urgewald

Who is Who

in the Chinese Lending Institutional Landscape

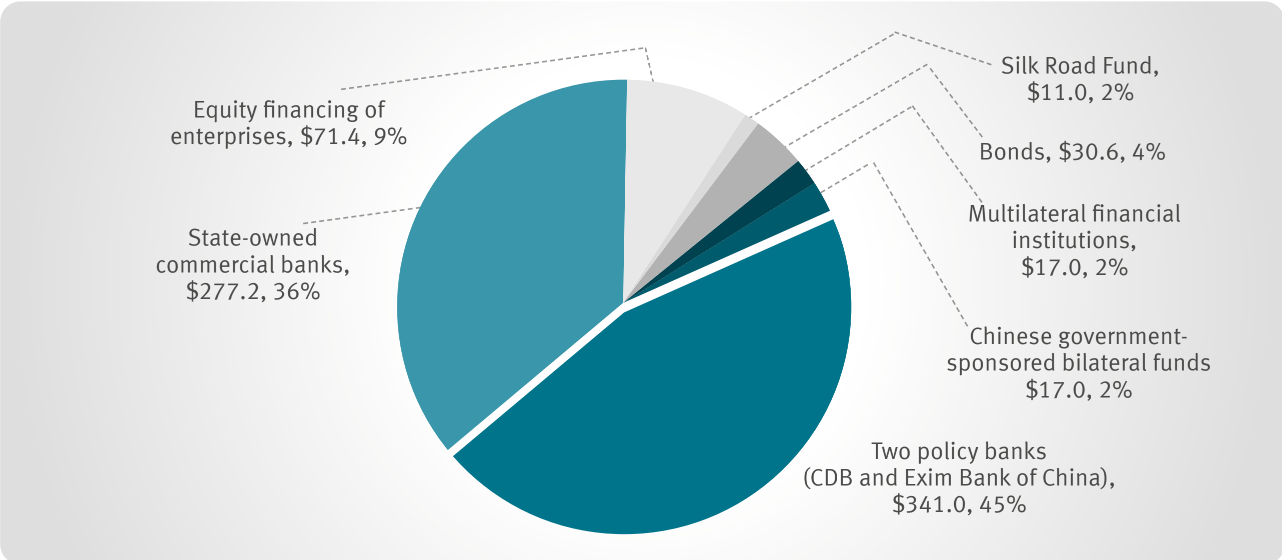
Marina Rudyak

Who is Who in the Chinese Lending Institutional Landscape

China belongs to the world's largest providers of development finance to countries of the Global South. Its role became more prominent since the launch of the Belt and Road Initiative (BRI) by China's president Xi Jinping in 2013, aimed at promoting connectivity between China and the rest of the world. As China publishes neither sector breakdowns of its funding activities nor disaggregated loan data, the exact scale and distribution of Chinese official financing is difficult to estimate. Independent research, however, suggests that China has become the largest official creditor, surpassing the World Bank and the IMF.

China offers loans to governments, state-owned enterprises and investor consortia. In the context of BRI, the main sources of financing are the two large state-owned policy banks China Development Bank (CDB) and China Export-Import Bank (Exim Bank), which at the end of 2018 accounted for 45% of total BRI financing. Chinese state-owned commercial banks Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Agricultural Bank of China (ABC), the so called "big four", accounted for 36% of BRI financing. The remaining part was funded through the equity financing of Chinese enterprises (9%), Bonds (4%), Chinese government-sponsored bilateral funds (2%), the Silk Road Fund (2%) and multilateral financial institutions.[1]

BRI Funding by Source at the End of 2018 (billion USD)



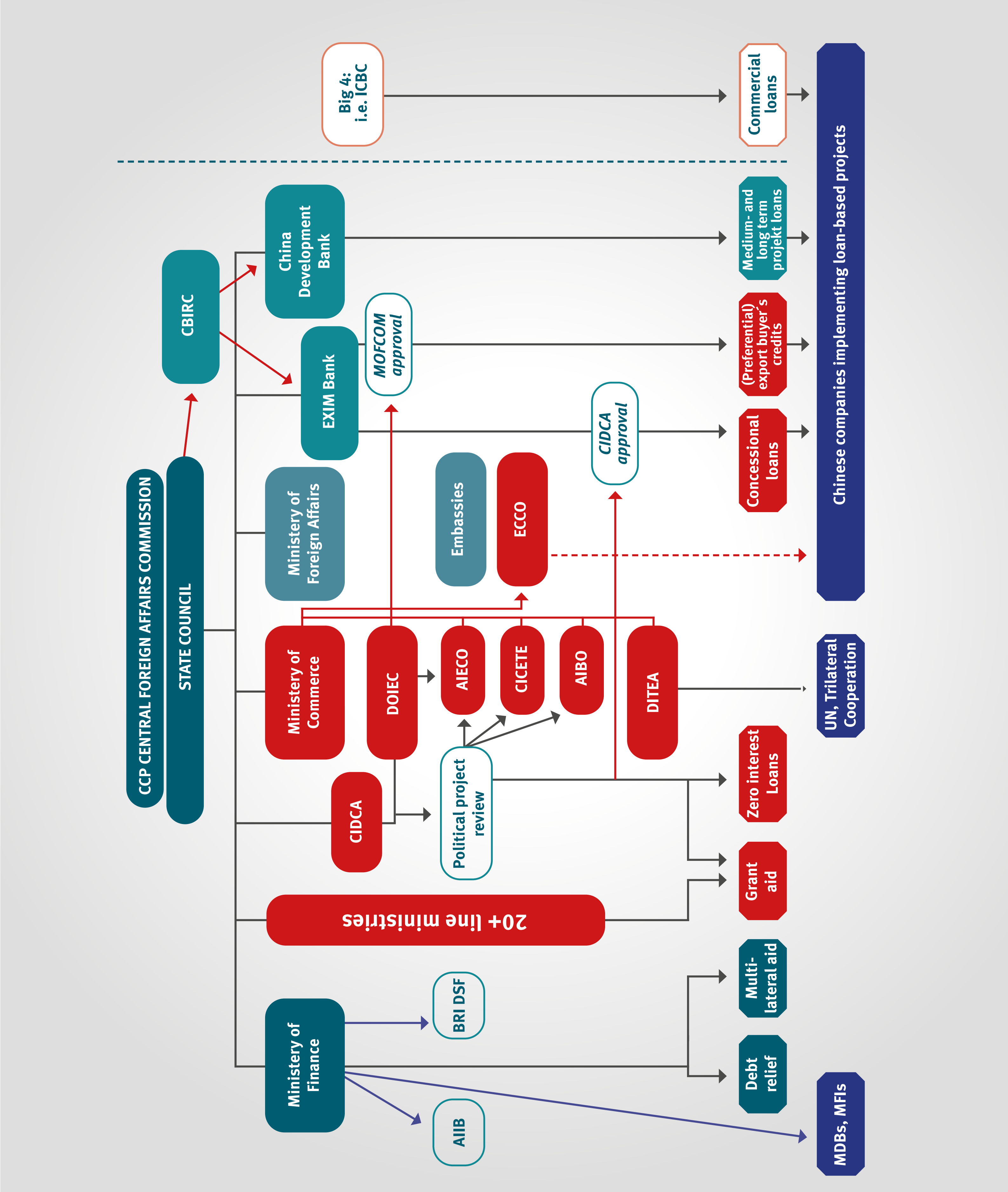
Source: Alex He, CIGI 2019

Specifics of Chinese loans

China's lending instruments differ from the bilateral lending of OECD countries. Although all Chinese banks engaged in overseas lending are state-owned, only loans by the policy banks CDB and Exim Bank are considered "official", "government" or "policy" loans – while the loans of the **state-owned** "big four" are **not considered government loans**. The Chinese government provides loans in the form of commercial loans, export-buyers' credits and preferential export-buyers' credits, as well as concessional loans and zero-interest loans. While the OECD countries tend to have a **clear separation between commercial and charitable activities**, the Chinese model integrates aid with trade and investment, providing blended finance packages that may mix market rate loans with concessional loans and grant foreign aid. With the exception of the zero-interest loans, which are provided directly by the Chinese government, nearly all official overseas loans are issued through the CDB and Exim Bank.[2] AidData[3] figures suggest that of all Chinese official loans issued between 2000 and 2014, only about one third were ODA-like loans and only about 10 per cent were zero-interest loans.

Specifics of Chinese lending institutions

Mirroring the variety of loan instruments, the institutional landscape of Chinese official lending is highly fragmented too. Chinese experts argue that the real reason behind the general opaqueness of the Chinese loan system has less to do with secrecy, but rather institutional fragmentation, which inhibits information flow between various institutional actors. Yet, the lack of transparency makes it difficult to assess the benefits and risks of Chinese loans for different population groups in recipient countries.



1.Data sources accord, to He (2019): The State Council Information Office of China, www.scio.gov.cn; CDB (2017, 2018); Xinhua, www.xinhuanet.com/fortune, www.xinhuanet.com/money; Bank of China (2018); ICBC (2017, 2018); www.ccb.com; https://finance.sina.com.cn/money/bank; www.china-asean-fund.com, www.china-ceefund.com; www.china-eurasian- fund.com; www.sinoceef.com; 21st Century Business Herald, https://m.21jingji.com; Belt and Road Energy Cooperation, http://obor.nea.gov.cn; Russia-China Investment Fund, https://cn.investinrussia.com; MOFCOM, www.mofcom.gov.cn; China-LAC Cooperation Fund, www.clacfund.com.cn; www.the paper.cn; yicai.com; Yi (2019); AIIB (2019); NDB (2018); PBoC (2019); Economic Information Daily, www.jjckb.cn; Climate Bonds Initiative, https://cn.climatebonds.net; www.eximbank.gov.cn; www.ce.cn8; https://zaobao.com.1
Note: The number of Chinese government-sponsored bilateral funds is estimated. To avoid double counting, the renminbi overseas funds for the BRI are excluded from the figure as the major issuers of these funds are Chinese financial institutions listed here, and the renminbi overseas funds are already included in the numbers by these financial institutions.

2. China has a third policy bank, the Agricultural Development Bank of China (ADBC), but it doesn't play a significant role in overseas development financing.
3. https://www.aiddata.org/data/chinese-global-official-finance-dataset

Types of Loans and Lending Instruments

Type	Loan or lending instrument	Institution
Non-foreign aid official loans	**Middle and long-term project loans (non-concessional and semi-concessional)** » USD or EUR-denominated » granted to government institutions and companies » base interest rates typically set to the (floating) LIBOR rate, an additional margin is incorporated to account for borrower-specific risk and repayment capacity; interest rate on average 4.5-6%, maturities and grace periods vary widely **BRI special loans** » 37.2 billion USD allocated in 2017: 14.9 billion USD for infrastructure and production capacity cooperation, 7.4 billion USD for financial cooperation » unknown whether all the sum allocated was disbursed	CDB
	Export buyers' credits » USD- or other foreign currency-denominated, RMB-denomination possible » medium and long-term loans granted to government institutions for the purchase of goods and service from Chinese companies (e.g. in context of construction projects implemented by Chinese companies) » no intergovernmental agreements required » can support up to 85% of project costs, but 15% counterpart contribution is required » loan terms vary, interest rate can be fixed or floating, maturity should not exceed 15 years **BRI special export buyers' credits** » 19.4 billion USD allocated in 2017, all disbursed	EXIM
	Preferential export buyers' credits » USD-denominated » medium and long-term loans, aimed at supporting socio-economic development in developing countries; granted to government institutions for the purchase of goods and services from Chinese companies, no intergovernmental agreements required » preferential interest rate is subsidized by the Chinese government; generally, slightly more expensive than EXIM concessional loans (higher rates, shorter maturities, shorter grace periods) » can support up to 85% of project costs, but 15% counterpart contribution is required	EXIM
	Export credit insurances » insures against non-payment risks for China's foreign trade and investment cooperation; quasi-mandatory for large infrastructure and energy projects » covers up to 95% of loan volume with a duration of 20 years; insurance costs amount to max. 7% of loan value	SINO-SURE

Chinese foreign aid loans	**Concessional loans** » RMB-denominated » part of China's foreign aid, granted to government institutions (normally Ministry of Finance) on the basis of inter-governmental agreements, loans need to be approved by CIDCA » preferential interest rate is subsidized by the Chinese government; usually a fixed interest rate of 2-3% with 15-20 years maturity and a grace period of 5 years » used mainly in large scale infrastructure construction, provision of large quantity of mechanical and electronic products, and complete sets of equipment » loan volume no less that 20 billion RMB, can support 100% of project costs, no counterpart funding is required	EXIM
	Zero-interest loans » RMB-denominated » granted to government institutions, loan needs to be approved by CIDCA » typically, 0% interest rate with 20 years maturity and 10 years grace period; can be repaid using either convertible currency, commodities or other agreed means » used mainly for the construction of public infrastructure, and industrial and agricultural production » no counterpart funding required; when borrowers have difficulty repaying, these loans are often the first to be forgiven or rescheduled	CIDCA/ MOF-COM
Special (equity) funds	**China-Africa Development Fund (CADF)** » established in 2006, total size 10 billion USD, focuses on investment in Africa	CDB
	China-Africa Industrial Capacity Cooperation Fund (CAICCF) » established in 2015, total size 5 billion USD, for outsourcing of Chinese overcapacities	EXIM
	China-Latin America Industrial Cooperation Investment Fund (CLAI) » established in 2015, total size 30 billion USD (10 billion in the first phase), investment primarily in manufacturing, high technology, agriculture, energy and minerals, infrastructure, and financial cooperation	CDB
	China- Latin America and Caribbean Region Cooperation Fund (CLAC) » established in 2015, total size 5 billion USD	EXIM
	Silk Road Fund » established in 2014 to foster investment along the BRI, 40 billion USD » semi-directly under the supervision of People's Bank of China (PBOC)	PBOC
Chinese commercial loans	**Middle and long-term non-concessional loans** » USD or EUR-denominated » granted to government institutions and companies » similar to CDB loans: base interest rates typically set to the (floating) LIBOR rate, an additional margin is incorporated to account for borrower-specific risk and repayment capacity; interest rate on average 4.5-6%, maturities and grace periods vary widely	BOC, ICBC, CCB, ABC

Key Bilateral Lending institutions: Chinese Policy Banks

The two key official lenders are the CDB and EXIM Bank.

China Development Bank (CDB):

- World's largest national development bank with total assets of 2.4 trillion of USD in 2019. Ministry-level government agency under the direct jurisdiction of the State Council;
- Provides medium and long-term loans, market rate loans with the objective to support China's national strategies, e.g. China-Africa cooperation and the BRI, operates based on market principles and can make "modest profits", but should prioritize China's political objectives over profits;
- Between 2013-2018 more than 190 billion USD for over 600 projects were granted.

China Export-Import Bank (Exim Bank):

- With 610 billion USD, Exim's assets amount to only one quarter of the CDB's, but it still counts among the world's largest policy banks and export credit agencies. Vice-ministry-level government agency under the direct jurisdiction of the State Council;
- In contrast to the CDB, Exim is not supposed to make profit. Exim has two main credit lines: concessional loans and export buyer's credits;
- Concessional loans are part of China's foreign aid and are typically proposed to Exim by China's aid agency CIDCA following intergovernmental negotiations. However, it is also possible for Chinese companies or recipient country governments to propose new projects: for that they can either approach the Economic and Commercial Councilor Offices (ECCO) at Chinese embassies (subordinate to the Ministry of Commerce (MOFCOM)), a central level ministry concerned with the project area, or the provincial Departments of Commerce. Concessional loans have to be approved by CIDCA and included in its foreign aid programming;
- Export buyers' credits and preferential export buyers' credits are not part of China's foreign aid – but are often confused with foreign aid by external observers. Both have to be approved by MOFCOM. Since Exim is an export credit agency, the loans allocated to partner governments are usually disbursed directly to Chinese exporting companies;
- Between 2013-2019 149 billion USD in loans were granted.

Although CDB and Exim have distinct tasks, in the context of BRI there is no clear division of work, both compete for similar clients: governments and state-owned enterprises (SOE) of recipient countries or investor-consortia with Chinese companies. Most BRI-Projects consist of four actors

- Lender: CDB or EXIM
- Construction company: typically, a Chinese SOE
- Project developer: government institutions or (state-owned) enterprises in recipient countries
- Credit or foreign investment insurance: China Export Credit and Insurance Corporation (SINOSURE)

Main Differences to Other Lending Systems

(1) The institutional positioning of the CDB and EXIM within China's bureaucratic system differs substantially from the positioning of policy banks in major donor countries:

In most countries, policy banks are subordinate to a government agency which coordinates bilateral and multilateral lending:

- In Germany, the development arm of the Kreditanstalt für Wiederaufbau (KFW) is an implementing agency of the Federal Ministry of Economic Cooperation and Development (BMZ);
- In Japan, the Japan Bank for International Cooperation (JBIC) is supervised by the Japanese Ministry of Finance;
- In the United Kingdom, the Commonwealth Development Cooperation (CDC) is subordinate to the Department for International Development (DFID).
- In all countries, there's a frequent personnel exchange, with staff rotation between national bilateral and multilateral, and international multilateral structures, so that staff are familiar with.

In China, there is a clear separation between the bilateral and multilateral activities:

- The Ministry of Finance is in charge of China's multilateral aid and China's engagement with multilateral development banks. Yet, although it is a shareholder of the CDB and on the board of EXIM, it has no jurisdiction over the two banks.
- Though CIDCA and MOFCOM have to approve EXIM's concessional loans and export buyers' credit respectively, they have no jurisdiction over the CDB.

(2) Debt relief

- In contrast to the Paris Club (global informal alliance of state creditors for renegotiation of debts), China negotiates debt relief mostly not for the entire portfolio, but loan-by-loan. Negotiations take place quietly, on a bilateral basis, tailoring programs to each situation.
- MOF coordinates Chinese debt relief. Hereby, a committee consisting of MOF, MOFCOM, CDB and EXIM considers for each troubled loan whether the borrower is truly unable to service the debt.
- Debt write-offs are offered almost exclusively for zero-interest loans that mature in the year of write-off application; concessional and non-concessional loans are almost never written-off but rescheduled.

Government Agencies involved in the Management and Implementation of Chinese Bilateral Loans

Ministry of Commerce (MOFCOM) plays the leading role in the implementation of projects financed with Chinese loans through its subordinate departments and agencies:

» Department of Outward Investment and Economic Cooperation (DOIEC) is involved in the implementation of foreign aid zero-interest loan projects in coordination with CIDCA. It also approves export buyers' credits and preferential export buyer's credits of EXIM, as well as outward investment activities by Chinese companies (all overseas projects undertaken by Chinese companies have to be approved by MOFCOM).
» Agency for International Economic Cooperation (AIECO) manages turn-key projects (e.g. large-scale infrastructure construction) financed by EXIM's concessional loans. It is in charge of the whole project cycle, incl. technical negotiations, selecting Chinese companies, project inspection and budget management. AIECO staff visit projects midterm and upon completion.
» Economic and Commercial Counsellor Offices (ECCO) in Chinese embassies and consulates are the focal point for foreign aid loan projects on the ground in recipient countries: They can be approached by host country governments and Chinese companies with project proposals, that are then internally passed to MOFCOM and to CIDCA or the State Council. ECCO are also responsible for on-the-ground oversight. Unlike their counterparts at the embassies of Western donor countries, ECCO representatives typically don't participate in donor coordination rounds in recipient countries.

Several other MOFCOM departments are involved in foreign aid activities, combined with loan projects:

» China International Centre for Economic and Technical Exchanges (CICETE) manages goods and material aid (typically grant aid), and the 3 billion USD South-South Cooperation Assistance Fund (SSCAF) China announced at the SDG-Summit of 2015.
» Academy for International Business Officials (AIBO) is in charge of all foreign aid training programs.
» Department of Internal Trade and Economic Affairs (DITEA) is charge of trilateral development cooperation projects, and is the related focal point for UN agencies and multilateral and bilateral donors.

China International Development Cooperation Agency (CIDCA) is a vice-ministry level agency under the State Council in charge of political coordination of foreign aid. It was newly established in March 2018 and took over the aid coordination functions previously performed by MOFCOM. The objective of the reform was to better align foreign aid with China's overall foreign policy, with CIDCA now reporting to the two highest foreign policy cadres Yang Jiechi, Director of Communist Party's Foreign Affairs Office, and Wang Yi, State Councilor and Foreign Minister.

» CIDCA is responsible for the overall foreign aid policy making and foreign aid country programming. It conducts foreign aid negotiations on behalf of the Chinese government, signs international agreements and approves concessional loans of the EXIM and zero-interest loans of MOFCOM.
» It has little influence over actual project implementation: as a vice-ministry it is outranked by those who it is supposed to supervise, e.g. by MOFCOM and other line ministries in charge of the execution of foreign aid projects; and by many of the state-owned enterprises (SOEs) who operate on foreign aid loans and also rank corresponding to ministries or vice-ministries.

Ministry of Finance (MOF): The MOF is involved in the budgeting of bilateral foreign aid loans, and the lead agency for China's multilateral loans.

» MOF has to agree and sign off on all foreign aid bilateral loans. Though it acts mostly as a rubberstamp ministry, it may intervene if it deems project costs to be too high. Although it is not involved in non-concessional loans, the MOF oversees all of Chinese debt cancellations and debt rescheduling.
» MOF manages China's financial contributions to the multilateral development banks (MDBs), including the AIIB, and the UN system (except for the IMF, here the liaison agency was the People's Bank of China). It seconds Chinese personnel to the MDBs.

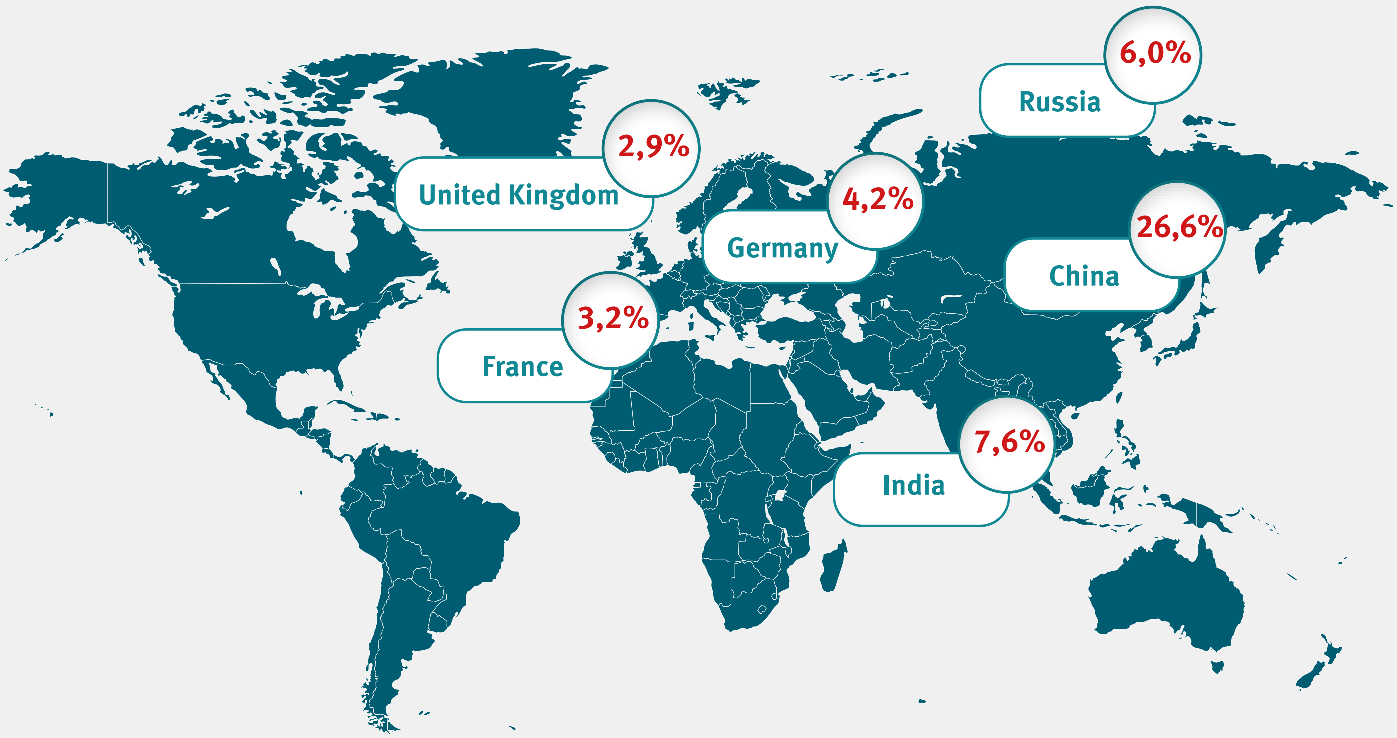
Ministry of Foreign Affairs (MFA) is to ensure, that foreign aid and loan projects don't contradict China's overall foreign policy; however, in the past, commercial interests often trumped political interests. In recipient countries, MFA-controlled Chinese ambassadors can decide over discretionary funds (around 50,000 USD) for small aid projects.

Chinese Companies
Chinese foreign aid projects are implemented by Chinese companies. In order to be allowed to participate in foreign aid project tenders, companies need to apply to MOFCOM's AIECO for an accreditation as "Foreign Aid Enterprise". Accredited companies are invited to bid for project implementation. Companies can also directly propose projects to the ECCOs in recipient countries, or by lobbying MOFCOM and the Exim Bank. All overseas activities by Chinese enterprises, not only aid, have to be approved by MOFCOM. In practice, CIDCA and MOFCOM have only limited control over the conduct of Chinese enterprises overseas, which repeatedly became a matter of major concern to the Chinese government.

Chinese-led Multilateral Lending: The Asia Infrastructure Investment Bank (AIIB)

» The AIIB is a multilateral development bank which began operations in 2016. To date, the bank has 103 members (2020), with USA and Japan still absent from the bank, with China having the largest share of voting power (26.6%), followed by India (7.6%) and Russia (6.0%). Among the non-regional stakeholders, Germany has the most voting power (4.2%), followed by France (3.2%) and the United Kingdom (2.9%).
» Although it doesn't exclusively focus on BRI, the majority of AIIB's lending was committed to countries along the belt and road.
» The political management of Chinese contributions to the AIIB lies with the MOF, which is responsible for all Chinese multilateral lending. This means that it is functionally separated from Chinese bilateral lending. The Chinese director of the Chinese constituency at AIIB is ZHANG Wencai, currently Director General at MOF's Department of International Economic and Financial Cooperation; he also represents China as Director at the BRICS New Development Bank. The president of the Bank is Jin Liqun. The headquarters of the bank is located in Beijing, the President of the bank is nominated by the Chinese government.

Members of AIIB with the highest share of voting power



Abbreviations:

ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China 中国农业发展银行
ABC	Agricultural Bank of China
AIECO	Agency for International Economic Cooperation (MOFCOM) 国际经济关系事务局
AIIB	Asia Infrastructure Investment Bank
BMZ	German Federal Ministry of Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung)
BOC	Bank of China
BRI	Belt and Road Initiative一带一路
BRI-DSF	Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative 一带一路债务可持续性分析框架
CBIRC	China Banking and Insurance Regulatory Commission 中国银行保险监督管理委员会
CBRC	China Banking Regulatory Commission 中国银监会
CCB	China Construction Bank
CDB	China Development Bank中国进出口银行
CDC	Commonwealth Development Corporation
CICETE	China International Centre for Economic and Technical Exchanges 中国国际经济技术交流中心
CIDCA	China International Development Cooperation Agency 国家发展合作署
CIRC	China Insurance Regulatory Commission 中国保险监督管理委员会
DAC	Development Assistance Committee of the OECD
DFA	Department of Foreign Aid (MOFCOM)对外援助司(援外司)
DFID	Department for International Development of the United Kingdom
ECCO	Economic and Commercial Counsellor Offices (MOFCOM)经济商务处
EIB	European Investment Bank
Exim Bank	China Export-Import Bank 中国进出口银行
HSBC	Hongkong-Shanghai Banking Corporation
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KFW	German Development Bank Kreditanstalt für Wiederaufbau
LDCs	Least Developed Countries
MFA	Ministry of Foreign Affairs 外交部
MOF	Ministry of Finance 财政部
MOFCOM	Ministry of Commerce 商务部
MOFT	Ministry of Foreign Trade 对外贸易部
NDB	New Development Bank
NDRC	National Development and Reform Commission 国家发展和改革委员会
OECD	Organisation for Economic Cooperation and Development
OECD-DAC	Organisation of Economic Cooperation and Development’s Development Assistance Committee
ODA	Official Development Assistance
PBOC	People’s Bank of China人民银行
SOEs	State-Owned Enterprises

Literature:

Acker, Kevin, Deborah Brautigam, and Yufan Huang. 2020.
"Debt Relief with Chinese Characteristics". SAIS-CARI Working Paper,
https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5efe942ba09c523cbf9440a9/1593742380749/WP+39+-+Acker%2C+Brautigam%2C+Huang+-+Debt+Relief.pdf

Chin, Gregory T., and Kevin P. Gallagher. 2019.
"Coordinated Credit Spaces: The Globalization of Chinese Development Finance".
Development and Change 50 (1): 245–74. https://doi.org/10.1111/dech.12470.

Ferchen, Matt, and Anarkalee Perera. 2019.
"Why Unsustainable Chinese Infrastructure Deals Are a Two Way Street".
Carnegie-Tsinghua Center for Global Policy, Juli.
https://carnegietsinghua.org/2019/07/23/why-unsustainable-chinese-infrastructure-deals-are-two-way-street-pub-79548.

Hale, Thomas, Chuyu Liu, and Johannes Urpelainen. 2020.
"Belt and Road Decision-Making in China and Recipient Countries: How and To What Extent Does Sustainability Matter?"
https://sais-isep.org/wp-content/uploads/2020/04/ISEP-BSG-BRI-Report-.pdf

He, Alex. 2019.
"The Belt and Road Initiative. Motivations, Financing, Expansion and Challenges of Xi's Ever-Expanding Strategy."
CIGI Papers, no. 225 (September 2019).
https://www.cigionline.org/sites/default/files/documents/no.225.pdf.

Horn, Sebastian, Carmen Reinhart, and Christoph Trebesch. 2019.
"China's Overseas Lending",
Nr. 2132 (Juni). https://www.ifw-kiel.de/publications/kiel-working-papers/chinas-overseas-lending-12820/.

Jeune Afrique. 29.9.2020.
"Zambia's call for debt relief triggers fear of domino effect across Africa". The Africa Report,
https://www.theafricareport.com/43272/zambias-call-for-debt-relief-triggers-fear-of-domino-effect-across-africa/

Shirley Yu.
"The Belt and Road Initiative: Modernity, Geopolitics and the Developing Global Order", Asian Affairs 50, no. 2 (15 March 2019): 187–201.

Imprint:

Published by: urgewald e.V., Von Galen Straße 4
D-48336 Sassenberg, www.urgewald.org

Concept, Editing, Contact: Dr. Nora Sausmikat,
China Desk urgewald e.V., nora.sausmikat@urgewald.org

Author: Marina Rudyak

Design and Print: liebesDesign Cologne, www.liebesdesign.de

Cover picture and source: shutterstock

This brochure is printed on 100% recycled paper

Urgewald is an environmental and human rights organization that challenges banks and corporations when their activities harm people and the environment. Our guiding principle: Whoever gives the money bears the responsibility for the business.

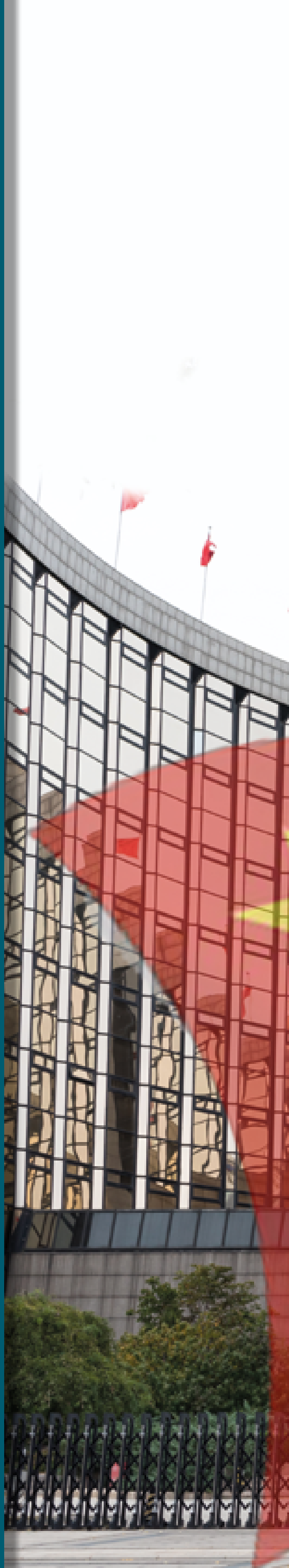
All campaigns, themes and materials on urgewald.org.

Independent work needs independent money. Urgewald has equivalency status to U.S. public charities. If you would like to support us, donations are much appreciated!

Donation account:
GLS Bank
IBAN: DE 85 4306 0967 4035 2959 00
BIC: GENODEM1GLS

Oktober 2020
www.urgewald.org

urgewald



urgewald e.V.
Von-Galen-Straße 4
D-48336 Sassenberg

www.urgewald.org