

Investment Abroad: The Dragon Steps Out

Aid To Africa: Helpful Or Harmful?

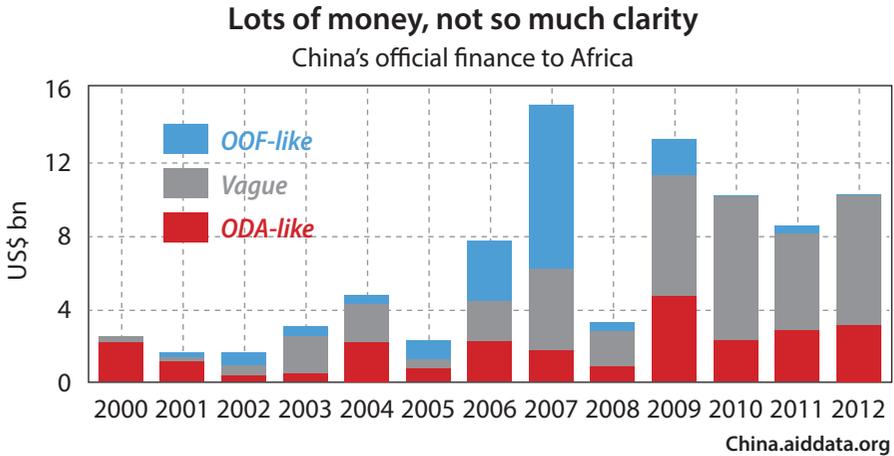
By Bradley C. Parks and Austin M. Strange

Critics have long argued that Chinese aid to Africa is self-interested and perhaps even harmful for African states. A close study of the data suggests the truth is much more complicated.

Over the last 15 years, Beijing has rapidly expanded its overseas development activities across Africa. Critics have leveled various charges at China's activities there. Some argue that Beijing is using its largesse to secure natural resources. Others claim that China is at best providing assistance without any regard for domestic political conditions in recipient countries, and at worst propping up despots and unraveling hard-won governance reforms. Still others propose that China is saddling African governments with large amounts of debt that will prove difficult to repay, and promoting development projects that involve inhumane labor practices and environmental degradation.

Unfortunately, the debate over the impact of Chinese aid is hamstrung by a lack of reliable and consistent data. China does not participate in the global aid reporting systems that most developed countries use. China also defines and measures aid in ways that depart from internationally accepted norms. The OECD's formal term for aid is "official development assistance" (ODA), defined as financial flows with developmental intent and a grant element of at least 25%. Most other financing from foreign governments that does not meet these criteria is classified as "other official flows" (OOF). OOF flows primarily consist of loans whose terms range from somewhat concessional to essentially commercial. The US

Bradley C. Parks is the Co-Executive Director of AidData at the College of William and Mary. Austin M. Strange is an AidData Research Associate and a graduate student at Zhejiang University.



and most Western countries give Africa quite a lot of ODA and relatively little OOF.

The bulk of China's overseas development finance takes the form of loans that should probably be classified as OOF, because their terms and purpose are partly or wholly commercial. The confusion between aid in the strict sense of ODA, and the much broader range of concessional and non-concessional financing encompassed by OOF, has led to wildly different estimates of Chinese "aid," and has muddied the discussion of China's impact in Africa.

A new way to study Chinese "aid"

In order to address these data challenges, the development research and innovation lab AidData has launched an effort to track China's overseas development activities. This initiative starts by using open-source information—including English-language and Chinese-language news reports, case studies by academics and non-governmental organizations, company reports, project inventories from Chinese embassy websites, and grant and loan data published by recipient governments—to generate a database of China's foreign aid projects by country and by project type. To ensure that we get an accurate count of projects that are actually implemented, rather than simply announced on paper, we supplement this database with on-site inspections of development projects, analysis of satellite imagery provided by Google Earth, and crowd-sourcing via our website china.aiddata.org, where users (including journalists, NGOs and academic researchers) can flag potential errors in AidData's existing records, or point out previously unidentified development projects.

As of May 2014 our database contains more than 1,900 Chinese official finance projects worth over US\$83 bn in financial commitments to Africa

Pure aid is a modest part of the picture

China official financing in Africa, by type (cumulative 2000-12)

	Number of projects	% of total	Value US\$bn	% of total	Average project size US\$ m
ODA-like	1,113	68%	24.1	29%	22
Vague	418	26%	41.0	49%	98
OOF-like	108	7%	18.4	22%	170

China.aiddata.org

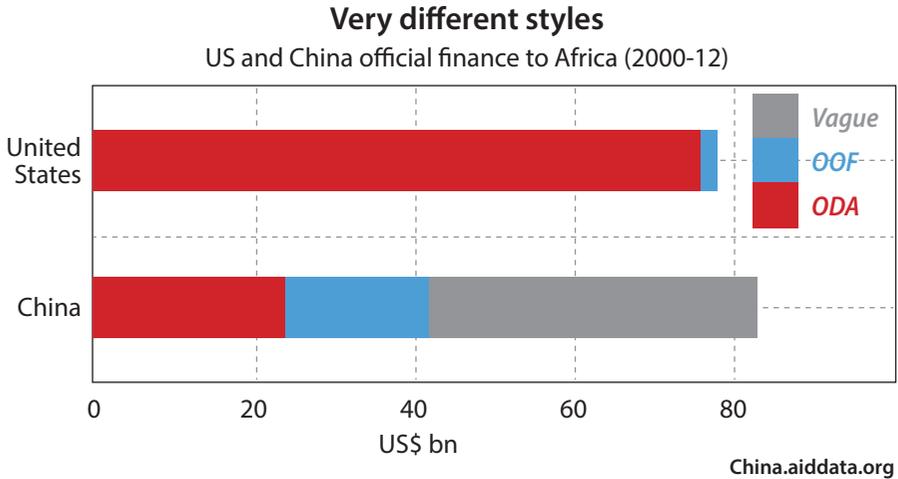
between 2000-2013. We divide these projects into three categories: ODA (traditional “aid”), OOF (mainly concessional lending), and “vague flows,” for projects where we lack enough information to define them clearly either as ODA or OOF.

More than just bridges and roads

What does this data tell us? Two main conclusions stand out. First, if we consider only aid in the strict sense (ODA), China’s reach extends well beyond natural resource extraction, infrastructure building and other “hardware” areas of economic development. Between 2000-2012 Chinese aid projects were most numerous in sectors such as government and civil society (235), health (199) and education (167). This diversity belies the caricature that aid from Beijing is motivated purely by its insatiable appetite for natural resources and a desire to open up international markets for its domestic firms.

Second, however, ODA represents only a minority of China’s official finance activities in Africa, in contrast to the US and other Western countries, whose official financial involvement in the continent is pretty much limited to aid. For China, ODA accounted for two-thirds of official financing *projects* in Africa from 2000 through 2012, but less than 30% of the *value* of total flows. The average value of clearly identifiable Chinese ODA projects was US\$22 mn. By contrast, clearly identifiable OOF projects averaged US\$170 mn each, and in aggregate these accounted for nearly a quarter of flows. About a quarter of projects, and half of total financing flows, fall in our “Vague” category. It is probable that the majority of these projects are of an OOF nature.

About 70% of the combined OOF and Vague flows came in three sectors: energy generation and supply, transport and supply, and multi-sector, each of which accounted for about US\$14 bn in flows over the 12-year period. These figures do lend some credence to the argument that



Chinese official financial involvement in Africa is driven by natural-resource extraction and related infrastructure concerns. And to the extent that most of these flows are in the form of loans, the worry that African countries may be incurring excessive debt burdens cannot be dismissed. But it is also true that Chinese OOF is enabling African states to extend the reach and improve the quality of state-run electricity grids, strengthen water and sanitation systems, and build the highways, railroads, bridges and ports necessary for domestic and international commerce. China’s willingness to support these activities is significant because the under-provision of infrastructure has long constrained the productivity of African economies. Many countries have struggled to mobilize sufficient public and private capital to meet pressing infrastructure needs.

The contrast between the Chinese and the Western official profile in Africa is illustrated by a comparison of the combined official flows from China and the US in 2000-12. Over that period, the US provided about three times as much ODA to Africa as did China. But when you include OOF and Vague flows, the total commitments were almost identical, at around US\$80 bn.

Villain, hero, or neither?

The best available data thus suggest that Western governments and China are taking very different tacks in Africa. In terms of official government financing, China provides considerably more support than do Western counterparts for the “hardware” of economic development. But Beijing is also actively expanding a portfolio of agricultural, educational, health and other socially oriented development projects across Africa, and much of this support is provided on concessional terms. The range of its true

aid or ODA activities appears to be quite similar to that of Western aid programs.

The high proportion of Beijing's assistance that takes the form of OOF-like flows does open China to the critique that its interest in the continent is driven more by commercial than by altruistic motives, and that negative unintended consequences may follow. But one could argue with equal plausibility that Chinese official financing is helping to fill major infrastructural gaps, a legitimate economic development need which many Western states have proven reluctant to address.

Of course, official financing is only one component of China's footprint in Africa. AidData does not yet systematically track other financial flows from China, such as state-sponsored and private foreign direct investment and joint venture projects, which may very well be an important part of the overall story of how China is shaping development outcomes in Africa. Additional data collection and analysis will be needed to draw firmer general conclusions about China's development impact in Africa.