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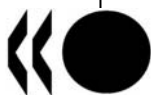
**Briefing Note by Prof. Li Xiaoyun, Director of the China-DAC Study Group**

*This briefing note, prepared for the attention of Chinese authorities, is based on discussions at an international conference on "Sharing Experiences to Promote Learning on Development Partnerships for Growth and Poverty Reduction". The event took place in Beijing on 28-29 October 2009 and was hosted by the International Poverty Reduction Center in China (IPRCC) and the OECD's Development Assistance Committee (DAC), on behalf of the China-DAC Study Group.*

Contact person: Michael Laird - E-mail: [michael.laird@oecd.org](mailto:michael.laird@oecd.org) - Tel.: +33.1.45.24.90.33

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## KEY EXPERIENCES AND LESSONS LEARNT FROM CHINA'S USE OF INTERNATIONAL ASSISTANCE<sup>1</sup>

BY PROF. LI XIAOYUN<sup>2</sup>

1. China has maintained long-term, sustained and rapid economic growth since the introduction of its reform and opening-up policy in the late 1970s. Gross national product (GNP) increased from 364.5 billion Yuan in 1978 to 30,067 billion Yuan in 2008, an average annual increase of 9.8%. The Chinese population has benefited enormously from this growth. On average, the disposable *per capita* income of the urban population increased by 7.5% annually while the net *per capita* income of rural residents rose by 7.4% annually. At the same time, the poverty rate in rural areas decreased from 30.7% in 1978 to 1.6% in 2007. Considerable progress has consequently been made in both economic growth and poverty reduction. Although China and other developing countries differ greatly from each other in their history, society, culture and political and economic conditions, they are all confronted with enormous development challenges. China's experience of rapid and sustained growth and large-scale poverty reduction, achieved as part of the globalisation process over the past 30 years, is of significant reference value for other developing countries. In fact, this experience has helped drive an increasingly intense "China-craze" throughout the world since 2000.

2. Although China's substantial development achievement owes a lot to the Chinese people's own hard work and desire for self-reliance, international assistance from both bilateral and multilateral donors played an important supporting role. According to OECD statistics, China received a total of \$49 billion of bilateral and multilateral official development assistance (ODA) (including \$20.5 billion of grants) between 1979 and 2007. By constantly absorbing and assimilating international assistance from a variety of sources during its development process, China was able to compensate for capital shortages, promote technology transfers and managerial improvements and establish a specifically Chinese pattern of using international assistance against a backdrop of globalisation. China's notable results from using this approach are mainly due to its success with integrating international assistance into China's overall planning processes, implementing relevant policies with the support of strong administrative systems and constantly innovating in the use of international assistance. This experience is of great reference for the official development assistance being provided by "established" donors and other bilateral and multilateral development agencies to other developing countries, especially in Africa. Meanwhile, China provides a successful example for developing countries receiving such assistance, particularly countries on the verge of "aid dependency", of how to use international assistance more effectively. Likewise, this experience is an important reference for China's own aid to foreign countries, particularly regarding the elaboration and implementation of China's development assistance policy in Africa.

3. In this context, the following eight lessons, drawn from discussions at an international event on development partnerships, merit highlighting.

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1. This briefing note, prepared for the attention of Chinese authorities, is based on discussions at an international conference on *Sharing Experiences to Promote Learning on Development Partnerships for Growth and Poverty Reduction*. The event took place in Beijing on 28-29 October 2009 and was hosted by the International Poverty Reduction Center in China (IPRCC) and the OECD's Development Assistance Committee (DAC), on behalf of the China-DAC Study Group.
  2. Prof. Li Xiaoyun is Director of the China-DAC Study Group. Dr Zhang Huidong from IPRCC and Dr Wang Yan, Co-ordinator of the China-DAC Study Group, provided comments and inputs on the original Chinese version. Mr Michael Laird from the OECD helped to finalise the English version. Further information on the China-DAC Study Group and its activities can be found on the Internet at: [www.iprcc.org](http://www.iprcc.org)

### **I. Full ownership by the recipient country for its own development is critical to ensuring that international assistance is effective**

4. China has used international assistance effectively to support its development. Fundamentally, this is attributable to China pursuing its own approach to managing international assistance, an approach suited to its own conditions, its long-term pursuit of an independent development policy and its efforts to maintain political and economic independence so as to avoid possible external interference in China's development process. Meanwhile, by working out and carrying through independently on national development plans and processes, China has both developed its own capacity for self-determination as well as used its international assistance effectively. Thus, an effective and responsible state operating fully autonomously during the development process is critical for the effective use of international assistance. This basic experience is a significant lesson for other developing countries, particularly in Africa.

### **II. Effective development planning is fundamental to ensuring the effective use of international assistance**

5. When using international assistance, China has applied the following fundamental principle: donors shall provide assistance in accordance with the priorities set forth in China's series of "five-year development programmes" and the national development assistance plan shall be elaborated according to the objectives and framework of the "five-year development programme". In this way, the assistance plan reflects not only the development needs of China, but also the strengths of the various development agencies providing international assistance. In addition, this approach enables international assistance to be fully integrated into China's national development strategies and ensures co-ordination and greater complementarity among the different types of assistance provided by various bilateral and multilateral donors. Seen from this perspective, the promotion by donors of poverty reduction strategic papers (PRSPs) in other developing countries, and the provision of joint budget support, are attempts to increase the effectiveness of international assistance which has too often been hampered by a lack of an effective development programme in most developing countries. China's experience shows that one of the most important prerequisites for the effective use of international assistance is a well-formulated development programme. China's experience in preparing five-year development programmes is thus a significant reference for the use of innovative measures now being deployed by many African countries and their international donor partners to improve the effectiveness of international assistance.

### **III. To ensure its international assistance was used effectively, China progressively developed a mechanism for co-ordinating development agencies based on the principle of "centralised co-ordination and implementation by all regions and localities"**

6. Since the introduction of its reform and opening up policy, China progressively developed a co-ordination and implementation system for international assistance centered on its Ministry of Commerce and its Ministry of Finance. In accordance with the provisions of the national development plan, these two ministries are responsible for, first, co-ordinating with regions and localities to determine their current needs and priority areas for international assistance and, second, for negotiating, on behalf of the Chinese government, with bilateral and multilateral development agencies. More specifically, the Ministry of Finance is responsible for managing foreign loans while the Ministry of Commerce is in charge of international assistance provided as grants or technical assistance. This mechanism, characterised by centralised co-ordination but decentralised implementation through regions and localities, greatly reduces the transaction costs of co-ordinating between different countries and organisations, guards against gaps and overlaps in programming and provides an organisational guarantee that international assistance will be used effectively. This experience is relevant for development agencies seeking to improve co-ordination and an important reference for other developing countries seeking to establish an effective co-ordination mechanism.

### **IV. Under the right conditions, "Project Implementation Units" can provide a feasible approach to delivering international assistance effectively**

7. In addition to centralised co-ordination by the Ministry of Commerce and the Ministry of Finance, the

Chinese government also ensures that the institution in charge of a project establishes a Project Implementation Unit (project office), guided by a steering committee, to regulate, manage and implement the assistance project. This mechanism ensures that the project is implemented in accordance with the development plans of the state, regions and localities. It also promotes a gradual and systematic integration of international development concepts, methods and techniques into Chinese institutions, including the teams in charge of project implementation, thus strengthening the capacity of Chinese organisations and team members. Established this way, Project Implementation Units improve project sustainability while avoiding a series of problems found with units set up independently by donors. This experience is an important lesson for donors accustomed to establishing parallel Project Implementation Units.

#### **V. China can learn from the experience and lessons gained by established donors on the provision of international assistance**

8. The international assistance provided by established donors to developing countries, particularly African countries, has long been dominated by project assistance. Decades of practice shows that project assistance has not promoted overall development in many developing countries due to their inability, in African countries in particular, to formulate and implement a comprehensive development plan. Due to poor management skills and insufficient funds, many projects have ended when the external funding has terminated, resulting in heavy dependence on international assistance. Currently, to improve the effectiveness of aid, established donors are making greater efforts to intensify co-ordination with their developing country partners, harmonise their approaches and operate on the basis of a clearer division of labour.

9. Since 2000, China has intensified considerably its economic exchanges and development co-operation with developing countries, African countries in particular. Although important breakthroughs have been made in international assistance, it is still dominated by project modalities. China should therefore attach great importance to the heavy dependence and poor sustainability caused by the project-dominated assistance provided by many established donors. On the other hand, China should pay particular attention to the achievements of “harmonised assistance” now being provided by established donors in Africa. Notable progress has been made by established donors in improving governance capacity in African countries, in a bid to improve the effectiveness of aid which, to some extent, will also help improve the impact of China’s aid to African countries. All these provide a basis for greater exchanges between China and established donors and international development agencies. Initially, these exchanges can focus on sharing experience and lessons so as to gradually explore possibilities for future co-operation.

#### **VI. It is of great importance to develop new patterns of international assistance that match the new geopolitical circumstances**

10. China’s enormous achievement in large-scale poverty reduction has drawn great attention from international organisations, development agencies and other developing countries. In particular, China’s experience in promoting growth and poverty reduction through the effective use of international assistance has become a special focus of attention. Sharing this experience with African countries will enhance Sino-African relations. Over the long history of international assistance, although established donors and other international development agencies have gained extensive experience, they have also paid a heavy price. On the one hand, China has successful experiences to share with them; on the other hand, drawing on their experience in international assistance will help improve China’s own aid to foreign countries. Accordingly, closer trilateral co-operation will be of great importance for improving the effectiveness of aid and developing new patterns of international assistance that match the new geopolitical circumstances in the world.

#### **VII. The voice of African countries should be heeded**

11. A rising China and the constantly expanding co-operation between China and Africa provide African countries with new opportunities for development and a means of counter-balancing established donors’ conditional assistance. African countries don’t necessarily want Chinese aid to be completely in line with established donors’ assistance, which shows the political value of China’s aid for Africa’s development. In

addition, considering their own interests, African countries hope that China and established donors can learn from each other in a manner that is conducive to their mutual development, improves the effectiveness of aid and promotes the development of Africa to the greatest extent possible. For China, this is not only essential for maintaining its principle of independence in the provision of development assistance, but also promotes its geopolitical interests.

12. In recent years, China has constantly enhanced its economic co-operation with African countries, playing a positive role in promoting African development and being highly praised by African countries. But there are also some problems meriting the attention of Chinese authorities, for example poor quality in some export products, a failure to respect all labor standards and negative impacts on the environment. In the future, as a great change has taken place in China's economic and technical co-operation with other countries and China has become an extremely important member of the international community, China should work in closer co-operation with other countries to address these problems. In response to these circumstances, China should encourage its enterprises to act in a socially responsible way, assess the outbound investment environment and improve export product quality and service management. This is not only what China should do as a large country, but is also essential for the sustainable development of Sino-African relations.

#### **VIII. The poverty reduction programme may become an important part and carrier of China's international assistance**

13. In recent years, China's enormous achievement in economic growth with a pattern designed to achieve poverty reduction on a large scale has been widely recognised by the international community and become a focus of attention of developing countries, providing opportunities for China to co-operate internationally in this field. This experience can be used in China's own aid to other countries. On the one hand, China can carry out special poverty reduction projects in developing countries, based on its own experience. Pilot programmes can be put in place and then replicated in more areas, step by step, once good practices have been identified. On the other hand, a mechanism can be established for exchanging experience and sharing knowledge about poverty reduction between China and other developing countries, thus expanding the field and scope of international co-operation. Although the project approach to poverty reduction is small-scale and low-cost, compared to other aid modalities, it can usually have a large impact and a positive result. The project approach can thus still be a way to strengthen co-operation between China and established donors and serve as a basis for increasing collaboration with other developing countries as well, thus helping China to shape a positive international image of itself.