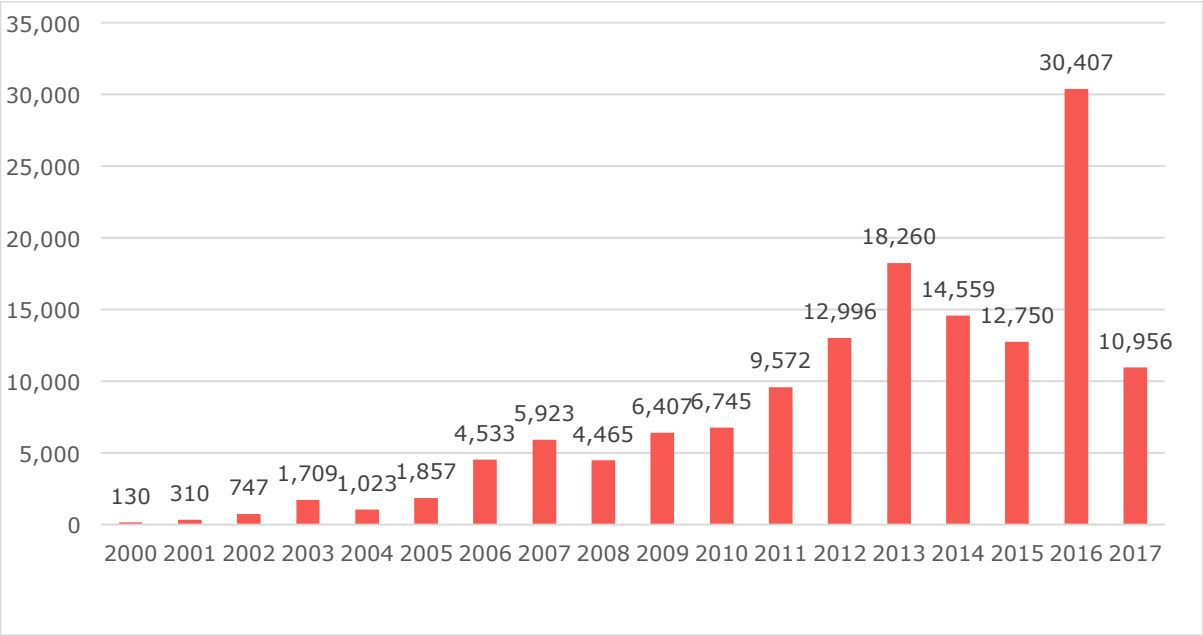
[16] Data about the annual official credit insurance support provided by Sinosure are not available, because Sinosure does not publish its annual reports. Furthermore, the table does not include information about the financing activities of the Agricultural Development Bank of China, (the third Chinese policy bank) and / or other state-owned commercial banks. This implies that the figures in the table do not provide a complete picture of all Chinese officially supported finance for Africa.

[17] Source: IBRD annual report 2018.

commitment to deliver certain natural resources (e.g. oil and gas). Examples of Chinese resource-backed financing to African SOEs and governments can be found in annex III

The most important sovereign borrowers are Angola (US$ 42.8 billion), Ethiopia (US$13.7 billion), Kenya (US$ 9,8 billion) Republic of Congo (US$ 7,4 billion) and Sudan (US$ 6,4 billion). Most financing was provided by C-EXIM and CDB. Annex IV provides a complete picture of the top 15 African borrowers of Chinese official finance.

Annual new Chinese official finance to sovereign borrowers in Africa in million US$

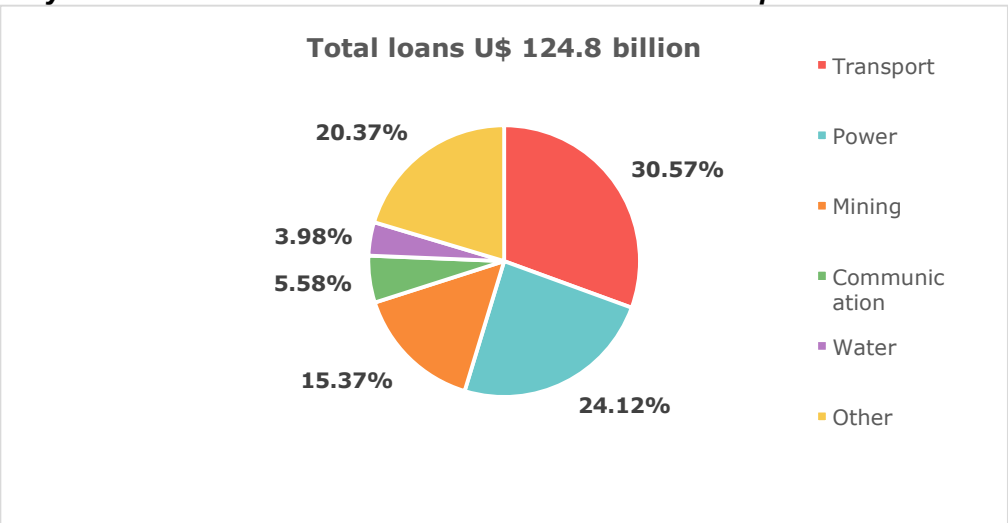


Source: Aiddata

The vast majority of the Chinese official finance is used to finance public sector infrastructure projects in Africa. In the period 2000 – 2016 Chinese official lenders, in particular C-EXIM and CDB, provided loans with a total amount of US$ 124.8 billion, of which at least 64.24% was used for public sector infrastructure among which transport (30.57%), power (24,14%), communication (5.58%) and water (3.98%). The focus on (public) infrastructure explains why the distortive nature of Chinese official finance is in particular experienced by OECD construction companies.

The focus on infrastructure explains why the distortive nature of Chinese official finance is in particular experienced by OECD construction companies.

Key sectors of C-EXIM and CDB loans to Africa in the period 2000 – 2016



Source: AidData.org

III. The main issues regarding Chinese official finance practices.

The substantial growth of the business of Chinese construction companies in Africa is to a large extent attributable to the enormous financial support these companies receive from their government and the fact that Chinese official finance is not governed by OECD standards on export credits and development finance, which leads to a serious unlevel playing field for construction companies from OECD countries and their official finance Agencies (e.g. ECAs, EXIM-banks, bilateral DFIs, ODA Aid Agencies). China offers official Government-to-Government financing packages, which are highly distortive. Annex I provides a comprehensive list of 30 topics, which explain the immense differences in official finance practices between OECD governments and China. All these differences combined lead to a serious unlevel playing field for OECD construction companies, which need to be addressed urgently.

The main issues of concern are the following:

III.1. Unfair competition between OECD private construction companies and Chinese State-Owned Enterprises.

Most Chinese construction companies that are active in Africa are State-Owned Enterprises (SOEs) and benefit from general government support in their domestic and foreign operations. In the domestic market the SOEs have de facto a monopoly position, benefit from preferential treatment and have access to relatively cheap government supported finance. Revenues generated in the domestic monopolistic market can be used to cross-subsidies foreign operations. In addition, the overseas operations of Chinese SOEs are heavily supported by the Chinese policy banks and ECA-insurer Sinosure. All these aspects

lead to a serious unfair competition between Chinese SOEs and OECD construction companies across the globe.

An interesting example of close cooperation between the Chinese government and Chinese SOEs concerns the construction of a new head office for the African Union (AU) in Addis Ababa, Ethiopia in 2012. This project shows that China pursues also other objectives in constructing infrastructure in Africa. The new AU head office costed approximately US$ 200 million and included the delivery of complete computer systems. It was a gift from China to African countries. The new building was built by the Chinese SOE "China State Construction Engineering Corporation". In 2017 African Union officials accused China of hacking its headquarters' computer systems every night for five years and downloading confidential data. The fact that the hack remained secret for a year after being discovered and that the AU was not commenting publicly demonstrated China's dominant relationships with African states. A new form of "preferred creditor status[18]" has apparently emerged. The data theft was exposed by the French newspaper Le Monde Afrique[19]. China denied the accusation.

III.2. Chinese official support is not governed by international regulations on officially supported export credits and development finance, which further deepens the unlevel playing field for EU construction companies.

In the OECD world, a distinction is made between (i) officially supported export credits and (ii) development finance, which consists of concessional Official Development Assistance (ODA) and other forms of development finance (semi-concessional and non-concessional). Annex V provides a broad overview of the most important key concepts and definitions concerning officially supported export credits and development finance.

Here below follows a description of some key official finance issues that are causing a severe distortion of competition.

III.2.1. Minimum premiums for officially supported export credits.

Governments that have an export credit insurance or guarantee program should according to WTO regulations (see annex VI)[20] charge premiums that are not inadequate to cover their

[18] Multilateral development banks (MDBs) and the IMF, both acting as lenders in last resort, have a de jure or de facto preferred creditor status, which means that there is an understanding between the **MDB** and a sovereign borrower that the former gets its principal and interest repaid by the latter before any other lenders (i.e. commercial lenders or other bilateral official lenders). This status is recognized by international credit rating agencies as an important factor that positively influences the credit rating of an MDB. In addition, the "callable capital" (de facto a kind of a guarantee) from highly rated countries is another factor that determines the credit rating of an MDB.

[19] See also article "African Union accuses China of hacking headquarters" in the financial times of 29 January 2018.

[20] Annex I to the GATT agreement on subsidies and countervailing measures covers a list of prohibited export subsidies. Regarding guarantee programs, it stipulates that the provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases

long-term operating costs and losses. This WTO principle lies also at the heart of the OECD agreement on minimum premiums, which apply to both export credit insurance / guarantees and direct lending operations of all OECD Arrangement members. These minimum premiums were not only developed to meet the WTO obligation, but also to avoid distortion of competition between various ECAs and exporters that are caused by ECA-premium differences. Furthermore, the rules have been set to avoid a credit subsidy race between OECD governments, because ultimately the ECA export promotion schemes involve scarce governments budgets and tax payers' money. The minimum OECD ECA risk premiums are based upon a joint risk assessment by all OECD ECAs of the financial, economic and political situation of countries. Non-OECD countries are classified in 7 risk categories, of which risk category 1 is the lowest risk and risk category 7 the highest risk. In the design of the minimum premiums market based pricing benchmarks were also taken into account. The system is furthermore fed by the joint payment experiences of OECD ECAs with developing countries. These minimum premium rules have been highly effective to avoid pricing distortion of competition in the export finance business between OECD ECAs.[21] The OECD country risk classification, which includes sovereign risk ratings of developing countries is explicitly recognised by the Bank for International settlements (BIS) as an adequate external rating system. This reflects the robustness of the OECD ECA country risk classification system.

Since China is not a member of the OECD Arrangement on officially supported export credits, these minimum premiums (including the country risk ratings) do not apply to Chinese export credits, which gives huge competitive advantages to Chinese ECAs, policy banks and construction companies.

The OECD country risk classification is explicitly recognised by the Bank for International settlements (BIS) as an adequate external rating system.

Given the lack of transparency of the performance of the Chinese export promotion programmes it is unknown whether China meets the WTO obligation of adequate premiums to cover long terms costs and losses.

III.2.2. For official export credits governments may not provide interest rates below their own funding costs.

According to WTO regulations governments are for their export lending programs not allowed to charge interest rates which are below their own funding costs (see annex VI). The terms and conditions of China's official finance to sovereign borrowers in Africa are not

in the cost of exported products or of exchange risk programmes, at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes is a forbidden export subsidy.

[21] More information about the OECD minimum premium for officially supported export credits can be found on the following website of the OECD: http://www.oecd.org/tad/xcred/

disclosed, but it is likely that many of their tied South-South cooperation loans and / or export loans benefit from interest rates far below the funding costs of the Chinese government. It is likely that these loans are not in conformity of the WTO.

In the OECD Arrangement on officially supported export credits there are in light of the WTO export financing rule special provisions regarding minimum (fixed) interest rates that OECD governments are allowed to support. This concerns among others the so-called the Commercial Interest Reference Rate (CIRR). CIRRs are the official lending rates of official OECD ECAs. They are currency specific, take into account the tenor of the financing and are based on government bonds issued in the country's domestic market for the country's currency. Export credits with fixed interest rates below the CIRR are not allowed.

CIRRs for Chinese Renminbi loans do simply not exist and China is not obliged to follow OECD CIRR practices for its foreign currency loans. This creates competitive advantages for Chinese ECAs, policy banks and construction companies. Again, due to the lack of transparency of Chinese official financing activities it is impossible to assess whether China complies with the WTO obligation on export finance support.

III.2.3. Export credit regulations regarding key lending terms and conditions.

The OECD Arrangement covers detailed regulations on maximum repayment periods, maximum grace periods, repayment profiles (at least semi-annual repayment of principal and interest). Furthermore, OECD's ECAs require a 15% down payment, which implies their maximum support for an export credit is restricted to 85% of the export contract value. Local costs may be supported, but it may not exceed 30% of the value of the export contract. The OECD has also minimum interest rates for fixed interest rates (e.g. CIRR).

All these OECD regulations do not apply to China. China can easily offer far more favourable financing terms, which leads to great competitive advantages for Chinese ECAs, policy banks and construction companies.

III.2.4. Tied aid rules and Chinese tied aid practices.

Regarding tied aid, the OECD Arrangement on officially supported export credits rules:

- prohibit the provision of tied aid with a concessionality level of below 35%, or 50% for Least Developed Countries, and
- set country and project eligibility criteria to help ensure that tied aid is directed where it is most needed and does not crowd out commercial transactions in more developed countries.

The country eligibility process is designed to avoid subjective or potential trade distortive behavior. The country eligibility criterion for tied aid is built on existing World Bank *per capita*

GNI data: once a country's *per capita* GNI has been above the upper limit for lower middle-income countries for two consecutive years, it becomes ineligible for tied aid. Currently nine African countries are ineligible for tied aid, which includes Algeria, Botswana, Equatorial Guinea, Gabon, Libya, Mauritius, Niger, Seychelles and South Africa. (See also Annex VII).

The project eligibility process is set to ensure that tied aid is not extended to public or private projects that should normally be commercially viable if financed on market or Arrangement terms. The project eligibility process includes, on demand, a case-by-case discussion among OECD Arrangement members to determine whether the project discussed is commercial non-viable and therefore eligible for tied aid. OECD governments can challenge intentions to provide tied aid of other OECD countries. There are strict procedures that need to be followed before an OECD government is allowed to commit to provide tied aid.

In addition, tied aid with a concessionality level of 80% or more, and tied aid to Least Developed Countries (LDCs as defined by the United Nations) are not subject to the country or project eligibility criteria abovementioned.

It is important to note that for the calculations of the required minimum concessionality levels for tied aid of 50% for LDCs and 35% for other countries a special discount rate is used, which differs substantially from the standard 10% discount rate for the calculation of minimum concessionality level for ODA. For tied aid the discount rates are currency specific, take into account market interest rates for sovereign donor countries and the tenor of the loan. Today's discount rates for tied aid credits with a tenor between 15 and 20 years are for the Euro 1.7% and for the US$ 3.7%[22]. These Differentiated Discount Rates (DDRs) reflect market interest rates more accurately than the general 10% discount rate for ODA. Tied aid requires therefore also substantial higher donor subsidies than ODA.

Furthermore, according to OECD regulations tied aid can be provided in various forms, namely through grants, loans, mixed credits, parallel or joint cofinancing, associated financing packages whereby export credits are de jure or de facto linked to an ODA facility. Contract splitting, through which application of tied aid rules could be circumvented, is not allowed.

Chinese tied aid practices are highly distortive and do not meet relevant OECD regulations.

The table below assumes that all Chinese loans to African public-sector borrowers provided in the period 2000 – 2015 were de facto tied aid loans[23]. This was a total amount of US$ 94,4 billion, of which US$ 15.5

[22] These are the so-called Differentiated Discount Rates (DDRs) that are published by the OECD Export credit secretariat. The DDRs vary by currency and tenor of the financing.

[23] This assumption is not unreasonable given the fact that many Chinese export credits to African governments are often combined with (semi-)concessional loans. These financing packages are in the OECD world called "mixed credits" or "associated financing". Tied aid minimum concessionality levels would have to be applied to the entire financing package and

billion would have to meet a concessionality level of 35% and US$ 61,6 billion a concessionality level of 50%. In total US$ 4.7 of Chinese loans were granted to countries that are ineligible for tied aid. (for more details see Annex VII).

Because China is not a member of the OECD Arrangement it can provide tied aid loans with substantial lower aid subsidies, which is a big advantage for China and their national construction companies. It can even provide tied aid to nine African countries that according to OECD regulations are not eligible for tied aid.

C-EXIM and CDB loans and OECD tied aid minimum concessionality levels.

OECD tied aid regulations	No of African countries	Cumulative Chinese loans 2000 – 2015
Eligible for tied aid with min. concessionality level of 35%	12	25.530,41
Eligible for tied aid with min. concessionality level of 50%	33	61.662,87
Not eligible for tied aid	9	4.793,60
Regional Facilities	-	2.4453,98
Total	**54**	**94.440,86**

Source: calculations are based upon loan data of C-EXIM and CDB from AidData and the OECD country classification for tied aid of July 2018.

III.2.5. Strict international anti-corruption guidelines for officially supported export credits do not apply to Chinese official finance.

There are many reports on alleged and even proven Chinese corruption practices in Africa. Over the past 13 years, two of China's biggest telecom companies, Huawei and ZTE, have been implicated in corruption scandals in at least 15 African countries[24]. In 2017, the U.S. arrested the emissary, Patrick Ho, of CEFC Energy Company—a multinational Chinese company linked to the Chinese Communist Party—for bribing officials in Chad and Uganda on behalf of CEFC and the state-owned China National Petroleum Corporation. A scandal erupted in 2008 in Namibia when a Chinese company helmed by then-Chinese President Hu Jintao's son bribed Namibian officials to win a contract. Problem is that these corrupt business practices of Chinese companies or individuals

Huawei and ZTE, have been implicated in corruption scandals in at least 15 African countries.

not only to the concessional loan. If that were the case for China, it would have to provide substantial additional aid subsidies to meet OECD minimum concessionality levels.

[24] According to various sources these countries include Algeria, Benin, Cameroon, Ethiopia, Gabon, Gambia, Ghana, Kenya, Liberia, Nigeria, South Africa, South Sudan, Uganda, Zambia and Zimbabwe.
Official Finance Practices of the PR China: Distortion of competition, OECD responses and the threat to the Multilateral Official Finance System. A study for European International Contractors, conducted by Sustainable Finance & Insurance. 12 November 2018.

outside China are not well prosecuted by Chinese authorities, very likely because it often involved Chinese SOEs. This is completely different for companies in OECD countries.

Corrupt business practices obviously also undermine the efforts of the IMF, Multilateral Development Banks, bilateral DFIs, bilateral ODA agencies to combat bribery in developing countries.

The difference in foreign bribery practices of companies from OECD countries and China is amongst others also visible in the Bribe's Payers Index (BPI)[25] developed by Transparency International, which ranked China 27 out of 28 major exporting countries. This reflects the perceived willingness of Chinese companies, including the dominant SOEs, to pay bribes abroad.

The frequently occurring corrupt business practices of Chinese companies and SOEs in developing combined with the lack of proper action against these practices by Chinese authorities lead obviously to unlevel playing field for OECD construction companies.

III.2.6. International best practices on managing Environmental, Social and Governance (ESG) risks do not apply to Chinese official finance.

OECD ECAs apply in their business the so-called "common approaches"[26], that are similar to relevant ESG standards and safeguard policies applied by leading multilateral development banks. This is clearly not the case for Chinese official finance. China applies environmental and social standards of the borrower's country, which are much less comprehensive, less strict, weakly implemented and poorly managed.

Undercutting international best ESG practices are not only a threat to the business of OECD ECAs, but also to multilateral/ bilateral DFIs and bilateral ODA aid agencies. Obviously, it is also not in the interest of building a sustainable future for developing countries and the UN SDGs.

Undercutting international best ESG practices are not only a threat to the business of OECD ECAs, but also to the ESG efforts of multilateral/ bilateral DFIs and bilateral ODA aid agencies.

Obviously, the different standards and practices in managing ESG issues have a great competitive advantage for Chinese construction companies.

[25] The 2011 Bribe Payers Index ranks 28 of the world's largest economies according to the perceived likelihood of companies from these countries to pay bribes abroad. It is based on the views of business executives as captured by Transparency International's 2011 Bribe Payers Survey.

[26] See OECD recommendation of the Council on Common Approaches for officially supported export credits and environmental and social due diligence, revised text of 6 April 2016.

III.2.7. Chinese massive and highly intransparent official finance practices are a threat to debt sustainability of developing countries and the IMF / WB Debt Sustainability Framework.

According to the recent IMF policy paper "Macroeconomic Developments and Prospects in Low-Income Developing Countries (LIDCs)"[27] debt burdens and vulnerabilities have risen substantially since 2013 in many LIDCs[28]. The majority of LIDCs remain at low or moderate risk of debt distress, but the number of countries at high risk or in debt distress has increased from 13 in 2013 to 24 in January 2018. The IMF policy paper notes as well that the composition of public debt in LIDCs countries shifted from traditional OECD sources to non-OECD bilateral lenders that are not a member of the Paris Club. This is partially caused by the HIPC debt relief initiative and the fact that OECD governments have become more prudent in lending to LIDCs. Non-Paris Club creditors, in particular China, are today the dominant providers of bilateral credits to LIDCs. They count now for more than 50% of the external debt stock of LIDCs.

The irony is that many of these LIDCs benefitted from multilateral and bilateral debt relief during the past 15 years[29]. Multilateral institutions (e.g. IMF, World Bank and the AfDB) and bilateral creditors gathered in the Paris Club agreed to cancel approximately US$ 76,9 billion of debt for 36 countries, of which 30 in Africa[30]. Debt relief was granted by multilateral creditors for a total amount of US$ 34.1 billion. A substantial part of this multilateral debt relief is financed by voluntary financial contributions from in particular OECD countries[31]. Debt relief granted by bilateral official creditors was in total US$ 38 billion, of which US$ 28 billion from Paris Club members and US$ 10 billion from non-Paris Club members. Paris Club members have fulfilled their debt

The irony is that many of these LIDCs benefitted from multilateral and bilateral debt relief during the past 15 years. A substantial share of this international debt relief was paid by OECD governments.

[27] This IMF policy paper was published on 22 March 2018 and can be found via the following link: https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/03/22/pp021518macroeconomic-developments-and-prospects-in-lidcs

[28] LIDCs are IMF member countries where gross national income (GNI) per capita lies below a threshold level and where external financial linkages and socioeconomic indicators have not lifted them into emerging market status. There are currently 59 countries in the LIDC grouping, accounting for about one-fifth of the world's population and 4 percent of global output.

[29] Low-income countries (LICs) have often struggled with large external debts. The IMF and theWorld Bank have developed a framework to help guide countries and donors in mobilizing the financing of LICs' development needs, while reducing the chances of an excessive build-up of debt in the future. The Debt Sustainability Framework (DSF) was introduced in April 2005 and is periodically reviewed. The current framework was approved by IMF andWorld Bank Executive Boards in September 2017 and has been implemented since July 2018.

[30] See joint IMF/ WB paper Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Statistical Update of 4 August 2017.

[31] These financial contributions to multilateral institutions to finance the Multilateral Debt Relief Initiative (MDRI) were by most OECD DAC donor countries reported as ODA in the year that the contribution was made. Bilateral debt relief was also by most OECD DAC members reported as ODA.

relief commitments fully, whereas debt relief commitments of some non-Paris Club members are still waiting to be fulfilled.

In March 2018, the Center for Global Development concluded in a study[32] that the BRI initiative of China could create large debt sustainability problems in some of the weakest economies. The report highlights in particular 8 countries that are already or could be facing huge external debt problems. The potential 8 high-debt distress countries mentioned in the report are: Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.

To avoid a new unsustainable debt situation of developing countries the IMF and the World Bank launched in 2005 the so-called IMF / WB Debt sustainability framework. This framework is fully adhered to by all main multilateral development finance institutions, bilateral development banks, ODA aid agencies and ECAs/ EXIM banks from OECD countries. This is not the case for China. Moreover, China often makes use of resource-backed financing techniques to improve the risk profile of its financing. These lending practices undermine the IMF/WB DSF and other international efforts to reduce debt problems of low-income countries.

Chinese lending practices undermine the IMF/WB DSF and other international efforts to reduce debt problems of low-income countries.

In the OECD, there were already long-standing guidelines for sustainable lending to low-income developing countries, which have recently been strengthened by specific guidelines on sustainable lending and officially supported export credits[33]. Current OECD regulations stipulate that whenever an OECD country is considering to provide official support for a transaction involving a public-sector buyer (or guarantor) in a lower income country, it will:

- take into account the results of the most recent IMF/World Bank country specific Debt Sustainability Analysis (DSA) conducted within the joint Debt Sustainability Framework,
- respect the prevailing limits on public sector non-concessional borrowing for countries that are subject to the IMF's Debt Limits Policy (DLP) or the World Bank's Non-Concessional Borrowing Policy (NCBP),

[32] The full study, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective" can be found via the following link.https://www.cgdev.org/article/chinas-belt-and-road-initiative-heightens-debt-risks-eight-countries-points-need-better

[33] The guidelines can be found in the "OECD Recommendation on sustainable lending practices and officially supported export credits", which was approved by OECD ministers on 30 May 2018. The Recommendation builds upon a long history of previous OECD Export Credit Group agreements on unproductive expenditure (the 2001 Statement of Principles and the revised 2007 Statement of Principles) and sustainable lending (the 2008 Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries and the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Lower Income Countries [November 2016 Revision]).

- for countries with a "non-zero" limit on non-concessional borrowing, seek assurances from appropriate government authorities in the debtor country that the transaction is in accordance with the DLP or the NCBP for that country, and refrain from providing official export credit support for public sector transactions in countries for which a "zero" limit on non-concessional borrowing under the IMF's DLP or the World Bank's NCBP has been established.

Obviously, these OECD regulations do not apply to China. Current official finance practices of China, in particular the resource-backed transactions, the complete lack of transparency of its financing and the practices to reschedule debt outside the multilateral system of the Paris Club are not only a threat to debt sustainability of individual developing countries, but also a serious threat to the integrity of the IMF/ WB DSF, the Paris Club, the "preferred creditor status" of IMF and relevant Multilateral Development Banks and sustainable lending principles of the OECD ECAs. This issue is not only relevant for Africa, but also for many other developing countries across the globe, among which vulnerable or small economies in Latin America[34], Asia and the Pacific.[35]

This issue is not only relevant for Africa, but also for many other developing countries across the globe.

III.2.8. China is not a member of the Paris Club and prefers bilateral debt work-out arrangements.

OECD governments participate in multilateral debt rescheduling discussions with debt distressed countries in the Paris Club. The origin of the Paris Club dates back to 1956 when Argentina agreed to meet its public creditors in Paris. Since then, the Paris Club has reached 433 multilateral rescheduling agreements with 90 different debtor countries concerning their bilateral debt to major economies. This debt consists usually of bilateral development finance (e.g. ODA and non-ODA loans) and officially supported export credits. Debt to IMF and Multilateral Development banks is exempted from Paris Club rescheduling, which reflects the "preferred creditor status" of these institutions. This exemption allows them to act as "lenders in last resort". Since 1956, the debt treated in the framework of Paris Club agreements amounts to US$ 583 billion.

Usually the Paris Club members only grant debt rescheduling for a debtor country after the debtor country has come to an agreement with the IMF on how the debt problem will be solved. Paris Club members operate under six important principles, which basically imply (i) full transparency among Paris Club members about bilateral debt from debtor countries in

China is not a member of the Paris Club. It strongly prefers bilateral debt work-outs.

[34] See China Latin America database: https://www.thedialogue.org/map_list/
[35] See article "Payment due: Pacific islands in the red as debts to China mount" of 31 July 2018 on the website of Reuters
Official Finance Practices of the PR China: Distortion of competition, OECD responses and the threat to the Multilateral Official Finance System. A study for European International Contractors, conducted by Sustainable Finance & Insurance. 12 November 2018.

distress, (ii) equal treatment among all creditors, (iii) joint decision making in the Paris Club on a consensus basis and (iv) solidarity among Paris Club members. The latter implies that Paris Club members should take into account the effect of their debt recovery actions on debt owed to other Paris Club members. A list of the current permanent members of the Paris Club and the six principles can be found in annex VIII.

China is not a member of the Paris Club, but on a voluntary basis it participates in some of its meetings on an ad hoc basis. Full membership is not in the interest of China, because it would imply that China would have to give full transparency on its loans to distressed debtor countries to all Paris Club members. Furthermore, China strongly prefers bilateral arrangements to benefit from full flexibility, no meddling of other creditors in debt rescheduling discussions, pursue resource-backed financing and other government policy objectives, maintain secrecy of its lending and obtain better rescheduling terms than what it would be able to get within a multilateral Paris Club setting.

Examples of the various ways in which China has managed its (potential) losses / claims on sovereign borrowers on a bilateral basis are:

- Tajikistan: In 2011, China reportedly agreed to write off an unknown amount of debt owed by Tajikistan in exchange for some 1,158 square kilometers of disputed territory. At the time, Tajik authorities said they only agreed to provide 5.5 percent of the land that Beijing originally sought[36].
- Sri Lanka: With Sri Lanka unwilling to service a US$ 8 billion loan at 6 percent interest that was used to finance the construction of the Hambantota Port, China agreed in July 2017 to a debt-for-equity swap accompanied by a 99-year lease for managing the port[37]. There are rumors that China wants to (partially) use the new port for its navy[38].
- Venezuela: It is estimated that China provided during the past 10 years approximately US$ 62 billion of loans to Venezuela of which today an estimated amount of at least US$ 23 billion is outstanding. China has secured repayment of the debt with oil deliveries from Venezuela. There are indications that China takes approximately 28% of the oil production of Venezuela to repay Chinese debt, which reduces the capability of Venezuela to make domestic investments or to meet payment obligations to other creditors. Venezuela is currently in default to other

[36] See article "Tajikistan cedes land to China" of January 11, 2011 on the BBC website. The article can be found via the following link: https://www.bbc.com/news/world-asia-pacific-12180567
[37] See article "How China Got Sri Lanka to Cough Up a Port" of June 25, 2018 on website of New York Times: : https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html
[38] See article "China's base in Sri Lanka part of its dominant Indian Ocean presence" of 6 August 2018 on the website of the Asia Times. The article can be found via the following link: http://www.atimes.com/chinas-base-in-sri-lanka-part-of-its-dominant-indian-ocean-presence/

creditors among which OECD ECAs and private bond investors[39]and faces a lot of social, economic and political challenges.

- Djibouti: During the past few years C-EXIM and other Chinese policy banks provided multiple loans to Djibouti for at least 8 large infrastructure projects including a railway from Addis Ababa (Ethiopia) to Djibouti (total investment US$ 4 billion of which approximately US$ 500 million for Djibouti), an Ethiopia-Djibouti water pipeline project (US$ 322 million) and a new airport in Bicidly, 25 km outside Djibouti capital (US$ 599 million). As a result of these loans Djibouti's public external debt increased from 50 to 85% of GDP, the highest of any low-income country. Recently it became known that the ECA insurer Sinosure had incurred losses of almost US$ 1 billion regarding the Addis Ababa-Djibouti railway project, which was built by two Chinese SOEs, namely China Rail Engineering Corporation and China Civil Engineering Construction Corporation[40]. According to the chief economist of Sinosure lessons should be drawn from the poorly executed railway project, which had to be restructured within one year of operations because of underuse caused by power shortages. Chinese parties involved in the project should in view of Sinosure's chief economist improve their risk management to avoid similar problems in large infrastructure projects. China was able to get its 1st overseas marine base in Djibouti. It may be the case that the losses incurred by China played a role is getting access to this marine port.

Sinosure incurred losses of almost $ 1 billion regarding the Addis Ababa-Djibouti railway project.

- Ecuador: Since 2010, CDB and C-EXIM provided eleven loans to Ecuador totaling US$15.2 billion in overseas foreign investment, largely for energy, infrastructure, and transportation projects. China is now Ecuador's largest creditor, providing around 60% of the government's finance. Ecuador's debt to China stands at 38.7% of GDP. China is now more important than the World Bank and the IMF. Many of the Chinese loans are secured / repaid by the sale of oil or fuel from Ecuador's SOE Petroecuador to PetroChina International Co. Recently, it was revealed that Petroecuador officials were involved in corruption practices and had embezzled some US$ 12 million in company funds and contracts, and hid the funds in offshore accounts, including in China. This scandal led to the removal of the minister of hydrocarbons, and resignation and indictment of several top executives at the company, and was a major issue in the recent elections.

[39] See article " Exclusive: Venezuela faces heavy bill as grace period lapses on China loans-sources" of 18 April 2018 on website of Reuters:.https://www.reuters.com/article/us-venezuela-china/exclusive-venezuela-faces-heavy-bill-as-grace-period-lapses-on-china-loans-sources-idUSKBN1HY2K0

[40] See article "Botched Chinese railway project in Africa is a warning to belt and road investors" published on website of the South China Morning post on 29 October 2018. The article can be found via the following link: https://www.scmp.com/business/banking-finance/article/2170549/botched-chinese-railway-project-africa-warning-belt-and

- Pakistan: Pakistan is an important country for the BRI initiative. The total value of BRI projects in Pakistan is estimated at US$ 62 billion, of which China is estimated to finance approximately 80%. Due to increased debt problems of the country Pakistan cancelled some BRI projects, but recently it also approached the IMF for a bail-out. The US government is opposing any IMF assistance to repay Chinese loans, for the debt problems have in view of the US been caused by unsustainable lending practices of China. Noteworthy is that in April 2017 China obtained a 40-year lease for the Gwadar port in Pakistan[41].

The bilateral work-outs of China are a threat to sovereignty of developing countries, integrity of the multilateral system, the preferred creditor status of IMF and MDBs and debt rescheduling in the Paris Club.

These Chinese debt recovery practices are quite concerning and clearly not in line with usual Paris Club procedures and standards. They do also not comply with standards and procedures set by the IMF and World Bank. In bilateral negotiations developing countries miss an independent intermediary such as the IMF and do not benefit from multiple "eyes and ears" of the international community to ensure a fair treatment of the debt rescheduling. The bilateral work-outs of China are therefore not only a threat to integrity of the multilateral system, the preferred creditor status of IMF and Multilateral Development Banks and debt rescheduling principles agreed in the Paris Club, but also to sovereignty of developing countries.

III.2.9. China is not member of the OECD DAC and its development loans lack transparency and are likely not in line with ODA regulations developed by OECD DAC countries.

China is not a member of the OECD DAC and has therefore not to adhere to ODA standards and practices. For example, the minimum concessionality level of ODA of 25% is not relevant for China and so is the OECD DAC Recommendation on the untying of aid to Least Developed Countries and other Low-Income Countries.

Membership of the OECD DAC implies full transparency about the aid practices and performance of aid donors. This is something that China clearly prefers to avoid.

Research from AidData revealed that approximately US$ 79 billion of "ODA-like aid" and US$ 53 billion of "Vague Official Finance" was provided in the period 2005 – 2014, but Chinese ODA-like aid and most certainly Vague aid cannot be characterized as true ODA, because it serves mainly Chinese national interests. It is all tied to procurement of goods

[41] See article "Pakistan gives China a 40-year lease for Gwadar port" on the website of the Maritime Executive of 27 April 2017. via the following link: https://www.maritime-executive.com/article/pakistan-gives-china-a-40-year-lease-for-gwadar-port

and services from China. Chinese official finance does not meet the ODA criteria that development of developing countries should be the main objective of the financial support provided. This implies that not the 25% concessionality level of ODA should be used to determine whether Chinese official finance constitutes aid or export credits (or an other form of official finance), but the minimum concessionality levels that apply for tied aid, which are substantially higher (50% for LDCs and 35% for other countries). China would have to use substantial higher subsidy amounts to meet international aid requirements. If AidData would have applied the higher OECD standards for tied aid the highly distortive nature of Chinese official finance practices would have become more apparent. Very likely Vague (tied) aid would be at least $132 million (the sum of ODA-like of US$ 79 billion and Vague Official Finance of US$ 53 billion).

The fact that China is not bound by international regulations on aid and aid transparency creates substantial benefits for China and Chinese construction companies.

III.2.10 Double standards: China is not part of the multilateral system for official finance, but benefits substantially from it.

The above-mentioned topics clearly evidence that China currently does not want to belong to the entire multilateral official finance system. China participates in 4 pillars of the financial system (IMF, MDBs, BDBs and WTO), but thus far it managed to stay out of 3 other critical pillars (OECD DAC, Paris Club and OECD Arrangement on officially supported export credits).

China prefers to provide South-South cooperation through Government-to-Government loans that are 100% tied to China, does not provide any transparency about its official financing practices, frequently demands natural resources to back its official financing, undermines debt sustainability of countries and the IMF /WB DSF, international ESG standards and anti-bribery efforts and has a strong preference for bilateral debt work-outs instead of working through the Paris Club.

Despite all these facts China benefits substantially from international development finance, which to a large extent is directly or indirectly supported by OECD governments. It also benefits from official support through export credits supported by OECD ECAs. New MLT business of all Berne Union (BU) members in 2017 to China, totaled approximately US$ 8,6 billion of which US$ 2,5 billion official export credits of BU ECAs and US$ 1,2 billion of trade-related investment insurance and sovereign risk business and US$ 4.9 billion of classical investment insurance[42].

[42] The Berne Union is the global association of credit and political risk insurers. Its members are (i) official ECAs and some EXIM banks, (ii) private insurers and (iii) a few multilateral insurers among which MIGA. MLT export credits concerns business of only official ECAs, whereas investment insurance is provided by ECAs, private insurers and some multilateral insurers. The Official Finance Practices of the PR China: Distortion of competition, OECD responses and the threat to the Multilateral Official Finance System. A study for European International Contractors, conducted by Sustainable Finance & Insurance. 12 November 2018.

This all should be of great concern to OECD governments, the IMF, multilateral and bilateral development banks, OECD ECAs and ODA aid agencies. A concerted action is urgently needed to create a global level playing field on official finance.

As mentioned China benefits substantially from the development finance, both from multilateral and bilateral donors. For example, the IBRD and ADB – both supported by many governments across the globe including many OECD governments – provide substantial amounts of financing to China every year. In 2017 both institutions provided in total US$ 4.6 billion of new non-market based loans to the government of China, of which US$ 2.470 billion from the World Bank, which was notably the highest new loan amount since 1998. The total sovereign loan exposure of both institutions stood at the end of FY 2017 at US$ 32.4 billion. China and India are the two biggest borrowers from IBRD and ADB. In the period 2014 – 2017 new IBRD loans to China totaled US$ 9,796 billion.

The total sovereign loan exposure of IBRD and ADB on China stood at the end of FY 2017 at $ 32.4 billion, which makes China one of their largest borrowers.

IBRD/IDA and ADB outstanding and new sovereign loans to China 2017 (in million US$).

Multilateral Development Bank	Outstanding loans on China end 2017.	New sovereign loan commitments to China in 2017.
IBRD	14.055,00	2.470,00
IDA	2.051,00	-
ADB	16.284,00	2,134.65
Total:	32.390,00	4.604,65

Source: IBRD and ADB annual reports 2018.

The terms and conditions of IBRD and ADB loans are non-concessional (i.e. not comparable with ODA), but they still benefit from substantial (implicit) subsidies. Both institutions lend money from the capital market at the most favorable terms and conditions because of their AAA credit rating, which is mainly a result of the support from their shareholders (in particular through support in the form of callable capital) and their preferred creditor status.

Non-concessional US$ lending interest rates of MDBs for sovereign loans with an average maturity of 15 years (Sept 2017).

Interest components	IBRD	ADB	AIIB
Floating Base Rate for US$	6 month Libor	6 month Libor	6 month Libor
Base rate	50 Bps	50 Bps	50 Bps
Maturity premium	30 Bps	20 Bps	30 Bps
Funding rebate / costs	- 5 Bps	- 5 Bps	25 Bps (a)
Total spread over LIBOR	75 Bps	55 Bps	115 s

(a) This is the "projected funding spread" to Libor that AIIB applies. *Sources: IBRD, ADB, AiiB.*

The funding benefits of both institutions are passed on to their sovereign borrowers. China can borrow loans with a tenor of 15 years from IBRD at LIBOR + 75 basis points and from

BU does not provide data of the business of individual members, but its statistics are the most comprehensive on both ST and MLT credit and political risk insurance globally. It is estimated that BU members represent at least 80% of the global credit and political risk insurance market.

the ADB at LIBOR + 55 basis points. For AIIB the rate is LIBOR + 115 bps. These rates are clearly not market based and show also the "pricing competition" between the three MDBs involved.

China has access to sovereign loans from the recently established AIIB, which is dominated by China, but also supported by many OECD governments. It is unknown whether China has already made use of sovereign loans from AIIB, but it is known that the new multilateral actively supports BRI-projects of China.

Next to the financing through multilateral channels the Chinese government obtains also bilateral ODA from OECD DAC member countries. During the years 2014 – 2016 China received new bilateral ODA loans for a total amount of US$ 4.443 billion. In 2016 the gross ODA received by China was US$ 1.491 billion. The largest donors in that year were Germany (US$ 792,9 million), France (US$ 160,8 million), EU institutions (US$ 111,4 million), Japan (US$ 89,7 million), United Kingdom (US$ 65,9 million) and the United States (US$ 39,8 million)[43].

During the years 2014 – 2016 China received new bilateral ODA loans for a total amount of $ 4.443 billion.

It is noteworthy that Japan recently decided to stop with providing ODA to China[44]. This is likely driven by the following considerations: (i) China has good access to market based finance, which implies that ODA is no longer needed, (ii) China has become the largest provider of official finance to developing countries and transformed itself from aid recipient to aid donor and (iii) the fierce competition between Japanese and Chinese companies in conducting business in developing countries. Furthermore, Japan announced that it would seek close official co-financing cooperation with China for infrastructure projects in which both Chinese and Japanese construction companies could cooperate with one another. This is clearly determined by the wisdom "if you can't beat them, join them"[45].

"if you can't beat them, join them"

Furthermore, Chinese companies benefitted in the period 2008 – 2016 from untied ODA funds of in total US$ 5.629 billion provided by OECD DAC donors for projects in LDCs and HIPC countries[46].

Important is as well that Chinese companies are important beneficiaries of financing by Multilateral Development Banks (MDBs). Supply contracts for many projects financed by the

[43] Source: OECD DAC
[44] See article "Japan to end new ODA projects for China" of 22 October 2018 on the website of HKK Japan, which can be found via the following link: https://www3.nhk.or.jp/nhkworld/en/news/20181023_06/
[45] See article "*Shinzo Abe Says Japan Is China's 'Partner,' and No Longer Its Aid Donor*' ***in*** in New York Times of 26 October 2018. The article can be found via the following link: https://www.nytimes.com/2018/10/26/world/asia/shinzo-abe-china-japan.html
[46] This is further explained in the paragraph on untied aid.

IBRD/ IDA, both within the Chinese domestic market and in developing countries, are frequently awarded to Chinese companies. In the period 2007 – 2017 Chinese companies were involved for a total amount of US$ 27.9 billion in IBRD financed projects. China was during this period the most important supplier for IBRD funded projects followed by India (US$ 16 billion), Italy (US$ 6.2 billion), Germany (US$ 3.3 billion), France (US$ 3.1 billion) and South Korea (US$ 2 billion).

Source of procurement of goods and services of IBRD financed projects (in billion US$)

No.	Country	2010	2011	2012	2013	2014	2015	2016	2017	Total period 2007-2017
1	China	1.810	3.244	2.578	2.263	2.466	1.796	2.171	4.110	27.926
2	India	996	900	2.124	1.876	1.807	2.103	1.977	900	15.964
3	Italy	1.179	394	652	1.200	667	905	148	71	6.196
4	Germany	150	174	737	249	348	107	295	165	3.279
5	France	286	300	357	412	254	342	360	192	3.135
6	Korea	471	231	583	89	162	156	127	66	2.058
7	UK	172	163	105	174	434	93	92	63	1.882
8	USA	121	69	81	326	100	71	71	63	1.316
9	Canada	80	50	31	185	326	69	45	24	972
10	Japan	16	32	244	52	102	129	7	7	802
	Total 9 countries	5.264	5.525	7.248	6.774	6.565	5.643	5.287	5.654	62.729
	Rest of world	9.069	10.894	8.951	8.447	7.702	5.980	8.670	4.924	83.124
	Total	14.333	16.419	16.199	15.221	14.267	11.623	13.957	10.577	145.853

Source: IBRD procurement data

In conclusion: China benefits substantially from direct or indirect (through multilateral development banks) official finance support from OECD governments. In light of the distortive official finance practices of China in developing countries and its structural unwillingness to adhere to international standards for "official finance" this is very disturbing. It is causing serious problems for OECD construction companies and all key official finance agencies within the multilateral official finance system.

In conclusion: China benefits substantially from direct or indirect (through multilateral development banks) official finance support from OECD governments.

Since money is fungible, it could even be argued that OECD governments are unintentionally partially financing the international expansion of China and supporting Chinese distortive official finance practices.

IV. Responses from OECD countries to distortive Chinese competition.

The increased competition from China during the past 15 years has led to various developments in the world of official finance in many OECD governments. Some governments took action and developed new official finance practices to support their national companies. There is also one initiative undertaken at the multilateral level, which concerns the International Working Group (IWG) on officially supported export credits in which both leading OECD and non-OECD countries discuss the development of a new global framework for officially supported export credits.

The developments in some key OECD countries and the IWG are further explained below

IV.1. Increase of so-called non-OECD Arrangement business.

Non-Arrangement business includes all kind of official financing or official guarantee operations that fall outside the scope of the OECD Arrangement on officially supported export credits. This concerns among others: (i) (untied) investment loans or guarantees provided by OECD ECAs, (ii) development loans or guarantees of bilateral development finance institutions, (iii) equity investments, (iv) import loans and (v) working capital facilities or pre-export financing. These forms of official financing have during the past few years become more important than regular officially supported export credits that are governed by the OECD Arrangement.

The OECD Arrangement has become substantially less relevant during the past 5 years.

Total official Trade-Related support (in billions US$)

Activity	2013	2014	2015	2016	2017
OECD Arrangement Compliant Activity	107	101	84	77	63
Total non-Arrangement Trade-Related Activity (excl China)	73	74	63	65	63
Chinese Trade-Related Activity	62	83	87	87	85
Total Non-Arrangement business (incl China)	135	157	150	152	148
Total Non-Arrangement Business in % of Arrangement Business	126%	155%	179%	197%	235%

Source: USEXIM Competiveness Report 2017.

In the period 2013 – 2017 OECD Arrangement business decreased from US$ 107 billion to US$ 63 billion. Non-Arrangement business (including China) increased from US$ 135 billion in 2013 to US$ 157 billion in 2014 and decreased again to US$ 148 billion in 2017. These figures show that the OECD Arrangement has become substantially less relevant during the past 5 years.

The decreasing relevance of officially supported export credits is also clearly visible from the financing activities of Japanese EXIM bank / development bank JBIC[47] during the past five decades. In 1955 98% of the activities of JBIC concerned export credits, which had decreased to 8% in 2016. Non-Arrangement business increased substantially, in particular after 2000. In 2016 JBIC's Non-Arrangement business consisting of in particular overseas investment loans, untied loans and equity participations totaled 80% of JBIC's total business.

Changing composition of JBIC's official finance commitments (in billion Yen)

Activity	**1955**	**1970**	**1985**	**2000**	**2016**
Export loans	60,3	402,8	356,4	174,0	175,0
Import loans	*-*	*33,3*	*233,5*	*321,4*	*-*
Overseas Investment loans	*1,0*	*68,5*	*182,4*	*523,7*	*1.721,0*
Untied loans			*101,4*	*67,4*	*33,7*
Government loans	-	31,1	14,2	-	-
Guarantees		7,4	0,5	118,3	293,5
Equity participations					*16,2*
Total	61,3	543,1	888,4	1.204,8	2.239,4
In % of total					
Export loans	98%	74%	40%	14%	8%
Import loans	*0%*	*6%*	*26%*	*27%*	*0%*
Overseas Investment loans	*2%*	*13%*	*21%*	*43%*	*77%*
Untied loans	*0%*	*0%*	*11%*	*6%*	*2%*
Government loans	0%	6%	2%	0%	0%
Guarantees	0%	1%	0%	10%	13%
Equity participations	0%	0%	0%	0%	1%
Total	100%	100%	100%	100%	100%

Please note: The activities in yellow concerns typical non-Arrangement business.
Source: USEXIM Competiveness Report 2017.

In 2015 Japan launched its initiative for "Partnership for Quality Infrastructure" with a target to support infrastructure investments in Asia of US$ 110 billion. This initiative was in 2017 further expanded to a global facility with a 5-year target of US$ 200 billion for infrastructure investments in key developing markets of strategic interest to Japan. It includes enhanced strategic cooperation between various Japanese official finance agencies, among which the EXIM bank / development bank JBIC, the ECA-insurer NEXI and the ODA aid agency JICA and importantly substantial additional financial resources from the government to help Japanese infrastructure companies abroad. The main objectives of the Japanese government for this initiative are (i) to support infrastructure investments in developing

[47] The Japan Bank for International Cooperation (JBIC) has a dual mandate namely as the EXIM bank of Japan to promote Japanese exports and as a development bank to support development of developing countries. It works closely together with the official Japanese ECA-insurer NEXI and JICA, the ODA aid agency of the Japanese government.

countries, (ii) to increase exports of Japanese infrastructure services to US$ 268 billion by 2020 and (iii) to compete more effectively against Chinese official finance and construction companies. And as mentioned, Japan recently announced close co-financing cooperation with China for infrastructure projects in developing countries.

An interesting new development in the US concerns the recent approval by the US Senate of the so-called Better Utilization of Investment Leading to Development Act, or BUILD Act, which will create a new U.S. government agency — the U.S. International Development Finance Corporation (DFC). Many people perceive this as the biggest change in U.S. development policy in 15 years. The new agency will combine the Overseas Private Investment Corporation (OPIC) and the development credit authority, (which is currently part of the ODA aid agency USAID), obtain additional capital to increase the US impact on developing countries and combat against Chinese aid activities[48]. Furthermore, like JBIC it will be allowed to make equity investments (non-Arrangement business)[49]. The exposure cap of the new agency is US$ 60 billion, which is more than two times OPIC's current exposure cap. In addition, the new DFC is expected to mobilize substantial funds from private financiers.

Local costs and the growth of untied investment loans and guarantees.

One of the key bottlenecks in infrastructure finance concerns the maximum support for local costs, which are costs incurred in the country of the borrower/ buyer and usually consists of goods and services sourced from local suppliers. According to the OECD Arrangement OECD ECAs may support in the form of export loans or guarantees these local costs, but the maximum support is restricted to 30% of the value of the export contract. This restriction causes serious constraints for internationally operating construction companies, which are, apart from the Chinese unfair competition, caused by three main factors.
The first is that developing countries increasingly require in tender procedures that a substantial share of the goods and services that are needed for an infrastructure project are procured from construction companies in the developing country itself. This obviously to support employment and manufacturing in the country.
A 2nd factor is the fierce competition among internationally operating construction companies, which forces them to seek the cheapest sourcing options for the project. As a consequence, a lot of goods and services have to be sourced locally.
The 3rd development is that the borrower would obviously prefer a Long Term (LT) loan, which cannot be offered in local currency, because such LT financing is in many developing countries not available in local currency.

The local costs restriction and other requirements (e.g. minimum premiums) of the current OECD Arrangement can be circumvented by offering "untied investment loans" or bilateral DFI development loans. It allows the OECD countries involved also to better compete against the distortive official finance practices of China. Obviously, this has a negative impact on the competiveness of OECD countries that only conduct regular export credit business and do not have an untied loan/ guarantee program. There are serious concerns that the untied investment loans are de facto tied to procurement of goods and services from the ECA home country. Problematic is as well the lack of transparency on this issue.

In this context, it is interesting to note that OPIC already provides substantial untied investment loans and guarantees and support to private equity investment funds. All these activities serve a clear "national interest", but are not regulated by the OECD Arrangement. All OPIC's current operations concerns non-Arrangement business. As of September 30, 2017, the Corporation had a combined total exposure of US$ 23.2 billion or, 80% of a total

[48] See article "Trump strikes a blow in US-China struggle with BUILD Act to contain Xi's Belt and Road" of 20 October 2018 and published on the website of South China Morning Post. The article can be found via the following link: https://www.scmp.com/week-asia/geopolitics/article/2169441/trump-strikes-blow-us-china-struggle-build-act-contain-xis
[49] According to its current mandate OPIC is not allowed to make equity investments. The new business is likely a response of the success of JBIC in this line of business.

authorized exposure limit of US$ 29 billion. Since the agency's establishment in 1971, OPIC has generated cumulative results of operations of US$ 5.7 billion.

Furthermore, the US government started in 2018 to impose import tariffs on goods imported from China, which triggered a trade war between the two countries. These import tariffs aim primarily to reduce the trade balance deficit of the USA with China, but are also motived by the unfair official finance practices of China in developing countries[50]. At an IMF meeting in April 2018 US Treasury Secretary Steven Mnuchin raised US concerns about the risk that many developing countries will default on their Chinese loans. The topic was also raised at a G-20 conference in March 2018. The US, the IMF and the World Bank asked China to join the Paris Club, which requires both its members and their debtors to adhere to transparency standards and other principles of the Paris Club among which equal treatment of creditors. Thus far the request has been declined by China, because it would not be in China's interest to join.

The US, the IMF and the World Bank asked China to join the Paris Club, but China refused.

In addition, the USA was in the context of a discussion about a potential capital increase for IBRD strongly advocating that the IBRD should substantially reduce its lending to China. In view of the US China does not need subsidized development finance. IBRD should focus its operations much more on poor countries.[51] The capital increase was in the end approved, but IBRD sovereign lending to China will likely change.

Japan, Australia and the USA also recently announced cooperation with one another for infrastructure projects in the Pacific[52]. This tripartite partnership is obviously set up to compete better against China.

While Japan, Korea, Australia and USA have already made different moves to respond to the Chinese competition, Europe is struggling.

Australia has become increasingly concerned at the growing Chinese influence in the South Pacific region, a region with some of the poorest nations in the world, but that is rich in natural resources. Over the past seven years China committed more than US$ 6 billion of aid – most in the form of concessional loans – to the South Pacific countries, making it the region's 2nd largest aid donor. In response to the growing influence of China in the region Australia initiated in November 2018 a new facility

[50] See article on website of Bloomberg "Trump Balks Over Billions in Secret Chinese Loans to Poor Nations" published on 21 May 2018. The article can be found via the following link: https://www.bloomberg.com/news/articles/2018-05-21/trump-targets-chinese-loans-to-poor-nations-amid-trade-tensions

[51] See article "China set for fewer World Bank loans in US fundraising deal' published on 15 April 2018 in the Financial Times. The article can be found via the following link: https://www.ft.com/content/1eee6a9a-405f-11e8-803a-295c97e6fd0b

[52] See article "U.S.-Led Infrastructure Aid to Counter China in Indo-Pacific" of 31 July 2018. The article can be found on the website of Bloomberg, https://www.bloomberg.com/news/articles/2018-07-30/u-s-led-infrastructure-fund-to-counter-china-in-indo-pacific

of in total AUD 3 billion. It consists of a new infrastructure financing facility of AUD 2 billion (approx. US$ 1.450 billion), which will include concessional loans and grants and AUD 1 billion (US$ 715 million) of export finance from EFIC, the Australian ECA. The new infrastructure financing facility will prioritize investments in essential infrastructure like telecommunications, energy, transport and water[53].

While Japan, Korea, Australia and USA have already made different moves to respond to the Chinese competition, Europe is struggling with its fragmented ODA aid agenda and focus on "soft development" issues and general EU budget support, many bilateral DFIs and ODA aid agencies and unclarity whether and how an EU development bank should be established. There are discussions going on about the potential establishment of a new European Development Bank, which would take over the external (non-EU) operations from the EIB and incorporate some of the ODA activities of the European Commission. Discussions today concentrate on who is going to lead the new development bank, the EIB or EU DEVCO. Europe also lacks a common and clear vision on the role of subsidized multilateral sovereign lending to China and other emerging markets (e.g. India, Mexico, Brazil, Turkey).

Concerning is also that the OECD DAC seems to operate in particular within its own pillar. In its policy work the DAC does not adequately take into account the relevance of official finance practices of China or the (potential) impact of its decisions on other forms of finance available for developing countries. An example of concerning developments in the OECD DAC is the agreement in 2014 to change the definition of ODA, which led among others to new minimum discount rates and new minimum concessionality levels for ODA.

Despite the fact that for tied aid already solid systems existed for the calculation of aid subsidies, the DAC members developed a new system that deviates substantially from OECD tied aid regulations. The DAC system is also completely different from the calculation methodology under the IMF/WB DSF. As a consequence of these recent changes there are currently three different methodologies for concessionality calculations for aid loans of which the one for ODA is the least realistic. This is likely influenced by the desire of DAC donor countries to meet the UN commitment to spend 0.7% of GNI on development aid.

[53]See article in the Guardian "Scott Morrison to reveal $3bn in Pacific funding to counter Chinese influence" of 7 November 2018. The article can be found via the following link: https://www.theguardian.com/australia-news/2018/nov/08/scott-morrison-to-reveal-3bn-in-pacific-funding-to-counter-chinese-influence

Table 1: Aid architecture and concessionality calculations

	Old ODA	New ODA	IMF / WB DSF	Tied Aid
Grant Element Thresholds	25%	• 45% for LDCs and other LICs • 15% for LMICs • 10% for UMICs	35%	• 50% for LDCs • 35% for all other countries
Discount Rates	10%	• 9% for LDCs and other LICs • 7% for LMICs • 6% for UMICs	5%	• Euro: 1.7% (1) • U$: 3.7% (1)

(1) These interest rates are according to the OECD arrangement on officially supported export credits the applicable discount rates for tied aid credits with a tenor between 15 and 20 years in March 2017.

The OECD DAC, European ODA aid agencies, the EU ministries of development cooperation and EU Commission (DEVCO) and many other OECD DAC member countries seem to ignore completely the changing world of official finance (including ODA and other forms of development finance) and the great threat that China poses to multilateral regulations on official export credits, international development finance, multilateral debt rescheduling (Paris Club), debt sustainability, application of best international ESG and anti-bribery standards in official finance and the IMF/WB DSF. A sense of urgency to tackle the unfair official finance practices of China seems to be lacking, which is extremely concerning.

The increase of non-Arrangement business is obviously a great threat for the integrity of the OECD Arrangement for officially supported export credits. In November 2018, the Arrangement exists 40 years. During these 40 years the Arrangement was very successful in creating a level playing for OECD exporting companies and avoiding a credit subsidy race among OECD governments. Today, not only the future of the OECD Arrangement is at stake, but also that of the entire multilateral official finance system. Unfortunately, this is not adequately recognized, which explains the lack of action on the side of the EU and many other OECD countries.

Today not only the future of the OECD Arrangement is at stake, but also that of the entire multilateral official finance system.

IV.2. During the past 4 years tied aid has increased substantially.

According to the US EXIM competiveness report 2017 tied aid increased from US$ 2.3 billion in 2013 to US$ 5,5 billion in 2017. In 2017 the main providers of tied aid were Japan (76%) and Korea (12%). The vast majority of tied aid in 2017 was provided for transport infrastructure projects (82%), which explains that the distortive impact of these tied aid practices is in particular felt by EU construction companies. The figures show the response of some key OECD ODA-donor countries to the unregulated tied aid financing practices of China.

OECD countries and tied aid activity 2013 – 2017 in billions US$)

Year	in billion US$		Main providers of tied aid in 2017	% share of total in 2017
2013	2,3		Austria	5%
2014	2,7		France	3%
2015	3,7		Japan	76%
2016	4,4		Korea	12%
2017	5,5		Other	5%

Source: USEXIM Competiveness report 2017.

The increase of tied aid practices of some OECD governments in response to the tied aid practices of China is again a serious threat for a level playing field for the international construction sector. It is also problematic for the untying of aid efforts in the OECD DAC. Japan recently stated that it is not willing to further untie its ODA[54]. Japan's foreign ministry mentioned that the *"effect of tied aid in mobilizing funds should be considered in a more positive light." Tokyo argued that "tied aid is more likely to receive public support in donor countries ... which in turn helps us increase the support of public funds towards development."*

Japanese tied and untied ODA-support for two railway systems in India[55].

In its "Export Strategy for Infrastructure System" revised in June 2018, the Japanese government emphasizes that railway transport is an important sector in which to promote the export of Japanese infrastructure technology. Japan had lost a few railway projects in Asia due to fierce official finance competition from China. This led to an initiative to more actively support Japanese construction of railway projects in developing countries among which in India. India has an old railway system, which face safety and inefficiency issues. There are plans to substantially invest in new railways. Various consortiums of EU, Chinese and Japanese companies were involved in feasibility studies for new railways, among which for high–speed railways. There was fierce competition among potential suppliers and official finance support played a critical role. French and Italian companies were unable to offer attractive aid financing packages. Japan was able to provide aid loans. JICA, the Japanese ODA aid agency announced for example in September 2018 the signing of two aid loans with the government of India to provide loans of up to US$ 1.025 billion for two rail projects. JICA offered a tied aid loan of US$ 795 million for the Mumbai-Ahmedabad High-Speed Rail project and an untied aid loan of US$ 230 million for the Kolkata East-West Metro Project.

The high-speed railway project of 508 km long is currently under construction. It will be based on the Japanese Shinkansen system network and is being implemented by National High-Speed Rail (NHSRCL). Once complete, the rail system will enable connectivity between Mumbai and Ahmedabad in around two hours, one-third of the current time taken by conventional train system. The loan for this project concerns a tied ODA loan of Yen 89,547 million (approximately US$ 795 million) with a tenor of 50 years, a grace period of 15 years and an interest rate of 0,1%. Very likely the tied aid financing has a concessionality of at least 80%. It is unclear whether this project covers only the construction of the high-speed railway or whether it also includes the sale of high-speed Japanese bullet trains.

The second JICA loan agreement of US$ 230 million for the Kolkata East-West Metro concerns the development of a mass rapid transit system in the Kolkata Metropolitan Area in the state of West Bengal. Currently under construction, the project is expected to be fully operational in June 2021.In this case the JICA loan concerns an untied ODA loan of Yen 25,903 million (approximately US$ 230 million) with a tenor of 30 years, a grace period of 10 years and an interest rate of 1,2%. This untied loan very likely meets the ODA minimum concessionality level of 25%. Although the loan is formally untied it is likely that construction services and metro systems for this project will be procured from Japan.

Source: JICA and various newspaper articles on internet.

Despite Japanese reluctance to a further untying of ODA the OECD DAC reached on 25 October 2018[56] an agreement among others to further untie aid to ten additional countries.

[54] See article "OECD pushes fix on untied aid, Japan pushes back" published on the website of DEVEX on 16 October 2018, which can be found via the following link: https://www.devex.com/news/oecd-pushes-fix-on-untied-aid-japan-pushes-back-93552

[55] See press release of JICA of 1 October 2018. This press release can be found via the following link: https://www.jica.go.jp/english/news/press/2018/181001_01.html

[56] See article "Donors agree new rules on untied aid and eligibility" on the website of DEVX of 26 October 2018. The article can be found via the following link: (https://www.devex.com/news/donors-agree-new-rules-on-untied-aid-and-eligibility-93737).

Japan, however, reserved the right to continue providing tied aid to the newly covered countries: Kosovo, Kyrgyzstan, the Maldives, Marshall Islands, Micronesia, Samoa, Syria, Tajikistan, Tonga, and Zimbabwe. This implies basically that an important DAC donor is not part of the new understanding.

Japan reserved the right to continue providing tied aid.

The expected further increase of tied aid practices of some OECD governments will likely imply a further increase of official finance competition between governments at the expense of scarce government resources and taxpayers. A further untying of aid is given the immense tied aid practices of China currently not the solution. Furthermore, most untied aid reported to the OEC DAC appears to be de facto tied (see below). Other – more comprehensive and effective – measures are needed.

IV.3. Most untied aid is de facto tied to the donor country and there is a structural lack of transparency on the untying of aid.

In the OECD DAC untying of aid is an important theme, for it is assumed that tied aid, whereby the aid recipient country has to procure all goods and services from the donor country leads to higher costs than untied aid. These higher costs are caused by a lack of adequate competition. It is important to highlight that OECD DAC does not require that for untied aid the aid recipient country should be completely (100%) free to source goods and services from any country of the world. This is clear from the definition of untied aid which stipulates that procurement should be possible from "*substantially all aid recipient countries and from OECD countries*". This implies that if a limited number of countries are excluded from procurement the aid financing can – according to OECD DAC regulations – still be recognized as untied aid.

Definition of untied aid according to OECD DAC regulations.

Untied ODA refers to loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and from OECD countries. Definition is quoted from the OECD document" revised DAC recommendation on untying of ODA to the least developed countries and heavily indebted poor countries of 12 August 2014. OECD DAC document: DCD/DAC(2014)37/FINAL

During the past two decades, the OECD DAC has put a lot of efforts in the untying of ODA. The first Recommendation on untying of aid was issued by the OECD DAC in 2001, which was subsequently amended in 2006, 2008 and the latest version dates from 2014. In the discussions on untying the competition with the official finance practices China was never seriously considered.

The 2014 Recommendation reflects the intention of OECD DAC donor countries to untie their ODA to the Least Developed Countries (LDCs) and Highly Indebted Poor Countries (HIPCs) to *"the greatest extent possible*".

Untied bilateral ODA and contract awards in donor countries, other donor countries, developing countries and LDCs / HIPCs (amounts in million US$).

	Country	Total bilateral ODA in 2016	% Share Untied in 2016	% Share tied in 2016	Untied ODA in 2016	Tied ODA in 2016	Contracts awards in 2015 – 2016 in million US$	in donor in million US$	in other donors In Million US$	In developing countries (Excl LDCs and HIPCs) in Million US$	In LDCs and HIPCs in million US$
1	Canada	3.437	96%	4%	3.300	137	157,4	118,5	12,3	1,6	25,1
2	EU institutions	22.442	72%	28%	16.158	6.284	3.078,0	1.569,4	630,3	117,2	761,2
3	France	7.352	96%	4%	7.058	294	6.896,0	3.676,5	961,5	2.004,9	253,2
4	Germany	17.539	86%	14%	15.084	2.455	1.622,0	232,3	87,8	848,9	453,0
5	Italy	787	95%	5%	748	39	4,3	-	-	-	-
6	Japan	18.193	77%	23%	14.009	4.184	17.927,7	7.714,2	2.265,5	7.791,8	156,3
7	Korea	2.391	56%	44%	1.339	1.052	144,7	58,3	0,5	59,7	26,2
8	UK	7.463	100%	0%	7.463	0	2.602,0	2.336,5	157,0	58,9	49,6
9	USA	26.559	65%	35%	17.263	9.296	15.400,0	14.613,2	117,3	346,3	323,3
	All DAC	124.025	79,80%	20%	98.972	25.053	49.088,6	31.173,6	4.352,4	11.332,0	2.230,6

Source: OECD DAC.

Untying of ODA is limited to among others (i) balance of payment support, (ii) debt forgiveness, (iii) sector and multisector programme assistance, (iv) investment project aid, (v) import and commodity support and (vi) commercial services contracts. The latter includes construction contracts. The OECD Recommendation does not apply to investment related technical co-operation and food aid. The Recommendation has therefore a limited scope.

The scope of the recommendation is further limited because it does not apply to all aid recipient countries, but only to LDCs and HIPCs. Donor countries are in principle free to tie their aid to other countries (not being LDCs or HIPCs). But for tied aid to all countries the relevant tied aid regulations of the OECD Arrangement on officially supported export credits have to be adhered to. Furthermore, a donor that unties its aid only to 55 LDCs and HIPCs and all OECD countries, meets the requirements of untied aid according to the Recommendation. This means that if procurement from a certain limited number of other countries is excluded by a donor, the aid financing can still be recognized as untied. To address legitimate concerns that de jure untied aid may be “de facto” tied to procurement from the donor country the Recommendation includes also detailed ex-ante and ex-post reporting requirements for DAC member countries on bilateral ODA to LDCs and HIPCs. Reporting by DAC member countries leads every year to a comprehensive monitoring report of the OECD DAC. The latest report is of 13 June 2018 and provides some insight of the untied aid practices of OECD DAC members in LDCs and HIPCs. From the report, the following conclusions can be drawn:

- Of all bilateral ODA provided by all OECD DAC members in 2016 approximately 80% was reported as untied aid, which implies that 20% was tied to the donor country.

Leading donor countries with the highest tied aid share are: Korea (44%) the USA (35%), EU institutions (28%) and Japan (23%).

- The adherence to transparency provisions of the OECD Recommendation is rather poor. Reporting on ex-post contracts awards was weak and the ex-ante reporting was even very weak. This obviously fuels the suspicion that reported untied aid is de facto tied.
- Looking at contract awards reported that were financed with untied aid shows clearly that 65% of all bilateral untied aid financing of all DAC members is used for procurement in the donor country. For some donors, this percentage is substantially higher among which USA (94,9%), UK (89,8%) and Canada (75,2%). This again fuels the suspicion that a substantial share of untied aid is de facto tied aid.[57]

65% of all bilateral untied aid financing of all DAC members is used for procurement in the donor country.

- Looking at projects implemented in all developing countries shows that substantial high shares of awarded contracts to companies in the donor country can be found in the transport & storage sector (89%) and other social infrastructure (89%). This clearly reflects the important role of national construction companies of the donor country in infrastructure projects that are financed with untied ODA. Very likely a substantial share of untied aid for infrastructure projects is de facto tied to the donor country.
- India and China were among the non-DAC countries the most successful in obtaining contracts for projects in LDCs and HIPCs that were financed with untied bilateral ODA from OECD DAC members. In 2008 China got access to US$ 144 million of ODA funds for projects in LDCs / HIPCs from OECD DAC countries, which increased to US$ 1.848 billion in 2016. This clearly reflects the increasing role of China in these developing countries and shows that China not only benefits from OECD ODA for projects in its own country, but also for projects in LDCs and HIPCs. In the period 2008 – 2016 Chinese companies benefited from US$ 5.629 billion of untied OECD ODA in LDCs and HIPCs.

In the period 2008 – 2016 Chinese companies benefited from $ 5.629 billion of untied OECD ODA in LDCs and HIPCs.

[57] These figures regarding the contract awards under untied ODA programs may also be indicative for the ECA untied investment loans/ guarantees or bilateral DFI development loans. Whether these other forms of untied official finance are like reported untied ODA also de facto tied has never been investigated.

Most represented countries in contract awards for projects in LDCs and HIPCs financed with untied ODA (2008 – 2016)

Year / Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
USA	1.262	2.523	2.186	4.639	2.513	1.911	2.108	12.583	2.721	32.446
Japan		886	0	1.357	451	2.003	1.909	4.604	3.137	14.347
India	2	1.203	17	1.356	437	1.618	1.338	1.197	1.950	9.118
France	731	395	339	303	94	582	1.225	1.781	2.518	7.968
UK	475	390	507	704	854	561	1.595	56	1.254	6.396
China	144	640	247	846	467	397	198	842	1.848	5.629

Source: OECD DAC contract awards database.

In this context, it is important to note that procurement practices of leading Multilateral Development Banks (MDBs) differ substantially from one another. For five (out of nine) MDBs the procurement is "partially untied" to companies from member countries only and four MDBs allow procurement from companies from all countries. It shows that fully untied aid is not a common practice in the world of MDBs. Partially untied[58] aid is more important. MDBs take a more nuanced approach on untied aid than the OECD DAC.

Procurement practices of leading multilateral Development Banks (MDBs)

No.	MDB	Procurement open for companies of	No.	MDB	Procurement open for companies of
1	IBRD/ IDA	All countries	6	EIB	All countries for both internal (inside EU) and external (outside EU) operations.
2	ADB	Only member countries	7	IsDB	Only member countries unless goods and services can only be adequately sourced from other countries
3	IaDB	Only member countries	8	AIIB	All countries
4	AfDB	Only member countries	9	NDB	Only member countries
5	EBRD	All countries			

Source: procurement policies of relevant MDBs.

All in all, it can be concluded that untying of aid in the OECD DAC is a rather idealistic and theoretical discussion, for in practice most of the reported untied ODA is de facto tied to procurement from the donor country. Furthermore, despite more than 10 years of reporting of untied aid practices for LDCs and HIPCs in the OECD there is still a substantial lack of transparency on whether reported untied aid is indeed truly untied. This all, combined with the massive tied aid financing practices of China warrants for a different and more nuanced approach for untied aid. This will be explained later in this document.

[58] It could be argued that the partially untied practices of the 5 MDBs can be treated as a form of tied aid. Fact is that the OECD Arrangement rules on tied aid explicitly stipulate that *"the tied aid provisions of the Arrangement do not apply to the aid programmes of multilateral or regional institutions"*. (see article 33 b) of the OECD Arrangement text of January 2018).

IV.4. International Working Group (IWG) on Export Credits.

This IWG was established in early 2012 by the United States and China, comprising the nine OECD Arrangement members (Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States) and nine non-Arrangement countries (Brazil, China, India, Indonesia, Israel, Malaysia, the Russian Federation, South Africa and Turkey). The IWG held thus far meetings every 4-6 months, in the first phase focusing on two specific sectors, namely ships and medical equipment, with the aim to proceed to a more general perspective in a second phase. Furthermore, the IWG discussed all kind of technical concepts regarding officially supported export credits (repayment profiles such as balloon payments), but thus far – despite more than 6 years of discussions – no or hardly any progress has been made to come to a comprehensive understanding with all participants on a new global framework for officially supported export credits.

Despite 6 years of negotiations the IWG has made no or hardly any progress.

It is noteworthy that Brazil has already joined the OECD understanding on aircraft financing in 2007 and that Turkey is likely to join the entire OECD Arrangement in November 2018. Furthermore, some non-OECD countries already apply the most important OECD Arrangement terms and conditions on a voluntary basis in their export credit business, but this cannot be verified due to the lack of transparency. Whereas OECD governments are obliged to inform other OECD Arrangement countries when they deviate from key OECD conditions such notification obligations do obviously not apply to non-OECD countries.

There are indications that in particular China is stalling progress in the IWG. Apparently, there is a lack of willingness of China to join the existing multilateral framework for official finance or to develop a comprehensive new global framework. The attitude of China in the IWG resemblances its reluctance to become a full member of the Paris Club and the OECD DAC. It all gives the impression that China wants to continue to go its own way, because the benefits of "going global" alone are perceived higher than those of multilateral cooperation.

The attitude of China in the IWG resemblances its reluctance to become a full member of the Paris Club and the OECD DAC.

Concerted action of OECD governments and other important stakeholders is therefore needed. There is much more at stake than only officially supported export credits. If no action is undertaken the unique, but rather complex, multilateral framework for official finance will most certainly erode further and in due course it may even collapse. This should obviously be avoided.

V. Conclusions and recommendations: Towards a level playing field for OECD construction companies and an enhanced global official finance framework.

As mentioned a concerted action of not only OECD, but also non-OECD governments, Multilateral Development banks, Bilateral Development Finance Institutions, ODA aid agencies, ECAs and EXIM banks and the guardian authorities behind these official finance agencies is urgently needed to create a global level playing field for internationally operating construction companies. This implies of "whole of government approach" and that government representatives involved in the 7 key pillars need to be aware of the official finance issues beyond their own pillar. A single pillar or silo approach is no longer sufficient.

For this reason, an adequate multilateral framework for all forms of official finance for developing countries need to be developed. The framework should not only cover (i) officially supported export credits, but also (ii) ODA, (iii) tied aid, (iv) untied investment loans and guarantees, (v) development loans and guarantees from multilateral and bilateral Development Finance Institutions, (vi) other forms of official finance (e.g. equity investments, untied investment loans / guarantees) and (vii) debt rescheduling for countries in debt distress. The current focus of the IWG on only conventional export credits is clearly too narrow.

It has triggered a renewed race to the bottom of all forms of official finance at the expense of scarce government budgets and tax-payers' money.

The joint action plan is not only in the interest of a level playing field for official finance / guarantee agencies, but also to maintain and restore the unique multilateral system for official finance to developing countries. It is currently subject to a serious erosion caused by the massive unregulated and highly distortive official finance practices of China, which is further fueled by the increase of tied aid, problematic untied aid practices and unregulated official finance by certain key OECD countries. It has triggered a renewed race to the bottom of all forms of official finance at the expense of scarce government budgets and tax-payers' money. If in the short term no adequate action is undertaken it may even lead to a complete collapse of the multilateral official finance system, which would be extremely unfortunate. All governments have an interest to avoid this from happening. The seven pillars of the multilateral official finance system have functioned successfully during the past 40- 60 years, but today these pillars are at serious risk.

Concerted action is also in the interest to enhance international efforts to achieve the UN Sustainable Development Goals (SDGs, which include climate change, infrastructure and partnerships among private and public financiers), maintain the integrity of IMF / WB Debt Sustainability Framework, improve debt sustainability of low-income developing countries and ensure an orderly multilateral management of debt problems of developing countries.

Concerted action is also in the interest to enhance international efforts to achieve the UN Sustainable Development Goals and maintain the integrity of IMF / WB DSF countries.

An enhanced multilateral official finance framework will assist in a better alignment of various forms of official finance from both multilateral and bilateral sources. It is key to avoid that (highly) subsidized forms of official finance crowd out finance for projects in developing countries that can be provided with no or substantial less official support. Subsidized development finance should be complementary to the market and not the other way around. The higher the subsidies involved the more prudency is required. The proposed agenda is therefore also important for the successful development of DFI strategies to mobilize additional private capital for development and not replace other existing forms of capital. It can contribute to substantially enhance aid effectiveness and aid efficiency.

During the past ten years China has clearly transformed itself from an aid recipient country into the largest official financier of developing countries. This is a such a positive development and a great achievement of the country. China has also put the importance of infrastructure for development of developing countries high on the international agenda. Today, China is for most African countries (and for many other developing countries) far more important than the World Bank, but with a new leading official finance role for developing countries comes new responsibilities, which should go beyond Chinese bilateral national interests.

Furthermore, the Chinese government has already for many years adequate access to market based finance and does clearly no longer need ODA and other non-market based / subsidized forms of official development finance from multilateral or bilateral Development Finance Institutions. China has currently a Long-Term Foreign Currency credit rating which is more or less equal to many major OECD countries (S&P: A+, Moody's: A1, Fitch: A+). The recent announcement of Japan to stop providing bilateral ODA to China is in this context exemplary and should be followed. The US view that multilateral sovereign lending to China should be substantially reduced should be supported by all OECD countries. It will make

…but with a new leading official finance role for developing countries comes new responsibilities, which should go beyond Chinese bilateral national interests.

more multilateral capital available for LDCs and other LICs that are highly dependent on development finance.

Military expenditures G 7 countries, China, India and Russia in million US$ (at constant prices 2016 and ranking based on expenditures at current prices in 2017)

Ranking	Country	2000	2005	2010	2015	2016	2017	2017 Current	2017 in % of 2000
1	USA	420.496	618.605	768.466	603.625	600.106	597.178	609.758	145%
2	China	41.324	76.606	138.028	204.505	216.031	228.173	228.231	552%
3	Russia	20.405	30.433	43.121	64.593	69.245	55.327	66.335	325%
4	India	27.339	35.644	48.600	51.393	56.638	59.757	63.924	234%
5	France	50.873	53.661	54.570	55.288	57.358	56.287	57.770	114%
6	UK	43.535	52.739	57.088	47.873	48.119	48.383	47.193	108%
7	Japan	45.402	46.216	45.595	46.754	46.471	46.556	45.387	100%
8	Germany	42.353	39.316	41.488	39.892	41.579	43.023	44.329	105%
9	Italy	35.776	35.169	32.291	25.192	28.206	28.417	29.236	82%
10	Canada	12.511	14.243	16.540	17.561	18.132	19.837	20.567	164%

Source: Stockholm International Peace Research Institute (SIPRI).

Relevant is as well that China had in 2017 after the USA the 2nd highest military expenditures. This concerned a total amount of US$ 228 billion[59], which is substantially more than US$ 146 billion of global net ODA provided by all OECD DAC countries to all developing countries in 2017. From 2000 - 2017 Chinese military expenditures increased by 552%. These figures confirm that China does not need ODA or other forms of subsidized development finance.

In light of all these circumstances the unregulated and massive official finance practices of China should get the highest political attention within each individual EU member country and the EU Commission. Together with other OECD governments (e.g. USA, Canada, Korea, Japan) the concerns regarding the current unlevel playing field on official finance and the potential collapse of the unique multilateral official finance system should be put as a priority issue on the agenda of the G-7 and G-20 and the multilateral development banks. This all should lead to a comprehensive framework for official finance within 2 years

Priority issues – in order of importance – for a global framework for official finance should include the following topics:

1. Common regulations on all forms of tied aid and (partially) untied aid (e.g. ODA and multilateral or bilateral development finance), including an “additionality ranking” of all forms of official finance.

[59] Source: Stockholm International Peace Research Institute (SIPRI) The SIPRI Military Expenditure Database contains consistent time series on the military spending of countries for the period 1949–2017.

2. Common risk-based pricing system for all forms of cross border trade- or investment-related official finance / guarantees.
3. Minimum interest rates for all forms of cross border trade- or investment-related official finance / guarantees.
4. China should be strongly encouraged to become a permanent member of the Paris Club and to fully adhere to the IMF/WB DSF and OECD guidelines on sustainable lending to developing countries.
5. Common terms and conditions on maximum repayment periods, maximum grace periods, repayment profiles, minimum officially supported interest rates, maximum amounts for official support for all forms of cross border trade – and investment-related official finance/ guarantees.
6. Adequate and verifiable transparency on all forms of official finance with priority to (i) tied aid, (ii) export credits, (iii) untied development finance (multilateral and bilateral ODA and non-ODA), (iv) untied investment loans and guarantees and (v) other forms of official finance (e.g. equity investments).

Transition Phase.

In the meantime, and as long as there is no adequate global framework on official finance, EU institutions (e.g. EIB and EU Commission / DEVCO) and individual EU member states could consider the implementation of the following additional action points:

A. On bilateral ODA and other forms of bilateral non-market based sovereign lending to the government of China.

1. EU Commission and individual EU member states should stop providing bilateral ODA and / or other forms of non-market based sovereign loans to the government of China. In this respect, the EU should follow the recent decision of Japan.
2. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

B. On multilateral concessional and non-concessional sovereign lending to the government of China (e.g. IBRD/IDA, ADB and AIIB).

3. The EU Commission and in particular individual EU member states in their capacity of shareholders in key Multilateral Development Institutions (DFIs) should ensure that relevant DFIs join the initiative mentioned under A and stop MDB sovereign lending to China.
4. In this area, the EU Commission and EU member states should seek support from other leading OECD countries that are shareholders in the DFIs involved. It is likely that this suggestion will be supported by the US government.

C. On procurement of goods and services for projects <u>within the EU</u> that benefit from official finance from EU institutions (e.g. EU Commission, EIB) and / or individual EU member states.

5. Chinese companies should be excluded from procurement for goods and services for projects inside the EU that are financed by the EU and / or individual member states.
6. This restriction should apply for as long as OECD construction companies do not have equal access to Chinese official finance for projects in the domestic market of China.

D. On procurement of goods and services for projects in developing countries that <u>benefit from official finance from EU institutions (e.g. EU Commission, EIB) and / or individual EU member states</u>.

7. Chinese companies should be excluded from procurement for goods and services for projects in all developing countries (including LDCs and HIPCs of the OECD DAC Recommendation) that are financed with ODA or other forms of bilateral official finance from the EU institutions and/ or individual EU member states. Other forms of official finance in this context includes for example (i) ODA, (ii) non-concessional development finance from DFIs, (iii) officially supported export credits and untied investment loans/guarantees from EU ECAs and EXIM banks.
8. As long as the exclusion concerns only one country, ODA remains according to the DAC definition untied aid and DAC members can where relevant continue to report it as untied aid in the OECD DAC. There is also sufficient competition among different suppliers, which ensures that the project can be done at the most favorable terms and conditions.
9. Integrate key sustainability criteria for the pre-selection of potential bidding companies for projects in developing countries that are supported by "official finance" provided by EU institutions and/ or individual EU member states. These pre-selection sustainability criteria should at least include: (i) a clear verifiable positive track record on sustainability performance of the bidding company, (ii) assurance that the highest international standards and safeguard policies on ESG topics will be complied with for projects that benefit from such official finance from the EU.
10. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

E. On procurement of goods and services for projects in developing countries that benefit from official finance from Multilateral Development Finance Institutions.

11. Chinese companies should be excluded from procurement for goods and services for projects in all developing countries (including LDCs and HIPCs of the OECD DAC Recommendation) that are financed with ODA or other forms of

multilateral official finance from Multilateral DFIs in which OECD countries are a major shareholder.

12. Integrate key sustainability criteria for the pre-selection of potential bidding companies for projects in developing countries that are supported by multilateral "official finance" provided by Multilateral DFIs in which OECD countries are a major shareholder These pre-selection sustainability criteria should at least include: (i) a clear verifiable positive track record on sustainability performance of the bidding company, (ii) assurance that the highest international standards and safeguard policies on ESG topics will be complied with for projects that benefit from such official finance from the multilateral DFIs.
13. Furthermore, the EU Commission and individual EU member states should convince other OECD countries to join this initiative.

F. On untying of aid

14. The EU and individual EU member countries should only untie their business to other OECD (and non-OECD) countries on a reciprocal basis. Reciprocity should be fully transparent and verifiable and it must be ascertained that untied aid is not de facto tied.
15. The burden of proof that untied aid is actually untied and not de facto tied should lie with the donor country that reports untied aid. If no adequate proof is provided the aid should be considered as tied aid and future untied aid operations of the donor country involved should meet relevant OECD tied aid criteria.
16. All OECD and / or EU efforts on further untying of aid should be put temporarily on hold for as long as China has not joined a global framework on official finance. Only in this way adequate resources can be allocated for the development of a comprehensive global framework on official finance for developing countries. Moreover, a further untying of aid within the OECD is at this stage not the appropriate measure to tackle the massive unregulated official finance practices of China and the official finance responses of OECD governments to these Chinese official finance practices.

G. On integrating new additional sustainability terms and conditions into the OECD frameworks of ODA and / or officially supported export credits.

17. All OECD and / or EU efforts on further integrating new or additional sustainability criteria in the frameworks for ODA and/ or officially supported export credits, with the exception of those mentioned under action points 9 and 12, should be put temporarily on hold for as long as China has not joined a global framework on official finance. Only in this way adequate resources can be allocated for the development of a comprehensive global framework on official finance for developing countries. Moreover, a further integration of sustainability criteria for OECD official finance is at this stage not the appropriate measure to tackle the massive unregulated official finance practices of China and the official finance responses of OECD governments to these Chinese official finance practices.

H. On maintaining the integrity of the IMF/ WB Debt Sustainability framework

18. Given the current dominant role of non-Paris Club members in the debt of LDCs and HIPCs countries that fall under the IMF / WB DSF it is important that non-Paris Club members fully adhere to the relevant IMF/ WB DSF guidelines and the OECD guidelines for sustainable lending and officially supported export credits. In this way transparency of official finance provided by non-Paris Club members can be improved. It will also be critical to enhance the cooperation between IMF/WB and non-Paris Club members which is important to avoid unsustainable debt and new financial crisis in developing countries.
19. The cooperation should also cover non-Paris Club lending to other developing countries that have a high risk of debt distress or already face debt distress issues.

SFI hopes that this study contributes to a better understanding of the important issues that are at stake. It is fully prepared to contribute to any further discussion with key stakeholders on the topics raised. A constructive dialogue between key players involved is urgently needed to create a global level playing field and to restore and enhance the multilateral official finance system.

Where there is a will, there is a way, so it must be possible to move successfully forward. The UN SDGs, which include infrastructure, climate change, partnership for development and the importance of mobilizing private capital provide the direction about what needs to be done, so it is now primarily a matter of bringing people and organisations together and build the necessary bridges between them.

Annex I. Overview of some key issues concerning "official finance" from OECD countries and China.

(officially supported export credits, Official Development Assistance, Other Official Flows and some other topics)

No.	Topic	OECD	China
	Officially supported export credits		
1	Premiums for officially supported export credit guarantee programs should be adequate to cover in the Medium and Long Term (MLT) operating costs and losses (WTO-obligation)	OECD minimum premiums for officially supported export credits to ensure that WTO obligation is met. Requirements for OECD governments to report annually the cash flow results of their national ECA guarantee programs	WTO-obligation applies to China No minimum premiums No transparency whether WTO requirement is met.
2	Interest rates of officially supported export finance loans may not be lower than the funding costs of the lending government (WTO-obligation).	OECD minimum interest rates (e.g. CIRR) Reporting requirements for OECD governments if they deviate from OECD standards	WTO-obligation applies to China No minimum interest rates No transparency whether WTO requirement is met.
3	Do regulations regarding tied aid export credits apply?	Yes, detailed regulations Min concessionality level of 35% and 50% for LDCs Realistic currency and tenor specific discount rates to calculate minimum concessionality levels (DDRs) No tied aid to upper middle-income countries Commercial viability test to avoid unfair competition and crowding out of market based finance. Detailed reporting requirements for OECD governments of tied aid financing for individual projects to monitor tied aid practices and maintain integrity of tied aid regulations.	Not applicable No transparency
4	Maximum repayment periods	Yes Deviations should be reported to all OECD countries	Not applicable No transparency
5	Maximum grace periods	Yes Deviations should be reported to all OECD governments	Not applicable No transparency

No.	Topic	OECD	China
	Officially supported export credits		
6	Conditions regarding repayment profile	Yes, at least semi-annual repayment of interest and principal, with some flexibility for non-recourse project finance. Deviations should be reported to all OECD governments	Not applicable No transparency
7	Restrictions for support of local costs	Yes, maximum support for local costs is 30% of the value of the export contract. Deviations should be reported to all OECD governments.	Not applicable. No transparency.
8	Minimum down payment requirement	Yes, a minimum down payment of 15% of the value of the export contract. Deviations should be reported to all OECD governments.	Not applicable. No transparency.
9	Minimum premiums for officially supported export credits	Yes, for both political and commercial risks Deviations should be reported to all OECD governments.	Not applicable. No transparency.
10	Minimum interest rates	Yes, for fixed interest rates (CIRR). Deviations should be reported to all OECD governments.	Not applicable. No transparency.
11	Sustainable lending guidelines to support IMF/ WB DSF	Yes, relevant for all OECD governments. Deviations should be reported to all OECD governments.	Not applicable. No transparency.
12	Strict guidelines to combat bribery by national companies/ individuals of foreign public officials in international business?	Yes, OECD recommendation on bribery and officially supported export credits OECD Convention on combating bribery of foreign public officials in international business transactions. Monitoring of measures and activities of OECD governments to combat bribery and corruption. Strict guidelines also exist for Bilateral DFIs and Multilateral DFIs	Not applicable. No transparency. Lack of adequate monitoring and measures to combat bribery by Chinese companies / individuals of foreign officials.

No.	Topic	OECD	China
	Officially supported export credits		
13	Application of high international Environmental Social and Governance (ESG) standards?	Yes, OECD common approaches with detailed requirements for an ESG risk assessment prior to loan signing and strict regulations to monitor ESG performance during the life of the loan. Transparency to stakeholders through obligatory disclosure of ESG assessment. Adequate complaint procedures. OECD common approaches are de facto the same as standards and safeguard policies of leading multilateral development banks. OECD bilateral DFIs and Multilateral DFIs apply as well high international ESG standards.	Not applicable. ESG management based on regulations in the country of the borrower. No transparency to stakeholders. No adequate complaint procedures.
14	Guidelines on behavior of multinationals in developing countries and adequate compliant mechanism?	Yes, OECD guidelines for multinational enterprises, with adequate compliant procedures for stakeholders through independent "National Contact Points".	No guidelines and no adequate/ independent complaint procedure.
15	Guidelines for sustainable lending to LDCs and LICs to support IMF/WB Debt Sustainability Framework?	Yes, OECD principles and guidelines to promote sustainable lending practices in the provision of official export credits to lower income countries. Full transparency on lending to LDCs and LICs towards other OECD governments, IMF and World Bank.	Not applicable. No transparency on lending to LDCs and LICs. No cooperation with IMF / WB and other creditors.
	Official Development Assistance (ODA)	**OECD**	**China**
16	Adequate aid performance monitoring framework and evaluation system and full transparency about aid activities?	These are the main conditions to become a member of the OECD Development Assistance Committee (DAC). All OECD DAC members meet these conditions. All OECD DAC members are fully transparent about their aid activities and facilitate peer reviews of their own aid performance.	China is not a member of the OECD DAC. No transparency.

	Official Development Assistance (ODA)	OECD	China
17	Minimum concessionality level for ODA	Yes, current framework: 25% is the minimum concessionality level calculated with a 10% discount rate. New ODA framework has differentiated minimum concessionality levels and discount rates for 3 country categories.	Not applicable. No transparency. All Chinese aid is tied, for which other more restrictive OECD tied aid regulations would apply. Moreover, Chinese official finance does not have "development of developing countries as its main objective". It cannot be characterized as ODA.
18	Reporting obligations to monitor and evaluate ODA activities.	Yes, OECD DAC members have to report their ODA activities to OECD DAC (UN 0.7% of GNI commitment). Peer reviews of ODA activities of OECD DAC member countries.	Not applicable. No transparency.
19	Commitment to untie ODA to Least Developed Countries (LDCs) and other Low-Income Countries (LICs)?	Yes, OECD recommendation on untying of aid to LDCs and LICs Ex ante and ex post reporting to monitor untied aid practices of OECD governments.	No, all Chinese official finance is tied to procurement to goods and services from China. No transparency.
	Other Official Flows OOF	**OECD**	**China**
20	Clear reporting guidelines to monitor OOF?	Yes, relevant for all OECD governments.	Not applicable. No transparency.

	Other topics	OECD	China
21	Full member of the Paris Club and adherence to multilateral debt rescheduling procedures and principles?	Yes, all OECD countries are full member of the Paris Club and adhere to the six principles of the Paris Club.	No, China strongly prefers bilateral debt work-outs arrangements to pursue its "national interest" objectives. Lack of transparency. No consultation with IMF, World Bank and other creditor countries. Resource-backed financing and undermining IMF /WB DSF, debt sustainability of developing countries, preferred creditor status of IMF and MDBs.
22	Adequate application of fair competition rules for SOEs?	Yes	No
23	Resource-backed financing practices for loans to sovereign borrowers?	No	Yes, this is a common practice of China for large infrastructure projects.
24	Does the sovereign of the country obtain development loans from MDBs?	No, OECD governments are in general not eligible for development loans from MDBs and / or bilateral DFIs.	Yes, China is eligible for sovereign development loans from MDBs and bilateral DFIs. IBRD/IDA and ADB sovereign loans outstanding per FY 2017 was more than US$ 32 billion. AIIB can also lend to Chinese sovereign.
25	Does the sovereign of the country obtain bilateral ODA from OECD DAC member countries?	No, OECD governments are in general not eligible for ODA.	Yes, China is eligible for ODA and obtains ODA from some OECD DAC donor countries. During the years 2014 – 2016 China received new ODA loans for a total amount of US$ 4.443 billion

	Other topics	OECD	China
26	Does the sovereign of the country obtain non-concessional development loans (OOF) from OECD DAC member countries?	No, in general sovereigns in OECD countries do not benefit from non- concessional development loans from OECD DAC donor countries.	Yes, China obtains OOF loans from some OECD governments.
27	Does the sovereign of the country obtain ECA supported export finance loans from OECD Export Credit Agencies?	No, in general most sovereigns in OECD countries do not make use of officially supported export credits. Most OECD governments fund themselves in the private market.	Yes, China is makes use of officially supported export credits that are provided by OECD ECAs/ EXIM banks.
28	Involvement of local construction companies in infrastructure projects in developing countries?	Yes, this is very common for OECD construction companies	No, very limited
29	Transfer of know-how and expertise to local companies in infrastructure projects in developing countries?	Yes, this is very common for OECD construction companies	No, very limited
30	Application of highest international environmental and social standards in construction?	Yes, this is very common for OECD construction companies	No, Chinese SOEs use local standards which are less comprehensive, less strict, poorly implemented and poorly managed.

Annex II.

Global new Medium and Long Term official export credit business in 2017 (in billion US$).

No.	Country	in billion US$	% share of total	No.	Country	in billion US$	% share of total
1	China	36,3	33,3%	15	Brazil	1,6	1,5%
2	India	9,7	8,9%	16	Spain	1,5	1,4%
3	Italy	8,9	8,2%	17	South Africa	1,2	1,1%
4	Korea	7,9	7,3%	18	Switzerland	1	0,9%
5	Germany	7	6,4%	19	Russia	1	0,9%
6	France	6,8	6,2%	20	Norway	0,9	0,8%
7	Finland	5,5	5,1%	21	Israel	0,8	0,7%
8	Belgium	3,1	2,8%	22	Austria	0,8	0,7%
9	Netherlands	2,4	2,2%	23	Hungary	0,6	0,6%
10	United Kingdom	2,1	1,9%	24	Turkey (b)	0,5	0,5%
11	Japan	2	1,8%	25	United States	0,2	0,2%
12	Sweden	1,9	1,7%	26	Australia	0,1	0,1%
13	Canada	1,9	1,7%	27	Mexico (d)	0	0,0%
14	Denmark	1,8	1,7%	28	Other OECD (a)	1,4	1,3%
	Total all countries	108,9					

Source: US EXIM Competiveness report 2017, page 23
Other OECD includes Portugal, Czech Republic, Slovakia, Luxembourg, Slovenia and Poland
Turkey is likely going to become a full participant to the OECD Arrangement in 2018.
Brazil is a participant to the OECD sector understanding for aircraft.
Information on the MLT export credit business of Mexico was unavailable. It is known that Mexico is quite active in official MLT export credits.

Annex III. Examples of resource-backed Chinese loans to Africa.

Chinese resource-backed loans for projects or SOEs in Africa, 2000-2014 (part 1)

Year	Recipient Country	Financier	Amount in Million US$	Purpose	Resource- backed
2010	Angola	ICBC	2.500	Resource-backed structured financing (Kilamba Kiaxi New Town)	oil backed
2011	Angola	CDB	2.000	Sonangol development	oil backed
2012	Angola	CDB	1.000	Sonangol development	oil backed
2013	Angola	CDB	2.500	Sonangol development	oil backed
2014	Angola	CDB	2.000	Sonangol development	oil backed
2008	DRC	Eximbank	1.300	Mining Project disbursed amount as of END OF 2014	profits from copper
2008	Gabon	Eximbank	300	Grand Poubara Hydropower Project	iron-ore backed*
2007	Ghana	Eximbank	292	Bui Hydropower Project (CommL part)	38000 ton Cocoa/ year & electricity o ake
2002	Nigeria	CMEC	115	Omotosho Gas Power Plant in Ondo State	oil-backed
2006	Nigeria	Eximbank	200	NICOMSAT satellite	oil-backed
2003	ROC	CMEC	238	Imboulou Hydropower Station, new, 120MW	oil-backed
2001	Sudan	Harbin Power Equipment Company	128	El-Jaili (Garri) Gas Power Station Phase I 212MW	oil backed

Chinese resource-backed loans for projects or SOEs in Africa, 2000-2014 (part 2)

Year	Recipient Country	Financier	Amount in Million US$	Purpose	Resource- backed
2009	Sudan	Eximbank	119	Al Rank - Malakal Road (Peace Road)	oil backed
2009	Sudan	Eximbank	86	Aum Kadada - Alfashir Road (Salvation Road/ Aum-Fa Road)	oil backed
2009	Sudan	Eximbank	680	Al Fulah Gas- Power Plant	oil backed
2009	Sudan	Eximbank	100	Al Dibabat - Abou Zayd - El Fula Road (Dubeibat - Abu Zabad - El Fula Road)	oil backed
2009	Sudan	Eximbank	120	El Nahood - Aum Kadada Road (En Nahud - Um Kadada Road)	oil backed
2010	Sudan	Eximbank	118	Social housing in Khartoum and other area	oil backed
2010	Sudan	Eximbank	233	South Kordofan Transmission Lines (Al Fulah Thermal Plant's Tranmission Line?)	oil backed
2010	Sudan	Eximbank	30	Agricultural improvement/ electrici cation in Blue Nile	oil backed
2010	Sudan	Eximbank	24	Dali water project	oil backed
2010	Sudan	Eximbank	66	Sennar Bridge	oil backed
2004	Zimbabwe	Catic China	110	Purchase of Rural Electri cation Agency Equipment	Tobacco
2006	Zimbabwe	Eximbank	200	Agricultural equipment, pesticides, fertilizer, etc.	Secured with platinum deposits
2011	Zimbabwe	Eximbank	105	National Defense College	diamond (Zim side of Anjin JV income in an escrow account)
	Total		**14.564**		

Source: China Africa Research Initiative

Examples of Chinese resource-backed lines of credit to African governments, 2000-2014

Year	Recipient Country	Financier	Amount in million US$	Purpose	Resource-backed
2004	Angola	Eximbank	2.000	Multisector Infrastructure	oil-backed
2007	Angola	Eximbank	2.000	Multisector Infrastructure	oil-backed
2007	Angola	Eximbank	500	Multisector Infrastructure	oil-backed
2009	Angola	Eximbank	2.000	Multisector Infrastructure	oil-backed
2012	Chad	Eximbank	2.000	Multisector Infrastructure	oil-backed
2008	DRC	Eximbank	3.000	Multisector Infrastructure	copper profits
2005	Eq. Guinea	Eximbank	2.000	Multisector Infrastructure	oil-backed
2006	ROC	Eximbank	2.000	Multisector Infrastructure	oil-backed
2012	ROC	Eximbank	1.000	Multisector Infrastructure	oil-backed
2007	Sudan	Eximbank	3.000	Multisector Infrastructure	oil-backed
2011	Ghana	CDB	3.000	Multisector Infrastructure	oil-backed
2013	Niger	Eximbank	1.000	Unknown	oil-backed
	Total		**23.500**		

Source: China Africa Research Initiative

Please note that not all of these credit lines have been committed or disbursed and some are no longer active.

Annex IV. Some key data about Chinese official finance to Africa

Chinese sovereign loans: ODA-like, OOF-like, Vague Official Finance (in billion US$)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
ODA-like	2,3	6,3	5,7	2,5	7,5	4,3	13,9	11,9	9,6	6,9	70,9
OOF-like	5,8	7,5	10	6	56,6	20,5	30,2	25,2	18,4	24,1	204,3
VOF	1,5	4,9	2,8	4,3	5,5	5,8	8,6	4,6	8,7	6,3	53
Total	9,6	18,7	18,5	12,8	69,6	30,6	52,7	41,7	36,7	37,3	328,2

Source: AidData

Chinese new sovereign loans by lender during the period 2000 - 2015 (in million US$)

Year	C-EXIM	CDB	Other Chinese(a)		Total
2000	52	0	68		121
2001	20	0	242		262
2002	157	0	517		674
2003	1.063	0	557		1.620
2004	542	0	421		962
2005	1.563	0	269		1.831
2006	2.554	0	1.948		4.502
2007	5.891	17	37		5.945
2008	3.397	50	469		3.916
2009	5.022	0	1.360		6.382
2010	3.034	22	3.041		6.097
2011	6.665	2.783	474		9.922
2012	7.168	1.801	1.303		10.273
2013	9.445	4.280	2.986		16.711
2014	8.025	2.446	2.975		13.446
2015	8.454	898	2.413		11.764
Total	63.052	12.297	19.081		94.429

Source: China Africa Research Initiative

Other Chinese include other Chinese banks and Chinese contracting companies

The top 15 key markets for Chinese official finance in Africa 1998 – 2017 (in million US$)

No.	Country	Amount	No.	Country	Amount
1	Angola	42.845,39	9	South Africa	3.783,62
2	Ethiopia	13.738,51	10	Uganda	2.968,40
3	Kenya	9.803,46	11	Ivory Coast	2.692,90
4	Rep of Congo	7.423,60	12	Tanzania	2.347,77
5	Sudan	6.491,61	13	Mozambique	2.289,38
6	Zambia	6.377,33	14	Zimbabwe	2.214,08
7	Cameroon	5.568,01	15	Senegal	1.630,18
8	Nigeria	4.831,42			
	Top 15	97.079,34			
	Other	46.269,98			
	Total	143.349,32			

Source: China Africa Research Initiative

Annex V. Some key multilateral concepts and definitions on official development finance and export credits.

Concessionality level (OECD DAC and OECD Arrangement):

A measure of the "softness" of a credit reflecting the benefit to the borrower compared to a loan at market rate. (cf. Grant Element). Technically, it is calculated as the difference between the nominal value of an aid credit and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the relevant form of aid. (e.g. for (i) ODA, (ii) tied aid, or (iii) concessional loans under the IMF/WB Debt Sustainability Framework.

Current Aid architecture and relevant minimum concessionality calculations.

	Old ODA	**New ODA**	**IMF / WB DSF**	**Tied Aid**
Grant Element Thresholds	25%	45% for LDCs and other LICs 15% for LMICs 10% for UMICs	35%	50% for LDCs 35% for all other countries
Discount Rates	10%	9% for LDCs and other LICs 7% for LMICs 6% for UMICs	5%	Euro: 1.7% (1) US$: 3.7% (1)

(2) These interest rates are according to the OECD arrangement on officially supported export credits the applicable discount rates for tied aid credits with a tenor between 15 and 20 years in March 2017.

Commercial Interest Reference Rate (OECD Arrangement):

The Participants providing official financing support for fixed rate loans shall apply the relevant CIRRs as minimum interest rates. CIRRs are interest rates established according to the following principles:

1) CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned;

2) CIRRs should closely correspond to the rate for first class domestic borrowers;

3) CIRRs should be based on the funding cost of fixed interest rate finance;

4) CIRRs should not distort domestic competitive conditions; and

5) CIRRs should closely correspond to a rate available to first class foreign borrowers.

Export Credit (OECD Arrangement):

An insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time; an export credit may take the form of a supplier credit extended by the exporter, or of a buyer credit, where the exporter's bank or other financial institution lends to the buyer (or its bank).

Grant level (OECD DAC):

Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of the domestic investment, i.e. as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10 percent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan. (cf. concessionality level) [Note: the grant element concept is not applied to the market-based lending operations of the multilateral development banks. Instead, these are classified as concessional if they include a subsidy ("soft window" operations) and non-concessional if they are unsubsidized ("hard window" operations)].

For relevant minimum grant levels and discount rates see above under concessionality levels.

Highly Indebted Poor Countries (HIPCs) (IMF):

HIPCs concerns Low-income developing countries that have qualified for, are eligible or potentially eligible, and may wish to receive HIPC initiative assistance

IMF List of HIPCs (as of October 2017)

Post-Completion-Point Countries (36)		
Afghanistan	Ethiopia	Mauritania
Benin	The Gambia	Mozambique
Bolivia	Ghana	Nicaragua
Burkina Faso	Guinea	Niger
Burundi	Guinea-Bissau	Rwanda
Cameroon	Guyana	São Tomé & Príncipe
Central African Republic	Haiti	Senegal
Chad	Honduras	Sierra Leone
Comoros	Liberia	Tanzania
Republic of Congo	Madagascar	Togo
Democratic Republic of Congo	Malawi	Uganda
Côte d'Ivoire	Mali	Zambia
Pre-Decision-Point Countries (3)		
Eritrea	Somalia	Sudan

Source: IMF

IMF/WB Debt Sustainability Framework (IMF/World Bank):

Low-income countries (LICs) face significant challenges in meeting their development objectives, including the Sustainable Development Goals (SDGs), while at the same time ensuring that their external debt remains sustainable.

In April 2005, the International Monetary Fund (IMF) and the International Development Association (IDA) approved the introduction of the Debt Sustainability Framework (DSF), a tool developed jointly by IMF and World Bank staff to conduct public and external debt sustainability analysis in low-income countries. The latest review of the framework was approved by the Executive Boards in September 2017, and introduced reforms to ensure that the DSF remains appropriate for the rapidly changing financing landscape facing LICs and to further improve the insights provided into debt vulnerabilities.

The primary aim of the DSF is to guide borrowing decisions of low-income countries in a way that matches their need for funds with their current and prospective ability to service debt, tailored to their specific circumstances. Given the central role of official creditors and donors in providing new development resources to these countries, the framework simultaneously provides guidance for their lending and grant-allocation decisions to ensure that resources to LICs are provided on terms that are consistent with their long-term debt sustainability and progress towards achieving the SDGs. The forward-looking nature of the DSF allows it to serve as an "early warning system" of the potential risks of debt distress so that preventive action can be taken in time.

Reflecting the 2017 comprehensive review, DSAs conducted under the DSF consist of:

- a composite indicator to assess country's debt-carrying capacity drawing on a set of country-specific and global factors (including institutional strength measured by the World Bank calculated on the CPIA score);
- realism tools to facilitate closer scrutiny of the baseline projections;
- a standardized forward-looking analysis of the debt and debt service dynamics under a baseline scenario and in the face of plausible shocks, where the scale and interactions of shocks are calibrated to country experience;
- newly-introduced tailored stress tests to better evaluate country-specific risks stemming from contingent liabilities (consistent with the coverage of public sector debt), natural disasters, volatile commodity prices, and market-financing shocks; and
- modules that provide a richer characterization of debt vulnerabilities (from domestic debt and market financing) and better discrimination across countries within the moderate risk category.

The DSF uses one template for both *external debt* and for *public sector debt*. Given that concessionality is an important element in financing LICs, the debt concept used in the template focuses on the present value (PV) of debt. The template generates output tables and charts that display the realism of the baseline projections, debt and debt-service dynamics under the baseline scenario, and that summarize the results of standardized alternative scenarios and stress tests. The template is flexible enough that it can be adapted to country-specific circumstances where warranted.

The assessment of external debt-burden indicators in relation to thresholds reflects the key empirical finding that a low-income country with better policies, institutions, assets, and macroeconomic prospects can sustain a higher level of external debt. The DSF, therefore, classifies countries into one of three debt-carrying capacity categories (strong, medium, and

weak). Corresponding to these categories, the framework establishes three indicative thresholds and a benchmark for each of five debt burden indicators (assessed in terms of GDP, exports, and revenues). Thresholds corresponding to strong policy performers are highest.

OECD DAC

The committee of the OECD which deals with development co-operation matters. Currently there are 30 members of the DAC: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, the United States and the European Union.

OECD minimum premiums for credit risk (OECD Arrangement):

The Participants shall charge premium, in addition to interest charges, to cover the risk of non-repayment of export credits. The premium rates charged by the Participants shall be risk-based, shall converge and shall not be inadequate to cover long-term operating costs and losses.

Official Development Assistance (ODA) (OECD DAC):

The OECD DAC defines ODA as "those flows to (1) countries and territories on the DAC List of ODA Recipients and to (2) multilateral institutions which are:

i. **provided by official agencies**, including state and local governments, or by their executive agencies; and
ii. each transaction of which:

is administered with the promotion of the **economic development and welfare of developing countries** as its **main objective**; and
is **concessional in character** and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)."

At the end of December 2014 OECD DAC members agreed to count as from the beginning at 2018 only as ODA development grants and for development loans only the "grant portion" of the loan. This "grant portion" is in essence the aid subsidy involved and is calculated on the basis of new specific ODA discount rates. These new discount rates are now differentiated in three country categories, namely 9% for Least Developed Countries (LDCs) and Low-Income Countries (LICs), 7% for Lower Middle-Income Countries (LMICs) and 6% for Upper Middle-Income Countries (UMICs).

In addition, the OECD DAC agreed in 2014 to new minimum concessionality levels, which

further complicated the ODA framework. For Lower Middle-Income Countries (LMIC) the minimum concessionality level is set at 15% and for Upper Middle-Income Countries (UMIC) it is 10%. This implies that for aid loans to these countries less aid subsidies are required than under the old ODA framework. Furthermore, the concessionality level for the Least Developed Countries (LDC) and other Low-Income Countries (LIC) have been increased from 25% to 45%, which implies that for these countries aid loans require a higher amount of subsidy to qualify as ODA.

The rationale of the ODA changes of minimum concessionality levels is to encourage donors to provide more ODA to countries that are highly dependent on aid and less ODA to countries that have reasonable access to alternative sources of finance. But the unintended side effect could very well be that ODA loans to LMICs and UMICs will increase, because donors require substantial less aid subsidies for aid loans to these countries. The new concessionality rules could therefore be completely counterproductive.

For old and new minimum concessionality levels for ODA see above under concessionality level

Official support (OECD Arrangement):

Official support may be provided in different forms:

1) Export credit guarantee or insurance (pure cover).

2) Official financing support:

– direct credit/financing and refinancing, or

– interest rate support.

3) Any combination of the above.

Other Official Flows (OECD DAC)

Used in measuring the inflow of resources to recipient countries: includes (a) bilateral ODA, (b) grants and concessional and non-concessional development lending by multilateral financial institutions, and (c) Other Official Flows for development purposes (including refinancing loans) which have too low a grant element to qualify as ODA.

Tied aid (OECD Arrangement):

Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries. Tied aid loans, credits and associated financing packages are subject to certain disciplines concerning their concessionality levels, the countries to which they may be directed, and their developmental relevance so as to avoid using aid funds on projects that would be commercially viable with market finance, and to ensure that recipient countries receive good value.

Official Development Finance (OECD DAC):

Used in measuring the inflow of resources to recipient countries: includes (a) bilateral ODA, (b) grants and concessional and non-concessional development lending by multilateral financial institutions, and (c) Other Official Flows for developing purposes for development purposes (including refinancing loans which have too low a grant element to qualify as ODA

Untied ODA (OECD DAC):

Untied ODA refers to loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and from OECD countries. Definition is quoted from the OECD document" revised DAC recommendation on untying of ODA to the least developed countries and heavily indebted poor countries of 12 August 2014. OECD DAC document: DCD/DAC(2014)37/FINAL

Annex VI.

WTO / GATT Agreement on Subsidies and Countervailing Measures (SCM)

Certain categories of subsidies are explicitly prohibited by Article 3 of the SCM Agreement. The first category consists of subsidies contingent, in law or in fact, whether wholly or as one of several conditions, on export performance ("export subsidies").

A detailed list of prohibited export subsidies is annexed to the SCM Agreement, which covers certain official guarantee programs (item j) and certain official financing programs (item k).

Annex I to the SCM Agreement: Illustrative List of Export Subsidies

(j) The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the cost of exported products or of exchange risk programmes, at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes.

(k) The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and other credit terms and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.

Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.

Annex VII.

Africa: OECD ECA country risk rating, eligibility for tied aid, minimum concessionality level for tied aid and Chinese loans 2000-2015 (million US$).

Number	Country	OECD ECA rating	Eligible for	Min Concessionality	Chinese loans
		as of 28 Jan 2018	tied aid?	Level	
1	Algeria	4	No		9,00
2	Angola	6	Yes	50%	19.224,36
3	Benin	6	Yes	50%	907,90
4	Botswana	2	No		931,11
5	Burkina Faso	7	Yes	50%	0,00
6	Burundi	7	Yes	50%	98,92
7	Cameroon	6	Yes	35%	3.723,00
8	Cape Verde	6	Yes	35%	136,88
9	Central African Republic	7	Yes	50%	103,85
10	Chad	7	Yes	50%	605,81
11	Comoros	n.a.	Yes	50%	8,00
12	Congo	6	Yes	35%	2.836,10
13	Côte d'Ivoire	6	Yes	35%	2.521,16
14	Dem. Rep. of the Congo	7	Yes	50%	3.087,50
15	Djibouti	7	Yes	50%	1.916,86
16	Egypt	6	Yes	35%	431,60
17	Equatorial Guinea	7	No		1.622,40
18	Eritrea	7	Yes	50%	503,51
19	Ethiopia	7	Yes	50%	13.067,42
20	Gabon	6	No		1.027,43
21	Gambia	7	Yes	50%	0,00
22	Ghana	6	Yes	35%	3.176,31
23	Guinea	7	Yes	50%	645,94
24	Guinea-Bissau	7	Yes	50%	0,00
25	Kenya	6	Yes	35%	6.848,82
26	Lesotho	6	Yes	50%	7,94
27	Liberia	7	Yes	50%	0,00
28	Libyan Arab Jamahiriya	7	No		0,00
29	Madagascar	7	Yes	50%	56,10
30	Malawi	7	Yes	50%	238,92
31	Mali	7	Yes	50%	981,46
32	Mauritania	7	Yes	50%	431,45

Number	Country	OECD ECA rating	Eligible for	Min Concessionality	Chinese loans
		as of 28 Jan 2018	tied aid?	Level	
33	Mauritius	3	No		469,87
34	Morocco	3	Yes	35%	515,58
35	Mozambique	7	Yes	50%	1.878,30
36	Namibia	4	No		729,37
37	Niger	7	Yes	50%	703,08
38	Nigeria	6	Yes	35%	3.499,10
39	Rwanda	6	Yes	50%	224,47
40	Sao Tome and Principe	n.a.	Yes	50%	0,00
41	Senegal	5	Yes	50%	1.518,18
42	Seychelles	6	No		63,02
43	Sierra Leone	7	Yes	50%	59,90
44	Somalia	7	Yes	50%	0,00
45	South Africa	4	No		411,27
46	South Sudan	7	Yes	50%	181,80
47	Sudan	7	50	50%	6.477,08
48	Swaziland	6	Yes	35%	0,00
49	Togo	6	Yes	50%	583,86
50	Tunisia	5	Yes	35%	126,38
51	Uganda	6	Yes	50%	2.876,50
52	United Republic of Tanzania	6	Yes	50%	2.347,77
53	Zambia	6	Yes	50%	2.456,12
54	Zimbabwe	7	Yes	35%	1.715,48

Sources: OECD, AidData

Annex VIII. Paris Club Permanent members and six principles.

Permanent members of the Paris Club.

The following countries are permanent Paris Club members:

AUSTRALIA
AUSTRIA
BELGIUM
BRAZIL
CANADA
DENMARK
FINLAND
FRANCE
GERMANY
IRELAND
ISRAEL
ITALY
JAPAN
KOREA
NETHERLANDS
NORWAY
RUSSIAN FEDERATION
SPAIN
SWEDEN
SWITZERLAND
UNITED KINGDOM
UNITED STATES OF AMERICA

The six principles of the Paris Club.

I. Solidarity

All members of the Paris Club agree to act as a group in their dealings with a given debtor country and be sensitive to the effect that the management of their particular claims may have on the claims of other members.

II. Consensus

Paris Club decisions cannot be taken without a consensus among the participating creditor countries.

III. Information sharing

The Paris Club is a unique information-sharing forum. Paris Club members regularly share views and information with each other on the situation of debtor countries, benefit from participation by the IMF andWorld Bank, and share data on their claims on a reciprocal basis. In order for discussions to remain productive, deliberations are kept confidential.

IV. Case by case

The Paris Club makes decisions on a case-by-case basis in order to tailor its action to each debtor country's individual situation. This principle was consolidated by the Evian Approach.

V. Conditionality

The Paris Club only negotiates debt restructurings with debtor countries that:

- need debt relief. Debtor countries are expected to provide a precise description of their economic and financial situation,
- have implemented and are committed to implementing reforms to restore their economic and financial situation, and
- have a demonstrated track record of implementing reforms under an IMF program. This means in practice that the country must have a current program supported by an appropriate arrangement with the IMF (Stand-By, Extended Fund Facility, Poverty Reduction and Growth Facility, Policy Support Instrument).

The level of the debt treatment is based on the financing gap identified in the IMF program. In the case of a flow treatment, the consolidation period coincides with the period when the IMF arrangement shows a need for debt relief. When the flow treatment extends over a long period of time (generally more than one year), the Paris Club agreement is divided into phases. The amounts falling due during the first phase are treated as soon as the agreement enters into force. Subsequent phases are implemented following completion of conditions mentioned in the Agreed Minutes, including non-accumulation of arrears and approval of the reviews of the IMF program.

VI. Comparability of treatment

A debtor country that signs an agreement with its Paris Club creditors should not accept from its non-Paris Club commercial and bilateral creditors terms of treatment of its debt less favorable to the debtor than those agreed with the Paris Club.