

# China's Development Finance: What Issues for Reporting and Monitoring

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**Abstract** This article explores the implications of China's rise for global reporting and monitoring systems (RMSs) in the field of development cooperation. Beyond its fast-growing – albeit still modest – foreign aid, China has emerged in the last decade as a globally pre-eminent source of development finance. While China's endeavours are comparable to previous rising powers that strived to build linkages into global commodity chains and to participate in advanced industrial and technology value creation, what makes China distinct from OECD capital providers is its unprecedented scale, cohesive state-market banking and enterprise institutions, and extensive utilisation of official finance for risk-taking. This poses an existential crisis for DAC's ODA reporting system, helping to precipitate a wide-ranging renovation process. Hence, China's intentions and capacities regarding the reporting and monitoring of its development finance have a potentially formative influence on the development of a new, wider DAC reporting system and on other international RMSs in the development finance field as well.

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## 中国的发展融资：国际报告和监督体系存在的问题

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本文探讨中国的崛起对全球发展融资的报告和监督体系的影响。除中国对外援助规模（尽管仍然有限）增长迅速这个事实以外，过去十年中，中国已成为全球发展融资的重要渠道。中国与此前崛起的国家一样，力求进入全球商品链，参与先进工业和技术价值的创造；但中国又不同于经合组织中的资本提供者，主要表现在其无可比拟的规模和银行和企业制度中国家与市场的紧密联系，以及在风险承担方面大量使用官方融资的特点。这给发展援助委员会的官方发展援助报告体系造成生存性的危机，大大推动了众多领域的革新进程。因此，中国在发展融资方面进行监督报告的意愿和能力，不但对发展援助委员会建立新的、更广泛的报告体系有着潜在的深远影响，而且对发展融资领域的其他国际性报告和监督体系也会产生重要影响。

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## 1 Introduction

The landscape of development finance is transforming in several dimensions, posing unprecedented challenges to existing reporting and monitoring systems (RMSs) and fostering multiplying initiatives.

First, official development assistance (ODA) is undergoing a triple revolution of objectives, players and instruments (Severino and Ray 2009: 1), in a world of low interest rates, triggering an ODA identity crisis and a wide-ranging renovation of the OECD-DAC reporting system (OECD 2012).

Second, the emerging Post-2015 Development Agenda calls for an integrated approach to sustainable development, raising challenging questions on the interface between the climate finance system and the development finance system (United Nations General Assembly 2013).

Third, renewed focus has been given to the 'catalytic' role of public finance in leveraging private capital for long-term investments to overcome market failure (G20/OECD 2013; World Bank 2013a), challenging current arrangements for addressing debt sustainability and avoiding crass competition among providers of long-term finance (Xu and Carey 2013).

Hence the search for viable RMSs is intensifying, as part and parcel of overall development finance governance regimes, for purposes of burden-sharing and target-monitoring, transparency and accountability, mutual disciplines and multilateral surveillance, and so forth.

In this larger picture, China's rise as a development financier has heightened the need for deciphering the new shape of development finance, including its magnitude and nature; evaluating its development impacts; improving policy coordination among creditors on quality standards and loan subsidies; and strengthening financial integrity to ensure debt sustainability and good governance of resource revenues. Looking ahead, the prospect that China will be a pre-eminent capital supplier on a sustained basis highlights its potential formative influence in the development of global RMSs (World Bank 2013b).

This article aims to examine the potential role of China in emerging global reporting and monitoring systems. It will proceed as follows:

first, it examines the scale, scope and nature of China's development finance abroad, and then analyses China's capacity and willingness to work towards more transparency; second, it assesses China's (potential) attitude towards the OECD-Development Assistance Committee (DAC) reporting system, the UN South-South Development Cooperation (SSDC) information platform, global transparency initiatives and export-credit disciplines; finally, it identifies the high stakes China has in a well-governed development finance system and the key challenges ahead in renovating global RMSs.

## 2 Defining and tracking China's development finance<sup>1</sup>

Beginning around 2000, China has emerged as a pre-eminent supplier of finance to the world, including to developing countries (Bräutigam 2009; Lin 2012). Chinese finance for infrastructure development, notably power and transportation, has risen with extraordinary rapidity (Foster *et al.* 2009). And beyond that, there has been a new and rapidly growing flow of Chinese foreign direct investment (FDI), both from large state-owned enterprises and private companies, but also from thousands of smaller private Chinese businesses seeking new opportunities against a background of competitive pressures and rising real wages in the Chinese market (Gu 2009; Shen 2013).

It is clear that China's policy banks and Chinese firms, state-owned enterprises (SOEs) and private enterprises, large and small, have become major players in financing development, via developing infrastructure and resource supply chains, just as previous rising powers have strived to build linkages into global commodity chains and to participate in advanced industrial and technology value creation. This burgeoning activity goes a long way beyond China's aid programme as such, giving rise to much confusion on the magnitude and scope of China's aid – what is China's foreign aid and what is the footprint of loans and investments from Chinese state-owned banks and enterprises, and what is the association of Chinese outbound FDI with Chinese policies and instruments (Bräutigam 2010).

It is essential then to distinguish between China's aid programme and its much larger financial footprint in developing countries in the form of non-concessional lending and FDI. Here we

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## Box 1 Tracking and estimating the scale of China's development finance

Given the diversity of the overall supply of development financing from China and the relative weakness of statistical systems, there have been a number of initiatives to estimate its overall scale. AidData has assembled a system focused on ODA-like flows that is driven by news reports (Strange *et al.* 2013). The Rand Corporation has developed a system that attempts to capture a comprehensive aggregate covering China's Foreign Aid and Government-sponsored Investment Activities (FAGIA), using methodology developed by the Congressional Research Service (Wolf, Wang and Warner 2013). Like the AidData system, this relies heavily on computer searches of news databases. The fundamental problem with these methodologies is that they essentially pick up a very large component of noise generated by entrepreneurial activity. Thus the numbers generated are very high and duplicative of the various stages of ideas, proposals, Memorandums-of-Understanding, implementation and completion, with huge lags involved and many ideas never followed through into operational form. The Rand survey, for example, estimates Chinese FAGIA to Africa at a cumulative US\$180 billion from 2001–11. But tracing these numbers through to delivery on a comprehensive basis is impossible in practice, even with the most assiduous 'crowd-sourcing' to correct the initial array of numbers. Hence these surveys run the risk of distorting popular debate and even analytical work (Bräutigam 2013; AidData 2013).

The Heritage Foundation has a series on foreign investment deals that is anchored in precise transactions and their progress (Heritage Foundation 2013). The World Bank Building Bridges Report used news coverage to help identify precise projects, captured in the World Bank's Private Participation in Infrastructure (PPI) Project Database (World Bank 2013c). Another study (Shen 2013) also made use of the Chinese investment approvals database, double-checked with African countries (the checking process revealed large underestimation of Chinese FDI involving smaller enterprises).

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attempt to relate these various strands and policy issues to the larger international policy debates on aid and development finance under way in various fora, looking successively at China's official aid programme, China's larger financial footprint in developing countries and various attempts to measure it, and finally at the global macroeconomic and structural dimensions of China's development financing, past and potential.

### 2.1 China's foreign aid programme

China's external official development assistance programme, as described in the 2011 White Paper (Information Office of the State Council 2011), is recognisable as an ODA-like programme, with three elements; grants, interest-free loans and concessional loans. The grants and interest-free loans are coordinated by the Department of Foreign Aid in the Ministry of Commerce (MOFCOM), while the concessional loans are managed by the EximBank, which borrows the funds and re-lends to developing countries at a concessional rate, with the interest rate subsidy provided for in the budget of MOFCOM. An Inter-ministerial Coordination Mechanism led by the Ministry of Commerce

brings together all the sectoral ministries involved, with policies and financing decided at the level of the State Council. The Economic Counsellors in Chinese embassies coordinate action at the field level.<sup>2</sup>

From the annual reports of MOFCOM, Bräutigam has identified the size of the foreign aid budget at US\$2.5 billion in 2011 (Bräutigam 2011a). However, for concessional loans, this includes only the interest rate subsidies. Taking the DAC reporting practice of counting concessional loans at their full face value, as long as the grant element exceeds 25 per cent, Bräutigam multiples up MOFCOM interest subsidies to estimate that the DAC equivalent of the Chinese foreign aid programme is in the order of US\$10.5 billion for 2011 (*ibid.*). The current efforts by Chinese aid officials to identify more comprehensively the new and ongoing aid activities of various ministries and agencies are likely to add to this figure (Li *et al.*, this *IDS Bulletin*). In addition, it is known that the programme has been expanding rapidly, although its growth is now subject to implementation capacity constraints.

## **2.2 China's development financing beyond concessional aid**

China has an array of major state-owned banks which are active in developing countries, making loans on a non-concessional basis, which go well beyond the scope of DAC paradigms and reporting systems (Bräutigam 2011b). The EximBank is a key institution here. Its concessional lending is only a small part of its overall financing activities involving projects in developing countries.

Alongside the EximBank is the China Development Bank (CDB), also founded in 1994, but focused on domestic lending. Over recent years, however, it has rapidly expanded its activities in developing countries (Sanderson and Forsythe 2012; Li, Preble and Sesia 2011). Thus China has two major state banks of global scale and reach, which provide development financing outside of China's aid programme. Other state-owned banks are also active in the field.

From one perspective, this non-concessional lending by state-owned banks is facilitated by implicit state guarantees and could be considered as analogous to the Other Official Financing (OOF) category in the DAC reporting system or OOF-like. The CDB is structured in a way not dissimilar to the KfW in Germany, for example. An even wider circle of Chinese development finance outside of the foreign aid programme could be drawn to include the commercial activities of SOEs in developing countries, which are active in infrastructure investments and acquisitions as joint venture partners or on a wholly-owned basis (Lin and Wang 2014).

From another perspective, the Chinese system is highly decentralised, with many of the enterprises involved based in provinces and cities and having a high degree of autonomy and initiative. Many have also accumulated large financial reserves.

In summary, Chinese development financing and investment capacities have strengthened enormously in the last decade, so that China is now able to provide long-term development finance on a large scale, thus contributing to meeting a huge systemic challenge that has gained prominence in the work of the G20, the OECD and the World Bank (G20/OECD 2013). Indeed some of the techniques used by China (drawing on China's own experience with

Japanese financial assistance in the initial reform era), such as resource-based financing arrangements are now recognised as an alternative way of providing long-term finance by the World Bank (World Bank 2013a: 35; Halland and Canuto 2013).

## **2.3 Macroeconomic and structural dimensions**

In terms of the macroeconomic and structural dimensions of the Chinese development financing capacity, the key point is the vulnerable position of China as the world's largest exporter of capital. China's exports of capital are a counterpart to the structural savings deficit in the USA made possible by the role of the dollar as the main reserve currency (McKinnon 2013). And as an exporter of capital, China needs to have the financial institutions and commercial enterprises able to invest its very large foreign exchange reserves in real assets that provide real returns in a reliable flow over the coming decades (Yu 2013). And China's interest in investing in the global supply of commodities and establishing secure supply chains is providing a whole new environment for commodity exporting developing countries (and developed commodity exporters as well). Thus, these macroeconomic and structural dimensions of China's development financing give China a strong interest in shaping and supporting international transparency and accountability regimes that help to assure financial and fiscal integrity and the effective functioning of states and markets, and thus China's future revenue streams and supply arrangements (Yu 2013). Various elements of the G20 work programme, in which China is a committed participant, reflect the recognition of these issues (Yu 2004).

## **2.4 Transparency: China's intent and capacity**

To what extent then, is China willing and/or able to work towards more transparency about its development finance? Historically, China's foreign assistance has been driven by foreign policy objectives (as is the case with other aid providers) and part of the dynamics of South–South Development Cooperation (SSDC), albeit now undergoing profound changes (Tan-Mullins, Mohan and Power 2010). Initially since the financial flows were relatively small and the projects were rather *ad hoc*, China saw little rationale behind 'aid transparency' as framed by the DAC with its distinct traditions and terminologies (Grimm *et al.* 2011: 27).

As its aid programme expands under a strengthened coordination mechanism and rising budget envelope China has increasingly shown interest in collecting and publicising data on its aid, understood as those elements of its development finance comparable to the ODA concept and measures of the OECD/DAC.

First, the fast-growing foreign aid programme creates a demand for transparency and accountability. As highlighted by the then Prime Minister Wen Jiabao in the National Foreign Aid Conference in 2010, there comes with this growth in the Chinese aid programme the need to ‘establish internal audit and external oversight mechanisms’ and to ‘build more rigorous, efficient, and open foreign aid institutional mechanisms’ (Xinhua 2010). China’s first White Paper on Foreign Aid issued in 2011 was primarily driven by this objective to improve its aid effectiveness (Information Office of the State Council 2011). A second more comprehensive White Paper is expected to take this effort further and to outline future endeavours to build development finance transparency systems and propose annual reports on foreign aid.

Second, reputational factors have persuaded China to publish more to protect its international image and dispel rumours and misgivings. External pressures for transparency come from non-governmental organisations (NGOs) and social networks more generally, which have more resources and more cyberspace than ever before. The Global Campaign for Aid Transparency resorts to ‘name and shame’ to encourage all public and private providers of development assistance to make their activities transparent. It publishes an *Aid Transparency Index* where China’s MOFCOM ranks at the bottom in the ‘very poor’ category (Publish What You Fund 2013). In addition, Chinese researchers have shown steeply increased interest in the transparency agenda (Grimm *et al.* 2011: 23).

However, China’s nascent willingness to publish its foreign aid data unilaterally does not necessarily lead to its direct participation in international reporting systems.

First, China officially identifies itself with the SSDC tradition to avoid prematurely assuming undue aid burdens given the daunting domestic development challenges; thus, China insists that

‘North–South cooperation remains as the core of the global development partnership and South–South cooperation is a useful supplement to North–South cooperation’ (Ministry of Foreign Affairs of the People’s Republic of China 2013).

Second, China desires to retain its policy autonomy to use alternative financial instruments. As with other emerging powers, China has not been a party to the definition of ODA and the DAC’s development finance reporting systems – a process of constant political contestation and deliberation among traditional donors (Xu 2014). Thus, China is uncertain about whether compliance with a common benchmark would constrain its ability to pursue alternative development philosophies and practices. But in order to understand the OECD rules, Chinese officials have in fact followed closely the substance and evolution of the DAC reporting system and related issues of aid untying and export credits. The existence of an informal China–DAC Study Group since 2009 has facilitated growing interaction between Chinese and DAC experts and officials, including on statistical issues.

Apart from the intent, capacity plays an equally important role in the pace of China’s moves towards more transparency. China is still at the early stages of building a sophisticated statistical system (Zhou 2012: 160). Thus, its capacity building for data reporting is in its infancy. Moreover, China faces coordination challenges among various ministries that provide foreign aid (Grimm *et al.* 2011: 13), although an interagency coordination mechanism was created in 2011 (Information Office of the State Council 2011).

### **3 China in a world of multiplying agendas and initiatives**

Here we focus on how China positions itself in relation to alternative RMSs including the OECD–DAC reporting system, the emerging UN–SSDC information platform and global transparency initiatives.<sup>3</sup>

#### **3.1 Chinese development finance and the renovation of the DAC reporting systems**

The scale and scope of China’s development finance as described above is one of the main drivers of the current effort in the DAC to rethink its basic concepts of development finance. Emerging from its High Level Meeting in London

in December 2012, with China attending as an observer, the DAC agreed to explore more deeply the potential of the 'vast changes to the development financing landscape'. Within this broad mandate the DAC is tasked with elaborating a new measure of 'total official support for development' (OECD 2012). The OECD Secretariat has outlined what a more comprehensive reporting system on development and climate finance could look like (OECD Development Co-operation Directorate 2013).

A proximate cause of the ODA's 'identity crisis' (Xu and Carey 2013) is the initiative of a number of OECD state development banks to exploit the low interest rate environment by raising funds on financial markets at low cost, using implicit or explicit state guarantees, and re-lending to developing countries without any tangible and explicit fiscal effort. In effect, this practice resembles the flexibility of China's state banks in financing developing country projects and programmes.

Yet such lending with zero fiscal transfer is highly problematic in the mainstream mentality of the DAC reporting rules for ODA, which are primarily focused on measuring comparable donor efforts for the purpose of *burden-sharing* and *target-monitoring* towards aid commitments. Hence, such a 'commercial logic' is criticised as a negation of the moral sense of aid-giving (OECD 2012).

Furthermore, the DAC reporting rules have limited donors' capacity to provide harder loans. To maximise resource transfer, DAC established a core eligibility test of development loans – a minimum grant element of 25 per cent at the level of *each* transaction and a minimum grant element of 86 per cent at the overall aid programme level. Given limited fiscal resources, these reporting rules effectively incentivised donors to provide loans that can qualify as 'ODA'. Hence, it has created, as intended, *convergence* pressures on donors to offer highly concessional loans or outright grants, for harder loans can only be 'released' by putting much softer loans/grants into aid programmes.

Last but not least, the ODA concept is based on a 'net cash-flow' principle that fails to give credit to financial instruments (e.g. guarantees and insurance) that can catalyse and leverage private financing. Chinese state-owned entities do benefit from implicit state guarantees and from

the ample financial reserves that many have been able to acquire. This has helped them to take on the risks involved in investment in areas of contested governance or remote locations (usually in association with resource-backed repayment arrangements but these are still vulnerable to non-performance).

In a nutshell, the existing DAC reporting system has favoured grants over loans, softer loans over harder ones, and explicit flows over implicit guarantees. These favoured practices have been further *legitimised* and *routinised* by regular peer review processes to be spread as 'best practices' among DAC donors.

However, China as a former aid recipient does not share DAC's founding principles and political framework. In fact, it frames its development finance not as a welfare transfer but as a toolkit to incubate and cultivate investment opportunities for 'mutual benefits' (Information Office of the State Council 2011). Moreover, as a latecomer, China maintains that there is a legitimate space to have more flexibility to deploy public finance, as DAC donors did in their catching-up process, to fill the gap left by traditional donors in long-term financing such as infrastructure investments (World Bank 2013a: 19).

Nevertheless, China is moving to increase its interaction with the DAC, which itself is working to become more inclusive. Although it did not, in the event, attend the April 2014 Mexico City High Level Meeting of the post-Busan Global Partnership for Effective Development Cooperation, China is showing its interest in development effectiveness work as its aid programme expands and its wider involvement in development performance and outcomes increases.

### **3.2 Regrouping on South–South Development Cooperation?**

The phenomenon of 'emerging providers' of development finance has scaled up well beyond the frontiers of traditional SSDC focused on relatively low-cost technical cooperation. A renewed SSDC framework would need 'to improve the transparency of their development cooperation data and strengthen their monitoring and evaluation systems to provide better evidence on South–South Flows', which involves 'one or more' platforms for 'the

definition and measurement of the effectiveness, quality and impact' of their programmes (Besharati 2013: 3).

The question becomes whether the time is ripe to develop a distinct SSDC reporting system.

On the one hand, a global reporting system seems to make it difficult, if not impossible, to reconcile the 'altruistic' rhetoric of traditional donors with the 'mutual benefits' approach of emerging ones. Guided by the principle of one-way altruistic assistance, the DAC reporting system seeks to deduct any amount that benefits donors even in indirect ways. For instance, it took approximately one year to negotiate to what extent contributions to the Global Environmental Fund (GEF) could be counted as ODA since donors could derive benefits from environmental protection even though these investments are made in developing countries (the agreed solution was to count only 87.5 per cent of GEF contributions as ODA). And under the Clean Development Mechanism, the DAC rules that any financial returns are to be deducted from ODA.

On the other hand, strong political drivers for establishing an SSDC reporting system are not yet on the horizon. Any sustainable statistical reporting and monitoring system is a major long-term undertaking, requiring ongoing governance systems for setting definitions and standards, establishing reporting responsibilities and conducting regular peer review of reporting performance. All this requires resources – financial, human and organisational – and most importantly, political drivers to support such systems. Looking ahead, the launch of the new BRICS Development Bank will inevitably attract international attention and require a corresponding level of transparency. This might help gather political momentum towards an SSDC reporting platform.

In practice, reporting on SSDC is building up within both the DAC reporting system (some 24 non-DAC members now provide reporting) and the UN Development Cooperation Forum (DCF). The DCF is working to develop South–South and triangular cooperation as a major element of its mandate, seeking to facilitate policy dialogue on how to systemise the institutional, policy and technical practices of

SSDC and its impact on development (United Nations Department of Economic and Social Affairs 2013). Thus, a further stream of monitoring and learning seems set to emerge in the new global development cooperation scenery. In addition comes the proposal to form a new Future International Cooperation Policy Network (FICPN) to generate interaction between research institutes of the BRICS Summit members and other rising powers, and with OECD-based institutes, to share new development experiences acquired in recent decades in emerging countries (see the IDS Rising Powers in International Development Programme).<sup>4</sup>

### **3.3 Opting into transparency and financial integrity initiatives?**

Transparency systems that allow wide access to detailed data at the transactions level have emerged as an approach to governance problems in the flow of resources to developing countries. Among these burgeoning initiatives, we focus on two examples: one for aid flows, the International Aid Transparency Initiative (IATI), and the other for resource revenues, the Extractive Industries Transparency Initiative (EITI). Despite their distinct methodologies and governance arrangements, in common they are both voluntary systems for information disclosure. The question faced by China is whether it will voluntarily join these transparency initiatives, or be co-opted to do so.

The International Aid Transparency Initiative operates by setting two reporting standards, (i) for *organisational level reporting* on forward planning budgets and recipients, with links to related organisational documents and (ii) for *activity level reporting*, including identification and classification of activities and on outputs and outcomes, with again links activity level documentation. Activity classifications are largely drawn from the Creditor Reporting System (CRS) of the DAC. Participating organisations agree to meet these two reporting standards and to make the information generated by them publicly available by linking them into the IATI registry. The IATI registry does not upload these data, but rather provides a central site where they can be accessed via the internet by users (developing country aid managers, aid policymakers and staff more generally, civil society organisations (CSOs), citizens, journalists and development researchers).

A multi-stakeholder steering committee consisting of donors, developing countries, CSOs and aid experts provides the governance system. Operationally, the initiative is led by the United Nations Development Programme (UNDP), with logistical support from the United Nations Office for Project Services (UNOPS), and technical support on contract from a development consulting firm (IATI 2013).

The frontline beneficiaries of the IATI are, first, the providers of the data, since in practice it turns out that many aid agencies have benefited from upgrading their management information systems under the IATI standards; second, the countries receiving aid, since they are getting access to forward data from a much greater range of providers, including official and CSOs, than before, with geo-coding also in view; third, parliaments, CSOs and journalists; and not least, development research institutions, which are able to access the information in the database and aggregate and analyse it from many angles.

Despite all these potential benefits, China and many other emerging donors have not signalled an interest in joining IATI. It would require from them a major administrative effort with a high-level political impulse which may not match current priorities for developing aid programmes. But in India, an Indian thinktank is creating an Indian development cooperation database in IATI format with the approval of the Indian authorities.

The Extractive Industries Transparency Initiative works in a very different way, focusing bottom-up country-level multi-stakeholder efforts to improve transparency and accountability around the management of revenues from natural resources. EITI has established a core standard – a set of requirements for the collection and reconciliation of government reports of revenues received from extractive industries and company reports of payments made to the government. In 2014, the standard will require disaggregated transaction data by individual company, receiving country entity, and individual project in addition to revenue stream (EITI 2013).

Since the project level reporting requirements of EITI are embedded in legal disclosure requirements now in force in the USA and the EU, Chinese companies listed on US and EU

stock exchanges will need to comply with such reporting. There are more general reasons why Chinese companies could be interested in being a part of country-level EITI efforts, particularly for reputational reasons if they are involved in merger and acquisition deals in the commodities sector, which are subject to approval procedures and sometimes to public debate (Guo 2013). But many find it difficult to communicate with Chinese companies on EITI issues. Thus, it is recommended that localised communication and collaboration with national research institutes can help to get buy-in from Chinese firms (Guo 2013).

### **3.4 Integrating the sustainable development concept and tracking climate finance**

Sustainable development is a crucial element in China's own path ahead, on all fronts, economic, social and environmental, and a central priority of the Chinese government, driven *inter alia* by air pollution and scarcity of land, water and energy resources. With a strong ongoing urbanisation process, China is working hard on the concept of smart, green cities and the integration of rural migrants, and a more equal and just society with financial integrity is also a top priority.

But China, together with other developing countries, initially took a cautious approach to the international agenda especially in the context of a post-2015 development strategy that makes sustainable development rather than poverty reduction the key concept for post-2015. There is concern that the UN discussion could target, directly or indirectly, China's own development trajectory, with associated unduly stringent reporting requirements that might constrain its economic development. For China, the implications of the post-2015 High Level Panel call for a 'data revolution' could be far reaching, although China is proposing to set targets for itself in areas such as air pollution (interview with Chinese officials 2013). Thus, in principle it maintains that the international community should 'take eradicating poverty and promoting development as the centrepiece of the Development Agenda beyond 2015, and avoid an overloaded agenda that may deviate from the theme of development' (Ministry of Foreign Affairs of the People's Republic of China 2013). Nevertheless, China has taken a proactive stance in negotiations on the post-2015 agenda and signalled a heightened interest in global governance by lending its support to a resolution



of the UN General Assembly that embraced an integrated set of poverty and sustainable development goals (Ye and Fues 2014).

How in fact climate change finance is calculated and monitored by the international community is still to be agreed. The preparations for a UN Agreement on a post-2015 development strategy have moved significantly under the sustainable development umbrella, following on from the Rio+20 process. An Expert Committee on Sustainable Development Financing has been established along with a High Level Political Forum, replacing the former Commission on Sustainable Development. At the same time, the 21st session of the Conference of the Parties (COP) to United Nations Framework Convention on Climate Change (UNFCCC) in Paris in December 2015 is tasked with producing a global post-2020 Climate Regime, with financing provisions.

Regarding climate change financing, China has so far regarded the commitment made at the Copenhagen COP17 to organise US\$100 billion in annual public and private climate change funding by 2020 as an obligation of the developed countries. China is likely to continue to insist on 'common but differentiated responsibilities' (Ministry of Foreign Affairs of the People's Republic of China 2013). China's participation in international monitoring and reporting on climate finance is thus uncertain, even though in practice, Chinese solar and wind power technologies and investments are likely to make a significant contribution to climate finance in the coming years (Jones 2013).

### **3.5 Mutual disciplines on trade finance**

Aid has been used as a tool to promote trade. This official financing instrument is a two-edged sword. On the one hand, trade finance can help to boost international competitiveness of domestic companies. On the other hand, crass competition among exporting countries can result in a worse-off situation for all. Accordingly, to overcome this collective action problem, developed countries agreed on an export financing discipline under the auspices of OECD's Export Credit Group (OECD 2011). It is known as a 'gentlemen's agreement' for its effectiveness depends on voluntary compliance of participants (Moravcsik 1989).

China's arrival as a major export-credit provider has posed a challenge to this export-credit discipline for as a non-OECD country China has no obligation to apply these disciplines. The lack of information on terms and conditions of China's export credits has heightened fears that China has been undercutting everyone who is in compliance with the OECD pact. However, from the Chinese perspective, China maintains that as a latecomer it is legitimate to support its domestic firms at their early stage of 'going abroad' as developed countries did in the 1970s and 1980s. Thus, it has been reluctant to engage in common export financing rules (interview with decision-makers in China's EximBank 2012).

This brings about the questions of (a) at what point China would be willing to participate in a multilateral framework, and (b) how the current export-credit discipline can be adapted to attract China to negotiating rules in a multilateral context.

During President Xi Jinping's visit to Washington on 14 February 2012, China and the USA agreed to open talks on setting guidelines for export-credit financing. The two sides agreed to make 'concrete progress towards a set of international guidelines on the provision of official export financing that, taking into account varying national interests and situations, are consistent with international best practices' (Palmer 2012). The announced objective was to reach agreement on a new multilateral framework to govern export credits to be completed by 2014. So far the negotiations centre on the shipbuilding sector with the participation of more than 20 countries. There is no sign yet though of a negotiation on a wider, more systemic front.

## **4 Conclusion**

To come back to the central question posed in this article, as to whether and how China might engage in monitoring and reporting systems in the area of development finance, two key points of opportunity and challenge might be noted.

First, China's emergence as a major source of development finance, going far beyond its foreign aid programme, has cultivated its strong interest in the effective functioning of states and markets in the developing world. This potentially creates new incentives for China to join in the supply of the public goods needed for strengthening global

governance, including reporting and monitoring systems for the various dimensions of development finance covered in this article.

Second, China's approach to development finance, which involves close interaction between states and markets for the provision of vision, risk-taking and innovation, has put pressure on the existing aid-focused RMS. In response, DAC has already posed a broader concept of 'total official support for development', serving as a

point of reference for all providers in the new landscape of development finance. Such a public entrepreneurship approach to development finance could leverage different streams of finance and capacities to meet challenges of long-term finance provision. Yet, development finance, if not well governed, could fall into the pitfalls of debt crises in borrowing countries and crass competition among creditors. Hence, global RMSs are pivotal to harnessing successfully the renaissance of public finance.

## Notes

- 1 For the purpose of this study, we use a working definition of 'development finance,' as agreed upon in the landmark UN's Monterrey Consensus, with a special focus on international financial resources including both public and private sources (United Nations 2003).
- 2 A particular feature of Chinese development finance is that disbursements are made directly to the Chinese firms and other

- entities involved in implementation, thus lowering corruption risks, but bypassing the developing country financial administration systems and thus the challenge of contributing to their systemic financial management and accountability capacities.
- 3 We select representative RMSs, and the list here does not intend to be exhaustive. Future research can extend to other RMSs.
- 4 [www.ids.ac.uk/idsresearch/rising-powers-in-international-development-programme](http://www.ids.ac.uk/idsresearch/rising-powers-in-international-development-programme).

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