CHINESE FOREIGN AID POLICY: Vulnerable to political manipulation by recipient governments

China's policy of non-interference in countries to which it provides aid makes the funds more vulnerable to political misuse. That is the central finding of research by **Andreas Fuchs** and colleagues, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015.

Like the World Bank, China tends to give money to wealthier rather than poorer regions of the African countries it works with. But China also tends to give its partners a lot of autonomy over how the resources are used, which means that they can be used for better or for worse. The study finds that the average African leaders' birthplace receives nearly three times as much financial support from China than other regions during the period of time when they are in power, which is not the case for World Bank donations.

China's method is well-liked in the region, with the reaction of Uganda's President Museveni a good example: 'Western ruling groups are conceited, full of themselves, ignorant of our conditions, and they make other people's business their business, while the Chinese just deal with you as one who represents your country'. But China has recently released new aid policy guidance calling for stronger project appraisal and due diligence processes. The authors comment:

> 'While China's 'on demand' approach to foreign assistance may be motivated by good intentions, it poses a risk that external resources will be allocated to politically important constituencies rather than communities with higher levels of economic need.'

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Research from AidData, the College of William & Mary, Heidelberg University, University of St. Gallen and Monash University says that Chinese official policy of non-interference in the domestic affairs of its partner countries makes its assistance attractive to leaders in the developing world but may also make its aid more vulnerable to political misuse.

This insight is one of many to emerge from a new research project on how Western and non-Western sources of development funding are being distributed *within* African countries.

The authors of the study take the politics of aid debate to the sub-national level, leveraging the growing availability of geo-referenced data to track the allocation of Chinese development finance *within* African countries between 2000 and 2012.

The authors find that China's development finance is similar to the World Bank in that both institutions allocate funding to *wealthier* rather than poorer regions within African countries. They document this source of sub-national targeting bias by analysing high-resolution spatial data on night-time light intensity – as a measure of variable economic development within countries – as well as the latitude and longitude coordinates of World Bank and Chinese development finance activities.

At the same time, the authors find that the sub-national distribution of development finance from the World Bank and China differs in an important way. Their analysis reveals that the birthplaces of African leaders receive disproportionately larger flows of Chinese official financing. Specifically, their results indicate that the average African leaders' birth regions receive nearly three times as much financial support from China than other regions during the period of time when they are in power. The same pattern does not seem to hold true for World Bank development finance.

The authors argue that the underlying source of this difference between China and the World Bank is the level of discretion that these two institutions grant to their partner governments. Unlike the World Bank and other so-called traditional donors, China grants leaders in its partner countries very high levels of autonomy in determining how external resources will be sub-nationally allocated.

Governing elites in Africa have expressed strong support for Beijing's way of putting the 'country ownership' principle into practice. As one example, President Museveni of Uganda has said that 'Western ruling groups are conceited, full of themselves, ignorant of our conditions, and they make other people's business their business, while the Chinese just deal with you as one who represents your country'.

The authors note that while China's 'on demand' approach to foreign assistance may be motivated by good intentions, it poses a risk that external resources will be allocated to politically important constituencies rather than communities with higher levels of economic need.

The authorities in Beijing are apparently aware of the importance of screening project proposals based on rigorous economic analysis. The Chinese government released new aid policy guidance in December 2014 calling for stronger project appraisal and due diligence processes.

The analysis contained in 'Aid on Demand' also calls attention to the fact that targeting biases in how resources are allocated at the sub-national level may negatively affect development outcomes. The allocation of aid to a narrow set of political constituencies, for example, is unlikely to be an efficient way to improve the provision of public goods.

The authors point out that careful scrutiny of sub-national resource allocation patterns and China's on-demand approach to international development finance will become even more important in future years, as China assumes a leadership position in the creation of several new development finance institutions, including the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank.

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Aid on Demand: African Leaders and the Geography of China's Foreign Assistance
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