

Chinese external assistance to Rwanda

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Abstract

The entry of China as a major actor in the aid system not only presents new opportunities and new possibilities to Rwanda, but also challenges Rwanda's long-term development in very fundamental, but unexplored, ways. The aim of this paper is to contribute to a much needed process of understanding China's engagement with Rwanda. Specifically, the study assesses the form and content of Chinese aid to Rwanda to provide some insights into the potential impact of Chinese aid. Further, the study explores China's international role with reference to Rwanda to answer the question whether China can, in fact, be considered as true and honest partner and if so how to maximise the benefits from the relationship based on new empirical research and the collection of new data.

Using a triangulation of methods such as quantitative data, interviews with key stakeholders, and existing literature; the study shows that China – Rwanda friendship and cooperation is both a source of investment, jobs creation, and technology transfer. China's assistance has helped to address some challenges in key sectors such as roads, agriculture, services, building and construction. The study further highlights some inconsistencies in China's assistance policy. Tying its assistance to its own developmental needs such as advancing Chinese companies interest limits technologies and skills transfer and minimises the spillover effects of China funded projects. The study suggests that Chinese government should embark on true friendly and fruitful cooperation with Rwanda by untying its assistance to enhance its effectiveness and adhere to some of the Paris Declaration Principles.

Key words: *China, Rwanda, Economic development, Official Development Assistance, aid effectiveness, aid policy.*

1. Introduction

In the last decade, and especially in the past five years, China's economic engagement within Africa has increased dramatically. Chinese political and business leaders are visiting the continent regularly, and the Asian giant is pouring investment and aid into Africa. China's charm offensive and go global policies have seen China emerging as one of the largest trading partners for the 53 countries within Africa. As result, China's involvement in Africa has become a subject of much debate and attention, especially in the press and popular journals leading to some xenophobic sentiments against Chinese in countries such as Zambia, Ethiopia and Algeria. In those countries, job seekers blame Chinese immigrants to take up local job opportunity and their willingness to accept lower pay.

Nevertheless, China's presence in Africa goes back centuries (Jinyuan, 1984). Archaeologists digging in the ruins of Africa's great medieval trading states at

Timbuktu and Great Zimbabwe have found fine porcelain and other evidence of a trading network that spanned half the world. Africa – China relations was however modest as China lacked the resources for its foreign policy. Further, Chinese development efforts were diverted inwards. It is only in the 1990s that China increased its aid to African governments and resumed its earlier rhetoric of “mutual respect” and “concern for diversity” – a discourse that resounded strongly in a continent highly attuned to the perceived neo-colonial reflexes of the former ruling powers. In 2000, China pushed forwards its economic cooperation with Africa by establishing the Forum for China Africa Cooperation (FOCAC) to coordinate relations between the two entities.

Chinese government has subsequently been well in advance of the Western donor community by pouring aid into Africa; writing off millions of dollars in debts owed it by various African countries, opening the prospect of zero-tariff trade and investment opportunities across.

Scholarly contributions (French, 2007) on China’s renewed interest in Africa tend to focus on its rapid economic growth, and its energy policies and needs as they point to copper and mine in Zambia and Congo DR, iron ore to extract in Gabon, and oil to refine in Angola and Sudan, to name but a few, in order to keep Chinese booming, energy-hungry economy thriving. There are even allegations that Chinese investors either prefer Chinese labour or treat local (African) labour poorly.

The Chinese government has however forcefully and flatly denied such claims (Muekalia, 2007). Chinese officials maintain that their intention is not to secure access to the continent’s natural resources, but aim to forge relationships on the continent that will be of “mutual benefit”. Further, the Chinese authority persuasively claims that its aid comes with no political strings attached while the use of Chinese labour in Africa is to a large extent due to the expectation of delivering quick results.

Meanwhile, thanks to the FOCAC and the numerous extended visits paid to Africa by Chinese leaders, the Central and Eastern African countries seem to believe in the new business era. From Kenya to Congo DR via Rwanda, they are “overwhelmingly” happy that China is providing an alternative to the “unidirectional” option of international trade and commerce presented by the West. In those countries, China has moved beyond merely securing essential inputs to trade and investment. But China engagement in non rich oil and mineral country may to some extent puzzle uninformed policy analysts.

In fact, China appears to be a complex actor, and Africa a complex continent. China, while predominantly state led in its behaviour, differs depending on which country it works in Africa, how it works, and what actors are involved, be they state, or non state, companies. Some of this involvement has been positive, with major investment, under very flexible terms, going to aid projects. Some has been highly problematic, causing China reputational damage. Many Chinese

firms employ large numbers of local workers especially in construction with a very low pay. However, there is evidence that workers are learning new skills because of the availability of Chinese-funded work. Based on current achievements and faced with new opportunities and challenges, and as China and its African partners prepare for the next FOCAC summit, it is opportune for Rwanda to assess the current China's engagement and identify sectors in which China has comparative advantage in the current bid to achieve Millennium Development Goals (MDGs) and enhance Rwanda's economic development and poverty reduction strategies (EDPRS).

The entry of China as a major actor in the aid system challenges the international regime of global power relations in very fundamental, but unexplored, ways. The aim of this paper is to contribute to a much needed process of understanding China's engagement in Rwanda. Specifically, the study assesses the form and content of Chinese aid to Rwanda to provide some insights into the potential impact of Chinese aid. Further, the study explores China's international role with reference to Rwanda in order to answer the question whether China can, in fact, be considered as true and honest partner and if so how to maximise the benefits from the relationship based on new empirical research and the collection of new data. Drawing from the background above, the study attempts to answer the following questions. Given Rwanda's economic development and poverty reduction strategy and vision 2020, what are the key areas where China could contribute, for example in competitiveness, trade, technology transfer, or other key area? What are the principles and goals of China's economic engagement in Rwanda and other developing countries? How can Rwanda engage more China on issue of aid alignment, harmonisation and effectiveness? What are the prospects for China – Rwanda engagement and challenges of the upcoming 4th FOCAC ministerial conference?

Basing on the background and questions, the objectives of this paper is to trace the origin China's economic engagement in Rwanda and its economic significance. Further, the paper offers an in-depth analysis on how to further promote the establishment of a stable and long-term China – Rwanda partnership of equality and mutual benefit and all – around cooperation.

The paper is divided into four more sections following this introduction. Section two presents in a sufficiently detailed way the research methodology. Section three provides the results of the inquiry. This section clearly reveals the nature of China's assistance, describes the evolution of China's assistance to and cooperation with Rwanda, presents the sectors of interest, gives insight into emerging sectors, and investigates the aid flow channels through which China provides assistance under the "no political strings attached" policy. Section four discusses the major findings and contributions, and the final section identifies a number of conclusions and key policy lessons.

2. Material and Methods

The study is built on desk studies which involves country stock-taking using quantitative data and interviews with key stakeholders on Chinese engagement with Rwanda on specific areas of enquiry on Aid and FDI. A review of existing literature on the subject matter was also undertaken to inform the study on current debates on Chinese engagement in Rwanda and whether they address the poverty reduction objectives of developing countries including Rwanda.

Interviews were carried out with Chinese representative and investors and Rwanda government officials. A number of questions of interest for the work guided the interviews and discussions. The questions were asked both to get a general understanding of China's assistance to and cooperation with Rwanda. In order to obtain first hand information on Chinese economic engagement in Rwanda, data was obtained from the key institutions in Rwanda working on aid and FDI. This covered the National Bank of Rwanda (BNR), the National Institute of Statistics of Rwanda (NISR), the ministry of Finance and Economic planning (MINECOFIN), the Ministry of foreign Affair (MINAFFET), and Rwanda Development Board (RDB).

3. Results

3.1 Nature of aid

The standard definition of foreign aid comes from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). It defines foreign aid (or the equivalent term, foreign assistance) as financial flows, technical assistance, and commodities that are provided by official agencies, including state and local governments, or by their executive agencies; designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and provided as either grants or subsidized loans¹.

When one recalls that most people have in mind a more flexible and broad notion of foreign aid in most political and developmental discourse, it becomes possible to interpret China's economic assistance activities in developing world as ODA. The reference to ODA as a measure of foreign aid is indeed due to the fact that DAC member countries account for at least 95 percent of worldwide ODA disbursements. But in order to reduce subjective interpretations and promote comparable reporting, the decisive criterion for determining foreign aid eligibility is the objective pursued i.e. economic development and the source of funds. The following Table 1 draws a parallel between ODA and Chinese aid.

¹ See OECD Glossary of Statistical Terms, <http://stats.oecd.org/glossary/index.htm>.

Table 1: Similarities and differences between “Official Development Assistance” (ODA) and “Chinese Aid”

	Government to Government	Financing through Development Agency	Strong Links to Donor Country Economy	Concessional or Favourable Lending Terms	Receives Payment of Debt in Kind	Grant Element of at Least 25%	Private or Corporate Financing
ODA	Yes	Yes	No	Yes	No	Yes	No
China	Yes	No	Yes	Yes	Yes	No	No

Sources: Davies. 2007. *China and the End of Poverty in Africa*. August; Foster et Al. 2008. *Building Bridges: China’s growing role as infrastructure financier for Sub-Saharan Africa*. The World Bank: trends and policy options. No. 5: July

As table 1 shows the major difference between DAC’s ODA and China’s aid is the role of Export and Import Bank of China in financing infrastructure projects and other large economic investments through concessional loans². China’s aid projects to a large extent serve China’s development needs, facilitating the export of raw materials i.e. natural resources and commodities to China, and requiring that project materials and services – including labour – be sourced in China. In some cases i.e. Angola, Sudan, Zambia, and Zimbabwe to name but a few, aid recipients make payments on loans from China with oil or minerals.

3.2 Goals of aid

China provides aid based on request from Rwandan authority. Such aid should be undoubtedly aimed at helping Rwanda to promote economic development. According to the China’s Africa Policy issued in January 2006, the guiding principles and objectives of Chinese foreign aid policy in Africa are: sincerity, friendship and equality, mutual benefit, reciprocity and common prosperity, mutual support and close coordination, and learning from each other and seeking common development³.

Today, while “China regards Rwanda as a true partner and a true friend in Africa” as the Chinese Foreign Minister Yang Jiechi recalled during his visit in Kigali, Rwanda in January 2009, Chinese aid to Rwanda follows the “win-win” principle. It is further given in “exchange” for something – which changes in different times and with different countries – that contributes to its national interest. In countries less blessed by natural resources such as Rwanda, Chinese companies have noticed trading and investment opportunities. In other words, they see potential in Rwanda vision, policy and commitment according to a Rwandan official interviewed.

According to the Chinese and Rwandan officials interviewed in Kigali, China has only targeted some countries under the umbrella of South-South coope-

² These loans generally meet the terms of ODA as China applies different terms for different recipients.

³ Chinese MOFA, China’s African Policy, January 2006. <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>

ration, evidence of a focused but not yet to be revealed policy. This pointed to a great need for a localised study to better understand how to respond. Rwanda for example is strategically situated and offers a good and secure environment for doing business, and the connection with the region through Rwanda's membership in COMESA and EAC. Rwanda's need for new and better roads, school buildings, hospital, office buildings, computer networks, telecoms systems and power generation has opened a lucrative window of opportunity for Chinese firms. Basically Chinese aid is used to support China's overseas business development under the win-win principle. China believes that its economic activities and its development aid are an opportunity to make a positive contribution to Africa's economic development while keeping China's own booming, fuel-hungry economy on the road! It is however not clear what the long-term effect of Chinese aid will be.

3.3 Terms under which aid is granted

In terms of financing, most aid to Rwanda is provided in the form of grant, state-sponsored investment, non interest loans, concessional loans, and debt cancellations. China is not an emerging donor in the true sense of the word. China and Rwanda established diplomatic relations on 12 November 1971 and since then the two countries embarked on a friendly and cooperation relations that saw a favourable development between the two countries.

The establishment of diplomatic ties has been normally accompanied by an offer of assistance: both grants and non interest loans were made available for a specific number of years, and which could be drawn on to finance projects agreed on by both governments. From the first economic and technological cooperation signed in 1972 up to 2009, China provided assistance to Rwanda in the form of infrastructure projects, public works, technical and public health assistance, and scholarships to study in China. Rwanda's request for assistance to China focuses mainly on infrastructure projects due to Chinese comparative advantage and the fact that traditional Western aid donors are generally reluctant to fund them despite the urgent country's needs in infrastructural development. Terms and condition are negotiated during the Joint Permanent Commissions (JPCs) which constitute the foundations for bilateral relations. According to one interviewee these JPCs "lack monitoring and evaluation structure".

While Chinese aid was largely offered without the conditions that typically accompany Western aid – a good human rights performance, strong economic management, environmentally responsible policies and political openness on the part of recipient governments⁴, its aid programmes to Rwanda were largely

⁴It is worth noting the ambiguity of "condition" attached to aid" and the China's principle of "non interference in the domestic affairs". Between 1990 and 1994, Rwanda's main arms suppliers were France, Belgium, South Africa, Egypt and China. China provided the 500,000 machetes that were used to commit genocide without asking the reason of such unusual order!

diplomatically motivated. Countries, such as Rwanda that supported China to regain its rightful seat in the United Nations (UN) and United Nations Security Council (UNSC) so far hijacked by Taiwan were rewarded with aid programmes. Since 1970, Rwanda has consistently adhered to the “One China policy” and strongly supported China as the legitimate representative of the Chinese people. Today, however, China’s aid appears tied more to Beijing’s interests in developing new market for its export products and new investment opportunity.

Prior to the introduction of concessional loans in 1995, China’s aid to Rwanda was dominated by grants and non interest loans. Thereafter, china introduced reforms to its foreign assistance by substituting non interest loans with concessional loans. At present, China – Rwanda cooperation is based on what Rwanda needs that China can and is willing to offer. Demands and proposals from Rwanda are subject to negotiations and approval by China authorities. The standard practice is to conclude an Economic and Technical Cooperation Agreement that is essentially a line of credit and then ask the Rwandan government to suggest projects that could be funded under the credit. When both Rwanda and China agree on a list of projects – either complete plant construction projects or technical assistance, Chinese teams do feasibility studies and architectural drawings, and submit them for approval to the relevant Rwandan ministry. For technical assistance, Chinese teams work beside Ministry officials in locations worked out in negotiations with the Rwandan government.

Before grant or loan disbursement, some criteria must be fulfilled:

- (1) the project should be approved by both the Chinese government and the government of the borrowing country,
- (2) the project should be technically feasible and can generate favourable economic returns;
- (3) the project should have good social benefits;
- (4) Chinese enterprises should be selected as the contractor/exporter;
- (5) equipments, materials, technology, or services needed for the project should be procured from China ahead of other countries. In principle, no less than 50% of the procurements shall come from China;
- (6) local needs for funds, equipment, and labour necessary for the project should be secured in advance.

These criteria indicate that grants, non interest or concessional loans are provided as tied assistance with procurement coming from Chinese firms. In Rwanda all these assistances are translated into material form. To some extent this kind of project supports presents some evident advantage over the Western assistance types that bring about a huge transaction cost. One interviewee put it clearly: Chinese conditionality is straightforward. What is approved is disbursed. The Chinese have proved to be very loyal. Another advantage of China’s system

of aid over the Western type is the very low corruption in the system at the recipient level. China does not disburse money to the borrowing government. Funds are held in China until a Chinese company requests payment for goods and services by submitting invoices and progress reports. The recipient government must authorise the payment.

3.4 Size of overall aid flow from China

Unlike major aid donors, China lacks a centralised aid agency affiliated with its foreign affairs ministry or any other institution. Information is therefore not so easy to verify. Most information about official aid is indeed considered a state secret. According to Lancaster (2007,p.2) China refuses to disclose information about its aid disbursement on suspicion that all poor countries would shove to get to China Export Import Bank cash desk; or leads to statistical comparison and analysis which may expose China's ignorance of the real size of its foreign assistance. But the most apprehension is related to domestic unrest. Chinese aid official would enormous difficult to justify such kind of business when the country itself faces domestic poverty.

Nevertheless, all these argument are shaky. Even the ordinary Chinese knows that China's aid serves the country's political and economic interest. The win-win rhetoric is just a metaphor for self-interests. Chinese officials do know very well how much aid they give: aid is still part of a government system that allocates state resources through planning even if it is provided under different ministries and state owned companies. China is not alone, though. The practice is common in the United States of America (USA). Chinese Officials simply do not collect it together and report it as do governments who belong to the OECD/DAC donors list. This of course impedes aid measurement and comparability.

Assessing historic aid flows to Rwanda is equally challenging due to limitations in data collection, monitoring and forecasting. The External Finance Unit (EFU) in MINECOFIN despite its comprehensive data set lack data on China's assistance. For the present research, data on China's assistance to Rwanda come from the Ministry of foreign Affairs (MINAFFET). For other countries, the research uses data prepared by the EFU in MINECOFIN for grants. The macroeconomic and balance of payment data are low than total aid from EFU mainly because they exclude assistance via NGOs and some support provided to local authorities. Not only is the EFU data set almost all-inclusive but also close to data used by IMF. EFU data set is based on donor self-reporting and supplemented by additional material compiled by the EFU in case where DAD data is missing or incomplete. It is however impossible to cross-check data on china's grants. The only available sources of information on China's aid volume are the amount pledged at the signature of Economic and Technical Cooperation Agreements. They are used to provide an indication of China's aid levels to

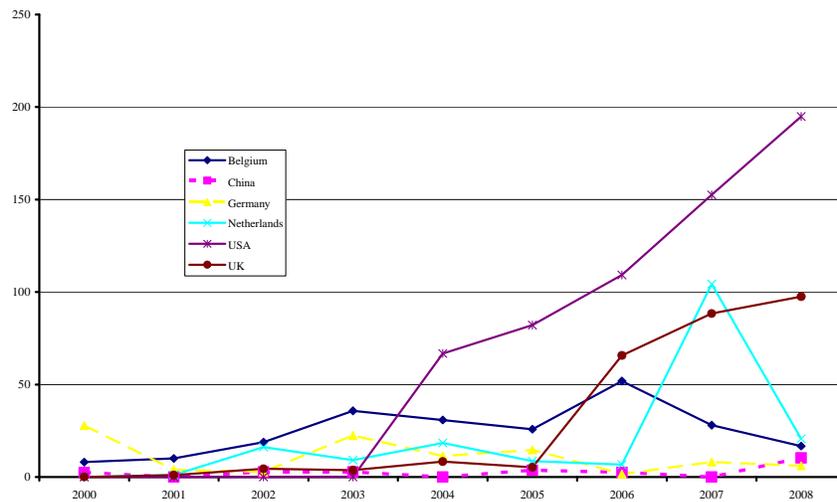
Rwanda. Data reported in Figure 1 are grants. Grants from DAC donor countries are not meant to be directly compared to estimates of Chinese assistance to Rwanda, which are based upon different definitions of aid. But in terms of inflows to Rwanda one can have an idea on how large or small is china's assistance to Rwanda.

Year	Total
2000	20,000,000
2001	0
2002	30,000,000
2003	30,000,000
2004	0
2005	30,000,000
2006	20,000,000
2007	0
2008	70,000,000
2009	30,000,000

Source: MINAFFET, Field data collection

Table 2 summarises the level of grants disbursements by China to Rwanda. Figures are small because undertakes small projects. If it happens that China grants a concessional loan or a non interest loan the figures above are the grant equivalent. The Figure 1 below compares China with the five biggest grants providers.

Figure 1: Trend of China's grants to Rwanda compared to other donors (US\$, Million)



Source: MINECOFIN and MINAFFET

As one can observe from Figure 1, Chinese official grants to Rwanda is stable though small compared with other donors. China even lags behind Belgium. The upward trend in 2008 reflects agreements to fund Rwandan development projects presented in the framework of the follow-up on the Chinese President declaration made during the 2006 FOCAC in Beijing. With the exception of a few number of Complete Plant and Technical Assistance Projects, the impact left by Chinese aid in Rwanda is not great.

3.5 Sector segmentation

Up to 2008, the sets of project that China has supported include:

(1) Agriculture sector (food security)

China through its technical assistance introduced and developed rice cultivation in Rwamagana and Umutara in 1982 and 2000 respectively. In 2008, China pledged to continue to help with additional resources aimed at improving agriculture security in Rwanda. Due to its ecosystem, agriculture sector in Rwanda has dynamic opportunities and needs more support to grow; and China can help with its well known appropriate technology. Following the above commitment, China started construction works of an “Agricultural Technologies Demonstration Centre” in 2009. Construction works are estimated at US\$2.5 million.

(2) Health sector

China carried out the Kibungo Hospital construction and recently it has completed expansion work. It is now providing technical assistance the supply of medical doctors, and donation of anti-malaria drugs to the Ministry of Health. In 2005, China handed over the new Kibungo Nurse School.

(3) Infrastructure

This is the biggest sector where China has provided important aid. China financed and built the Kigali-Rusumo road (completed in 1977) and other roads in Kigali City. In 1987, China completed the construction Amahoro Stadium. China has also built two government building and the cost for the current MINAFFET Head Office cost about US\$8.6 million. The other building built with Chinese grant is the Conference Hall called “Prime Holdings”.

China as a strong emerging aid partner should be engaged in Lake Kivu Methane Gas Project which is one of the most ambitious projects aimed at boosting energy output much needed to support economic development. The project is an interesting opportunity to boost energy supply both in urban and rural area as only 6 percent of the population currently have access to electricity. In particular, taking electricity to rural areas would make a significant impact as it enables people in rural areas to start economic activities which improve the lives and families.

(4) Education

China offers to Rwanda at least 9 university scholarships every year. Since 2006/2007, on a unilateral basis, additional 20 scholarships were given. For 2008/29, students have been admitted to Chinese universities under bilateral cooperation scholarships. China has also built an Agro-veterinary school secondary in Western province. Recently China opened a Confucius Institute in Kigali to teach programme on Chinese language and culture to the Rwandan community.

(5) Trade and Investment

On trade and investment note, the only business oriented investment that involved Chinese government was the construction of the Rwandan only cement plant. According the Cement official, the company started its operations in 1984 as a joint cooperation between Rwanda and China. Until 2006 it was run by Chinese expatriates (operations and management) on Rwanda's behalf. In 2007, the plant was privatised with government shareholding dropping to 10% and the Rwanda Investment Group (RIG) took over the management. China was later commissioned to work on the cement plant expansion. The new project will add a new production line that will boost capacity from 100,000 tonnes p.a. to 600,000 tonnes p.a. The technology will be supplied by Chinese companies as part of the ongoing relationship. China will continue to provide maintenance works and supply spare parts.

The trade imbalance in favour of China need however to be acknowledged. From 2006 to 2007, trade between China and Rwanda doubled to US\$44.3 million; by 2008, it had reached \$101.7 million, according to statistics from the Rwanda Revenue Authority, customs department. And this is expected to continue to increase over the coming years. Much of the growth is, however, due to increased Chinese exports of low-cost consumer goods. China now ranks as the Rwanda's third-highest trading partner, behind Kenya and Uganda, and ahead of Belgium and United Arab Emirates. With the current trend of many Rwandan business people going to source machinery and Chinese companies willing to tap Rwandan market, there is good prospect of a more bilateral trade development.

In recent year, this renewed interest by both sides to work "with common efforts" to facilitate and encourage potential strong companies to invest in Rwanda, has pushed entrepreneurs from the two countries to increase understanding and seek more business opportunities and cement development. Rwanda and China officials interviewed are optimistic about the strengthening of the Rwanda-China relationship. They said it would benefit not only China, but the country and the region as a whole.

Emerging sectors include infrastructure development – mainly construction and Information Communication Technology (ICT). ICT is particularly important as

Rwanda intends to build a competitive advantage in this area. The key areas are communication and outsourcing. Chinese ICT experts from ZTE Corporation have been in Rwanda since 2005 to boost the country's ICT sector, according to a Memorandum of Understanding signed between the Rwandan government and ZTE Corporation of China, in Shenzhen city – the largest State Owned Enterprise (SoE) with over 60,000 staff and operating in 54 countries in Africa. ZTE Provides telecommunication gear to telecom operators MTN and TIGO. Rwandatel SA has signed agreement with another Chinese telecommunication giant Huawei to provide IT equipments.

Agreement with the two of China's leading technology companies, Huawei and ZTE Corporations, are expected to help Rwanda explore opportunities related to e-government programmes. Out of the agreement, the Chinese experts will establish an IT Park in Kigali, and help to reduce the costs of communications and widen the subscriber-base through the provision of inexpensive mobile phone handset. In the same field, A-Link Technologies, a registered Chinese ICT company that assembles mobile phones opened its business in Kigali in 2007.

The biggest in terms of investment is however “Star Africa Media Communication Network Technologies”, a registered Chinese ICT company that has established a pay-TV system with the potential to beam to numerous African countries. It is expected to increase its investment to a turn of US\$20 million in television station in addition to an internet provider company in Rwanda. Executives from the company said Rwanda was selected for the project because of its “strategic geographic location”.

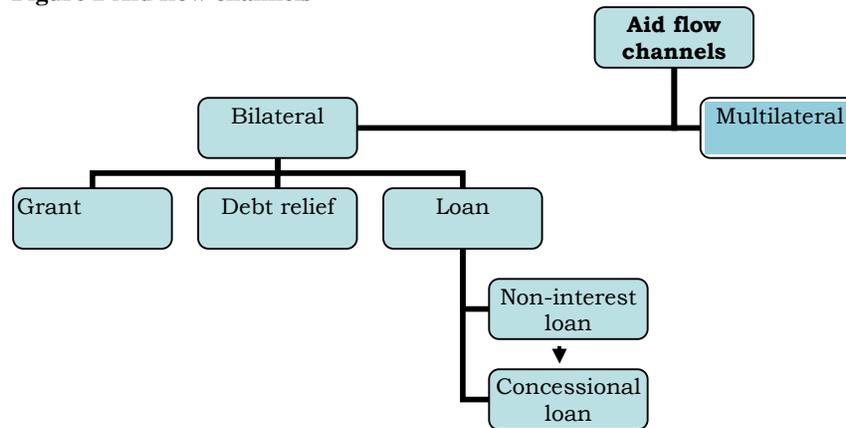
3.6 Aid flow channels

China's official development assistance schemes may be classified into bilateral aid and multilateral aid. China does not however, consider equity stakes and contributions to international organisation such as United Nations (UN), Africa Union (AU) or Africa Development Bank (AfDB) as aid. China's aid is therefore a bilateral business. China's bilateral aid schemes is then categorised into three types, based on payment obligation: loan, grant, and debt relief – where a loan is practically transformed into a grant. With regard to loans, Export Import Bank of China announced that it would shift focus from non interest loans, traditionally its major scheme, to concessional loans (Zhang, 1996). Despite this announcement, however, both schemes seem to coexist and are still utilised at present⁵. In fact, in the Programme for China – Africa Cooperation in Economic and Social Development, which was unveiled during the FOCAC

⁵ Early august 2009, Rwanda received an interest-free loans amounting to approximately US\$ 37.8 million with a grant element representing 35%. Most of this loan will fund the Kigali road network rehabilitation project

held in 2006, the non interest loan was reaffirmed as an aid scheme to be utilised for Africa.

Figure 2 Aid flow channels



Source: The author, 2009

Figure 2 summarises the coverage and limitation of different china’s aid delivery channels. China foreign assistance to Rwanda consists primarily of grants and non interest loans⁶ administered by the Ministry of Commerce through its Department of Foreign Aid, and to lesser extents, the Export-Import Bank of China (Exim bank) under the Ministry of Finance, and the Ministry of Foreign Affairs which plays a small role. Yet, China’s Export-Import Bank is the only state-owned entity that distributes official economic assistance in the form of low interest loans, export credits and guarantees (Eisenman and Kurlantzick, 2006).

Rwanda – China engagement has however been limited by International Monetary Fund (IMF) and the World Bank conditionality. Any loans that Rwanda takes must be at least 50 percent grant. China government which used to provide finance for the past 40 yrs on grant or non interest loan basis usually with 10 yrs grace period – these loans were generally cancelled after some time. Now, China insists that Rwanda uses the Exim bank window. Yet, Exim bank window means higher interest rates and shorter maturity rates. It is worth recalling that Rwanda borrowing is now constrained by post HIPC conditions that require Rwanda to avoid debt stress. Debt Sustainability Analysis (DSA) needs to be done before contracting new debts. Government guarantees are now prohibited.

⁶ In 2007, China cancelled all debts that Rwanda owed.

According to MINICOFIN, since the introduction of concessional loan system in China's development assistance policy, it has been adamant to increase Exim bank loan grant from 35 to 50%. It has not seen any compelling reason to treat Rwanda more favourably than other recipients. Rwanda is competing with other countries with many resources like Gabon which are willing to take the terms.

FOCAC has however made a big contribution to bilateral relationships between China and Rwanda. The programme emphasises that China should assist Africa and Rwanda in particular over the longer term, rather than simply to seek an exploitative relationship based on oil and mineral extraction and market extensions. This probably impacted on the current interest free loan that Rwanda concluded with Exim Bank of China. The current financing structure that Rwanda is getting from bilateral and multilateral donors are as follows:

Table 3: Rwanda aid acquisition condition

	Grant element	Grace period	Interest rat	Maturity
World Bank	100%	-	-	-
AfDB	100%	-	-	-
EU	100%	-	-	-
Exim bank/ China	35%	6 years	2	20 years
Exim bank/ India	25%	5 years	1.5	20 years

Source: Interview with MINECOFIN officials

The interview with MINECOFIN staffs reveals that concessional terms with Exim Bank of China and India are negotiable, which in turn makes it difficult to know in advance that the loan is ODA in nature or not. Nevertheless, looking at the formal conditions, it is clear that China has become an important donor. In Rwanda, China is mainly engaged in roads and agriculture projects, while India has mainly focused on power sector.

4. Major findings and contributions

4.1 Rwanda Aid policy

Rwanda's aid policy was approved by the government cabinet on 26 July 2006. Its primary objectives are to provide clear policy statements and action points with regard to increase aid effectiveness, provide a basis on which the additional aid required by Rwanda to meet its short- to mid-term investment needs can be mobilised, and enhance national ownership of development activities.

Rwanda's aid policy is therefore a guiding framework that sets out how the government wishes to see the country's aid architecture develop -setting out clear priorities and principles. It outlines the government's preferences in terms of the type of aid it wishes to attract from abroad, and the processes to be used in

the management of external assistance. The Policy also calls on Rwanda's donors to ensure that they give aid in line with national priorities, simplify procedures, and enhance local ownership of development activities.

At present, Rwanda receives in excess of US\$400 million per year in foreign aid. Moreover, the last few years have seen most of Rwanda's external debts cancelled as a result of the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) initiatives. However, this means that the Government cannot resort to loans as a means of financing public investments in the way that it did previously. More aid needs to be made available to Rwanda in the form of grants so as to ensure that enough can be invested in delivering services to the Rwandan citizen. This is made clear in the Aid Policy, which sits alongside the government's Vision 2020 and the forthcoming Economic Development and Poverty Reduction Strategy in planning for Rwanda's medium- and long-term development.

4.2 Aid strategy

China is a non-DAC donor; influence of future volumes of aid is limited. China does not enter into dialogue with conventional donors around the resource needs for Rwanda's development. As described in the previous sections, the objective of China's aid is twofold: helping the recipient country – in this case Rwanda, and helping China Itself – seem to be mutually incompatible. Given this context, Rwanda need to adopt strategies to engage with China in a way that advances both countries' interests without jeopardise the better use of aid or grants.

China has diversified funding sources. It is in the interest of Rwanda to make request of additional aid based on its development needs. Since the government of China accords great importance to the principle of solidarity in its aid relations, poverty reduction and wellbeing of Rwandans must obtain support from China. Rwanda is a country which is doing incredible things after the 1994 genocide. The move to a normal state made the people of Rwanda open about the challenges they face, and for China as a partners, it really has to match that ambition.

While Rwanda is now stressing trade and investment instead of aid, China's assistance should not be translated into automatic acceptance of tied aid. Rwanda as one of the poorest country in Africa can further look for domestic supports (in China) to advancer the case of Rwanda and negotiate favourable terms for loans and preference should be given to highly concessional loans or grants. Rwanda should reject any offers of loans that would jeopardise debt sustainability. Close attention should also be paid to the influx of commercial loans from China, which may threaten macroeconomic stability.

4.3 Aid effectiveness issues

As one interviewee pointed out, the failure of aid in general has been due to isolated interventions that are not coordinated (not knowing what you want). Rwanda has developed an aid policy with the focus on ownership and setting priorities. At first sight, Chinese might seem to align government priorities but Rwanda as a developing country any help from China would fit somewhere in priorities. Nevertheless, a few areas have been identified as being of high importance, and these might be raised with the Chinese authorities.

When engaging with China, the need for alignment must be underlined. At the very least, this means that attempts should be made to get China's aid on-plan. Unless China's aid responds to priorities identified in the EDPRS and sector strategic plans, the impact and sustainability of Chinese-funded projects is likely to be limited. Illustrative is the China's support to agricultural sector with the introduction and development of rice cultivation that has failed to revolutionise the rice production in Rwanda. While it is unrealistic to ask China to change its aid policy, Rwanda may highlight the need for increased use of local capacity (Rwandan individuals and businesses) in the implementation of Chinese projects, with a view to strengthening this capacity. Rwanda's need for strengthened capacities in project implementation should be the underlying argument in such discussions, rather than the general desire to see aid being untied. The Chinese argument of looking for quick results for the aid it provides cannot be overlooked.

China is still a developing country, and probably needs to build its statistical capacity. While encouraging China to use the DAD to report on aid to Rwanda, Officials in the MINECOFIN – EFU should try and compile data that may be available in different Ministries involved with China aid. After publication of Data available on Rwanda side, effort can be made to approach China for harmonization.

5. Key policy lessons and Conclusion

In popular discourse, China's aid activities tend to be impressionistic based on a single example or hearsay and much of what they actually are has remained translucent. The unique features in Chinese aid that differ from those of assistance provided by DAC donors is the involvement of China's SOEs and assistance offered to them i.e. China Road and Bridge (CRB) Corporation in Rwanda, and the lack of comparable data on aid disbursement. Nevertheless, while Chinese aid is criticized as disorganised, from the long-term perspective, it has been conducted under a certain set of (implicit) rules. Not only China has been consistent with the principles of "equality and mutual benefits / win-win" and "non-interference in internal affairs", but also it appears flexible.

There is a need however of engaging China on the issue of aid effectiveness. This should not be a problem as China forcefully argues that its aid has no strings

attached. China's programmes of assistance in Rwanda seem flawed, erratic and have no long-term objectives and can be even a burden with debts that are beyond the repayment capacity –assuming that China does not write them off. While any observer of the Rwanda's economy would agree on its need of good infrastructure, there are several criticisms of China's current aid policy: the projects are unsustainable and generally lack of flow-on benefits. The projects are further beyond the maintenance ability.

Chinese were expected to train the Rwandans and also leave behind for the Rwandans the secrets of their agricultural technologies and knowledge as it generally make it a condition for those Western European firms that wish to invest in China! But in Rwanda they failed to train Rwandans. The Amahoro Stadium had to be rehabilitated by Chinese themselves. In agriculture sector there is nothing to be proud of.

China also undermines its aid policy by being secretive which make the recipient suspicious of each other and leading its value to be overestimated by international observers. China's aid is difficult to quantify. Still a developing country itself, China appears to administer foreign aid in an ad hoc fashion, without a centralised system, foreign aid agency and mission, or regularised funding schedule. Nor does Beijing publicly release foreign aid-related data. Some analysts surmise that the Chinese leadership is reluctant to be perceived as a major aid donor, since the China itself continues to be a recipient of foreign assistance and because the government fears that its citizens may object to lavish spending on economic projects abroad. Nevertheless, the policy was conceived a few years ago. China decided to encourage its companies to invest abroad by creating the "Go global policy", a policy that supports Chinese companies to penetrate overseas markets. The idea behind is to expand excess capacity overseas and to cut unemployment at home.

In conclusion, and generally speaking, the economic engagement between China and Rwanda countries has grown considerably, promoted mutual benefit and has enormous potential for transforming the Rwandan economy. China also gains from the its relationship by gaining access to raw materials, getting a platform for their goods, and indirectly prop up their standing in the country and in the sub-region. This relationship can be further advanced if concerns about their product quality are addressed, and skills and technology are fully transferred. Rwandans generally have some uneasiness with the quality of goods from China unlike those from Japan and complain about communication and skill transfer. Chinese Assistance should also try to follow some standard principles such as the Paris Declaration Principles to ensure that the assistance become effective.

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