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The complementarities of Chinese and Western development finance in sub-Saharan Africa

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Abstract

This article challenges the widely-held view that the competition for markets and influence between China and the West in sub-Saharan Africa is a zero-sum game, with few incentives or opportunities to collaborate. The study examines the history and operative framework of the China Development Bank (CDB) and the International Finance Corporation (IFC) and presents two case studies – CDB's loans to Huawei for telecommunications expansion in the region and IFC's Africa Micro, Small and Medium Enterprise (AMSME) Program – that exemplify each institution's approach to sub-Saharan Africa's development challenges. These cases, the study finds, reveal a complementary, rather than conflictive, dynamic between CDB and IFC's interests and activities in the context of the region's infrastructure and private sector development. The paper argues that these complementarities are too often overlooked, and highlights the potential for further cooperation, proposing a mechanism through which local governments, global financial institutions, and extra-regional players can coordinate efforts to maximize the developmental impact of investment-led projects.

Keywords: China-Africa relations; Development finance; China Development Bank; Huawei

1. Introduction

Over the past few years, Western analysts have expressed curiosity and concern about China-Africa relations, which have become a hot topic in the world of international relations and foreign policy. While the mainstream Western media tends to highlight the problems with Chinese involvement on the continent, the Chinese state-run media often focuses solely on the contributions made by Chinese companies to African development; both tend to overlook the complementary nature of the activities conducted by Western and Chinese agents in Africa's changing economic landscape. Keener observers on both sides (CFR, 2007; Brookings, 2013; Wang H., 2014) have identified a need for cooperation, but some, including the Brookings Institution's Yun Sun remain cautious about its prospects, noting that "exemplary cases of successful cooperation between Washington and Beijing on the continent remain scarce" (Sun, 2015). Indeed, opinions from the Rand Corporation (Hanauer & Morris, 2013) and the Chinese Academy of Social Sciences (Zhang, 2013) suggest that both sides view competition for markets and influence in Africa as a zero-sum game, with few incentives or opportunities to collaborate. Yet, the reluctance with which Westerners and Chinese alike view cooperation and the one-sided headlines used by the media are unfounded; the complementary effects of projects already implemented – and the vast potential for future collaboration – are evident.

This research aims to add to the discourse on African development through the examination of development finance flows from Chinese and Western institutions towards the continent. The study showcases two representative development finance institutions (DFIs): the China Development Bank (CDB) and the International Finance Corporation (IFC). As a policy bank, CDB derives its mandate from the Chinese government, and performs a strategic function in China's foreign policy; as an affiliate of the World Bank, IFC is part of the Western-led Bretton Woods system and is charged with promoting investment in developing economies. For each DFI, the paper first presents the institution's history and operative framework and then introduces a case study that exemplifies its operations in sub-Saharan Africa. CDB's financing of Huawei's expansion into the region reflects the bank's pattern of investing in large infrastructure projects undertaken by Chinese companies; IFC's Africa Micro, Small and Medium Enterprise (AMSME) Program epitomizes the corporation's preference for targeted investments to local players in the private sector. After each case study, the paper also outlines the limitations of each institution's approach.

This study does not attempt to compare activities of each DFI in order to judge their effectiveness. Instead, it asserts three main points: first, that China does not intend to compete with or replace Western programs in sub-Saharan Africa; second, that the nature of CDB and IFC's activities exemplify the comparative advantages of each institution; and third, that while these institutions represent different ideologies and motivations, the complementary nature of activities has a positive impact on sub-Saharan Africa's economic development and allows African stakeholders greater leverage in directing economic development.

The study concludes that, in fact, Western and Chinese engagement in sub-Saharan Africa is complementary rather than conflictive and presents numerous opportunities for collaboration and coordination. This underscores the need to overcome the current academic, political and even economic aversion to co-operation, which leads to a suboptimal allocation of resources for all parties involved: China, the West, and African countries. Finally, building on CDB and IFC's experiences in Africa thus far, the study analyzes the possibility of targeting capital flows towards development projects through a more thoroughly integrated syndicated banking program which makes the most of each DFI's comparative advantages, reduces investors' exposure to risk, takes into account local stakeholders' interests and increases the impact of each project.

1.1 The significance of development finance institutions in Africa

According to William Diamond, an expert on the World Bank Group, "investment is at the heart of economic development," and "(DFIs) are designed to provide focused financial support to national and regional development" (Diamond, 1957). Although these institutions vary greatly, they generally provide financial services such as loans and grants, equity participation in firms or investment funds, and financing for infrastructure projects, all of which serve to address development challenges related to the provision of basic services, the creation of jobs and the promotion of foreign exchange earnings (Musaisike et al., 2004). Moreover, DFIs correct a significant market failure by operating in areas which traditional financial institutions tend to avoid due to higher financial risks. By focusing on key industries or sectors, DFIs allow for a more efficient allocation of resources towards risky yet necessary investments.

In this, CDB and IFC share some similarities: both are risk-taking, result-driven organizations, seeking returns on their investments while executing predefined mandates. These characteristics mean that CDB and IFC present an alternative to traditional forms of aid which, some experts contend, have been ineffective. Dambisa Moyo, a vocal critic of aid programs, has argued that an overreliance on aid has actually hindered Africa's development and has proposed that governments wean themselves off of their "addiction" to aid, which she relates to inefficiency and corruption. Instead, she suggests, courting foreign direct investment and nurturing free markets would be more effective in creating vibrant, robust economies on the continent (Moyo, 2009). CDB and IFC's activities may thus provide more appropriate means of financing African development. Demographic trends provide ample reason to believe that returns on investment are possible, too. The blossoming middle classes of several countries, including Ghana, Gabon, and Botswana (AfDB, 2011), are potential sources of both capital and consumption, as well as of political pressure on the state

(Handley, 2014). This new consumer class will increasingly demand better public goods and services including healthcare, education, infrastructure, and the rule of law, and will use its political and economic clout to influence its leaders, attracting global corporations in the process.

Telecommunications and financial systems, in particular, present vast opportunities. The rapid expansion of mobile phone and Internet service penetration in Africa has allowed millions of people in the region to engage in economic activity and connect to the rest of the world. In 2013, GSMA, an association which represents mobile service providers, counted 329 million unique subscribers in sub-Saharan Africa, which was then fastest growing region for five years in a row and was projected to surpass half a billion users by 2020 (GSMA, 2014). Rising incomes – and consequently, savings – have provided an opportunity for banks to gain new customers and offer more services, simultaneously benefiting their bottom line and society at large. According to the World Bank, the percentage of African adults with some kind of formal financial account jumped from 24% in 2011 to 34% in 2014 (World Bank, 2015a). At the intersection of financial institutions and telecommunications, innovative mobile money programs such as M-PESA have achieved widespread success. The mobile phone-based money transfer system, initially launched in Kenya but since replicated throughout the region, allows users to make deposits, withdraw cash, and transfer money using only their basic mobile phones' SMS feature (The Economist, 2007). In 2014, the number of mobile money users in sub-Saharan Africa reached 64 million, revealing the immense demand for accessible financial services among the unbanked poor (World Bank, 2015a).

The high impacts and encouraging long-term prospects of investments into the telecommunications and finance sectors have not escaped CDB and IFC. The case studies selected for this paper highlight particularly this: in CDB's case, financing telecom giant Huawei's foray into Africa, and in IFC's case promoting the development of an incipient financial sector throughout the region.

2. CDB and Huawei: A case study in Chinese development finance

2.1 The origins and mandate of CDB

Developing under the close watch of the Chinese government, China's financial sector remains highly restricted in comparison to those of Western countries, with all major banks all being state-owned and foreign participation in the industry severely limited (Ernst & Young, 2014). Following the Communist Party's consolidation of power in 1949, China's banks were nationalized and banking system was centralized under the Ministry of Finance and focused on providing credit to state-owned enterprises for their production plans, and cash to pay for labor costs and materials (Meyer at al., 2011). Then, after the country's leadership decided to move away from central planning through the Reform and Opening Up program in the late 1970s, China began the decentralization process through which local governments were gradually granted greater autonomy to pursue economic growth, financial institutions were diversified, and restrictions on lending were loosened.

Those reforms attracted an influx of foreign investment and led to rampant lending by the country's newly empowered banks, which ushered in a period of rapid, albeit unsustainable growth. In 1992, after China adopted the idea of pursuing a "socialist market economy", bank lending for investment grew by 50%, and in 1994, the inflation rate breached 20% (Sanderson & Forsythe, 2013). Given the financial implications of rising debt and inflation, the Chinese government – rather than subscribing to the World Bank's recommendation of liberalizing the financial industry – increased its control over the financial sector. Under a new round of reforms, direct borrowing by local governments was forbidden, tax revenues were redirected towards the central government, and, crucially, commercial lending and "policy" lending were separated.

CDB was created in 1994, along with the Agricultural Development Bank of China and the Export-Import Bank of China, as an instrument to execute the government's political and economic objectives in a consolidated fashion. It was given a leading role in implementing large scale, long term financing for infrastructure and industrial projects considered too risky by traditional commercial lenders. CDB's strategic importance was further underscored by the fact that it became the only bank other than the People's Bank of China to receive ministerial rank. Nonetheless, its first steps were clumsy; by 1997 it had a non-performing loan ratio of 42.7% (Sanderson & Forsythe, 2013). It would not be an understatement to say that CDB's success can be credited to the visionary work of Chen Yuan, the bank's chairman from 1998 to 2013. Using innovative banking strategies as well as political maneuvering, Chen managed to reduce the non-performing loan ratio to under 5% by 2001, and to less than 1% by 2005 (Downs, 2011).

One of CDB's greatest innovations was the creation of local government financing vehicles (LGFVs) to secure loans to finance local infrastructure. LGVFs are special financing vehicles created outside local budgets and that can use land as collateral for CDB loans. This point was vital, as local governments were forbidden from taking on debt. Instead, LGVFs would borrow money on behalf of the local governments and use these funds to undertake infrastructure projects (Downs, 2011). By keeping the borrowing "in house" through these companies, local governments were able to retain the revenue derived from leasing land, one of the few marketable resources still under their control. This strategy was not without its dark-side, as it provided an incentive for local governments to uproot rural families, often without proper compensation. Nonetheless, it made possible a number of projects and investments that formed the backbone of China's modernization and economic growth (Sanderson & Forsythe, 2013). Chen Yuan would eventually improve this model of leveraging land values and providing loans to LGFVs, and elements of this lending later emerged in CDB's overseas practices.

Unlike other banks, CDB is backed by bonds with maturities of ten years or more bought not only by commercial banks but also directly by the Central Government, giving investors – often commercial banks themselves – a sense of confidence and security. Under one regulation, in order for CDB to provide loans, the banks used by the LGFVs to mediate land sales would first need to pay the proceeds to the local CDB branch before those could be transferred to the municipal LGFV. By operating in this fashion, CDB gained greater oversight over the transfer and use of funds and the ability to ensure receipt of payment from the loans. Under another regulation, Chen Yuan sought to limit political interference and opportunities for corruption in the lending process. In order to create a commercially viable practice, a stringent procedure for the selection of projects was put into place. Loan applications would be evaluated separately by four bureaus within CDB, with their assessments then forwarded to a lending committee, headed by a vice-governor, which votes on each application by registered ballot (Downs, 2011).

CDB's investments in infrastructure projects helped offset the 1997 Asian financial crisis that crippled so many of China's neighboring economies at the time. Between 1996 and 1998, spending on infrastructure in China nearly doubled; by 2002, it had tripled, with CDB's loans accounting for 28% of all loans to the sector. Following the crisis, their value would only keep rising, from

226.9 billion yuan in 2003 to over 1 trillion yuan in 2009 (Sanderson & Forsythe, 2013). In 2008, the global financial crisis again required a rapid response by the Chinese government, which deployed CDB in order to keep the Chinese economy afloat. In November of that year, a 4 trillion yuan stimulus package was announced, 3.2 trillion yuan of which would be administered by CDB (Naughton, 2009). By 2010, CDB lending to LGFVs would surpass 5 trillion yuan (Sanderson & Forsythe, 2013). Since 2013, CDB has promoted the restructuring and consolidation of key sectors in order to streamline the industrial landscape, while lending 241.7 billion yuan to strategic and emerging industries, including renewable energy and circular economics projects (CDB, 2014).

As these domestic developments were underway, China also accelerated efforts to internationalize its most successful companies. After receiving the Chinese Communist Party's endorsement at the Sixteenth National Congress in 2002, "Going Out" was implemented as a national policy and strategy. Its objective was to increase exports of Chinese goods and services, and support Chinese companies, both private and state-owned, to help them establish and gain market share in their overseas operations. Deborah Brautigam notes in *The Dragon's Gift*, that "Chinese companies at the high end would be asked to establish brand names with global recognition. They would be encouraged to invest overseas, establish factories, and buy property. Small and medium-sized companies would also be encouraged to go out, particularly those at the lower end, where moving offshore would aid China's domestic restructuring" (Brautigam, 2009, p. 75). In 2008, the hard hit taken by the Chinese economy as the global financial crisis led the U.S. and Europe to reduce their imports of Chinese goods, led policy-makers to double-down on efforts to help national industries diversify their international markets, notably in the developing world.

Throughout this process, CDB fulfilled its role in advancing Chinese policy interests by securing financing for the overseas expansion of Chinese companies, particularly state-owned infrastructure construction companies, that would otherwise find difficulties in traditional financial markets due to the inherent risk and large borrowing requirements for the projects they undertake. In some cases, these very investments serve further strategic interests, by financing infrastructure projects intended to deliver energy or other resources supplies back to China, such as the US$1.8 billion Kazakhstan-China oil pipeline (CDB, 2006). Finally, CDB assists energy companies abroad by providing credit to foreign energy and mining companies, particularly those who are offered long-term supply contracts, upstream equity positions or equipment manufacturing contracts that will ultimately serve the Chinese market (Downs, 2011). Regarding Africa specifically, the Forum on China-Africa Cooperation (FOCAC), established in 2000 to create a platform for dialogue and establish guidelines for cooperation, gained an ever greater profile as ever greater investments, exchanges and commitment were declared at each periodic summit. After the third ministerial conference, in 2006, the Chinese government announced the creation of the China-Africa Development Fund, to be capitalized by Chinese financial institutions including CDB, to "encourage and support Chinese companies to invest in Africa" (Li et al., 2012).

China's homegrown telecommunications companies have also benefitted greatly from CDB financing under the "Going Out" policy. Brautigam refers to this as "nurturing 'dragon heads' (national champions) to be globally competitive multinational firms" (Brautigam, 2009). As the fastest growing market in terms of subscribers, sub-Saharan Africa represents a particularly attractive. By 2020, the region is projected to have 504 million unique subscribers and nearly one billion connections (GSMA, 2014).

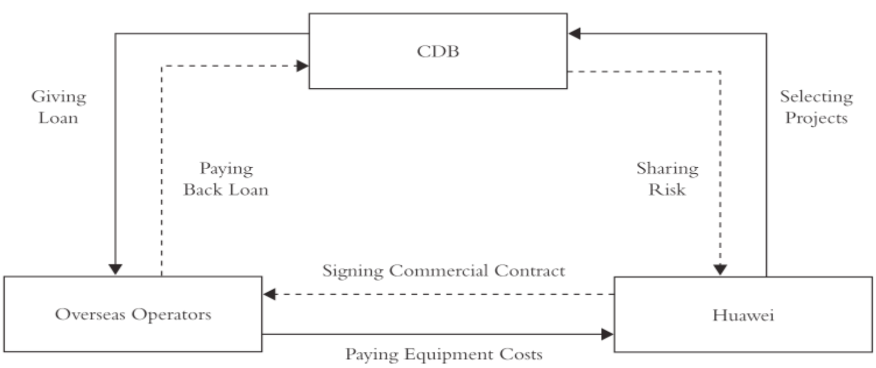
2.2. Huawei's CDB-financed Expansion into Sub-Saharan Africa

Founded in 1987, Huawei first began exporting its products in 1996 and has since overtaken its competitors to become China's largest maker of phone equipment and telecommunications infrastructure. Not surprisingly, given the size of the Chinese market and its successful overseas expansions, Huawei surpassed Sweden's Ericsson in 2012 to become the world largest manufacturer of telecommunications equipment (The Economist, 2012). What makes it something of an outlier among Chinese companies that succeeded abroad is that, unlike most recipients of policy bank financing, including its competitor ZTE, Huawei has never been state-owned; it was born, and has remained, a private company.

Huawei's highly respected growth strategy is often compared to the Maoist strategy of "seizing the countryside", due to its focus of expanding first in overlooked, peripheral areas, before competing for market share in large, urban centers. In its early days, Huawei marketed its digital telephone switches aggressively in smaller towns, and only later did it target the big cities. This same strategy has been employed in the company's international expansion, which first targeted underserved communities in Russia and Africa before moving into the saturated markets of Western Europe (Chang et al., 2009).

To finance its overseas expansion, Huawei received a US$30 billion credit line from CDB, beginning with an initial injection of US$10 billion in 2004 (Sanderson & Forsythe, 2013). The company's forays into new markets have relied heavily on vendor financing, a mechanism with roots in the LGVFs. Vendor financing allows Huawei to extend credit to its customers – that is, telephone and data service providers around the globe – in order to assist them in purchasing Huawei's equipment. As of 2009, the company had 270 operators in 100 countries and employed over 83,000 people (Chang et al, 2009). Huawei's African operations began in Kenya in 1998, and by 2011, its sales on the continent spread across 40 countries and totaled over US$3.42 billion, an increase of 15% from the previous year (Ombok, 2012).

Figure 1. Structure of CDB-Huawei Loans



Source: China Development Bank and Renmin University, 2007 in Sanderson & Forsythe, 2013)

The figure above offers a visual representation of vendor financing, illustrating the exchanges between CDB, Huawei, and its overseas customers. Generally the process is initiated by Huawei, which selects projects and recommends them to CDB; many of the elements of the LGVF model are employed when assessing which projects will receive investments. After CDB approves the loan, it provides a line of credit to a financial institution in the customer's country. The customer will receive the funds from their local bank and will then use this money to purchase equipment from Huawei, which signs a commercial contract with the customer. The financial intermediary in the customer's home country will then be responsible for paying back the loan to CDB. To leverage risk, CDB and Huawei devised system in which potential losses and liabilities are shared by both firms.

This process is similar to – and sometimes overlaps with – the resource-for-infrastructure or "Angola" model, which has been used widely in deals with governments who lack the financial resources to fund infrastructure projects but are rich in the natural resources which China's industries and consumers need. Through this method, money is never transferred directly to the recipient government. Instead, a framework agreement is signed through which the local government and CDB agree on the infrastructure project to receive investment, and the infrastructure project is contracted to a Chinese firm, which is then paid from the credits provided by CDB. In Angola's case, repayment of the credit line was made in oil extracted by a Chinese company, although a wide variety of arrangements have been struck with different countries. This financing model has allowed countries with limited creditworthiness but with abundant natural resources to finance infrastructure projects. It is important to note, however, that the model's sustainability has come into question given the collapse in the prices of numerous commodities since 2013.

In expanding abroad, Huawei has diversified away from manufacturing and has embraced a new role as a comprehensive telecom service provider. While a majority of Huawei's revenues still come from equipment sales, the company has been securing local contracts for constructing telecom infrastructure, often with CDB's backing. In 2006, Huawei won a US$100 million contract to become the leading CDMA network provider for Nigeria's Multi-Links, one of Nigeria's private network providers (Xinhua, 2006). Huawei also secured a partnership in 2006 with Starcomms Nigeria Limited, the country's largest telecom operator, to deploy first mobile broadband network allowing subscribers to watch streaming video and media through their smartphones (Huawei, 2006a). Another major project backed by Huawei in 2006 is the construction of a US$10 million Technology Support and Training Center in Nigeria's capital city, Abuja. The Center will provide tech support for the Western African region and training services for up to two thousand individuals a year (Huawei, 2006b) In 2008, Huawei opened up a Training Center in South Africa that aims to transfer skills and expertise on next generation telecom technologies to employees, local employers and the industry (Huawei, 2008). In addition, Huawei has also made great strides in gaining market share for consumer handsets, with over a million devices sold in South Africa in 2014 (Sibanda, 2015). The International Data Corporation placed Huawei third in the country, with a 6.9% share, at a considerable distance from Samsung's 56.6%, but a stone's throw from Vodacom's 7.6% (Alfreds, 2015).

The company's ability to provide high-end products and services at competitive prices has allowed Huawei to overcome the association to cheaply made, poor-quality goods that often plagues Chinese firms. Nonetheless, according to Huawei's former head of operations in West Africa, Huawei manages to achieve profit margins 10 times greater in Africa than it does in China, while pricing itself 5%-15% lower than major international competitors such as Ericsson and Nokia (Chang et al., 2009).

Chinese engagement in the telecommunications industry, much like its participation in other areas of infrastructure, has included several large-scale, highly visible projects which were implemented quickly and benefitted their users directly. In fact, Chinese financing has extended beyond ground-based telecommunications, all the way to space. Nigeria's third communication satellite, NigComSat-1, for example, was viewed with hesitation by Western investors, leaving only China's Great Wall Industry Corporation to bid on time, on budget, and up to the Nigerian government's standards (Xinhua, 2012). It has been asserted that the telecommunications industry in Africa has developed "to a degree that would otherwise have been impossible" without the help of Chinese vendor financing (Columbia School of International and Public Affairs, 2008).

2.3 Limitations of CDB

The success of China's "Going Global" strategy is in large part due to CDB's behind-the-scenes financing. Erica Downs, a fellow at the Brookings Institute, notes that CDB is "a link between the strategic ambitions of the Chinese government and the commercial interests of Chinese firms, because the financing it provides to support cross-border deals connects state policy to commercial activities" (Downs, 2011). Despite its cumbersome role, CDB displays a strong performance even when compared to Western banks. As of 2013, CDB assets grew to 8.19 trillion yuan (roughly equivalent to US$1.4 trillion in 2013), with a non-performing loan ratio of 0.48%. It posted a year-end profit of 79.9 billion yuan (roughly US$13.6 billion) (CDB, 2014).

One limitation for CDB is its comparatively narrow focus on executing Chinese government policy, which limits the institution's ability to invest in other, potentially more lucrative ventures. While CDB has some autonomy in identifying which projects meet the criteria of China's policy objectives, its operations remain limited to the mandate defined by the Chinese government. This mandate and the bank's critical role in assisting Chinese companies in their overseas expansion efforts reveal some specific targets that the Chinese government has set for itself in Africa. Securing energy supply and natural resources, boosting the international competitiveness of Chinese industries, and cementing ties with African governments all ultimately further China's national interests.

These activities, however, also give China a perhaps unwanted degree of visibility on the global stage. The actions of its banks, firms and citizens are increasingly scrutinized, with any malpractice, negligence or imprudence compromising the country's reputation. It is important to note, in this context, that Huawei's case is exceptional; the largest beneficiaries of CDB financing tend to be state-owned enterprises, reducing the Chinese authorities' ability to claim plausible deniability or avoid responsibility for wrongdoings. Among CDB's weaknesses is a notable lack of transparency, as investments are negotiated on a case-by-case basis behind closed doors; it is unclear which, if any, safeguards are in place to counter negative environmental or social impacts and to reduce opportunities for corruption. Further, Western concerns and anxieties over what is perceived to be Chinese support for non-democratic regimes, particularly in Africa, can have considerable repercussions in the international political arena.

3. IFC and the Africa Micro, Small and Medium Enterprise Program: A case study in Western development finance

3.1 The origins and mandate of IFC

IFC was established as an affiliate of the World Bank in 1956, but its origins can be traced back to 1951, when the United States International Development Advisory Board proposed the establishment of an institution that could facilitate the flow of private capital from world money markets to developing nations (Matecki, 1957). Under the World Bank's original Articles of Agreement, loans provided to private companies needed to be backed by governments, and projects were expected to fulfill a number of criteria beyond those related to the project's economic soundness (Snavely, 1958). Moreover, the bureaucratic processes required by the World Bank and the implications of government interference discouraged private individuals or institutions in developing countries from seeking assistance. Robert L. Garner, vice-president of the World Bank at the time, summarized the proposed corporation's functions at the Inter-American Investment Conference in 1955:

> "We will not be interested in the schemes of promoters. But we will be interested in well-studied projects brought to us by serious businessmen who have capital of their own to invest. Once we have a serious proposal in hand, we think one of the institution's most important functions will be to interest other investors, either domestic or foreign, in the project. As far as financing is concerned, the Corporation will view itself as the last resort,

> and not the first; and the institution will not invest in projects where the entrepreneur himself is not carrying the fullest share of the investment."[1]

Garner was appointed the corporation's first president when the IFC Charter entered into force the next year, with 31 member countries, authorized capital of US$100 million and capital subscriptions of US$78 million (World Bank Group, 2014).

Unlike CDB, IFC is not affiliated with any one particular country, but, in as much as it reflects the Western consensus on democracy and on development via market-based mechanisms, it shares some characteristics with policy banks. Although the corporation is formally owned by its 184 member countries, current shareholding arrangements imply that OECD nations account for roughly two thirds voting power (IFC, 2014a). Moreover, eighteen of the 25 members of the board of directors that governs the corporation are nationals of countries that could be considered aligned with neoliberal economic views (World Bank, 2015b). This majority worldview is reflected in IFC's activities, which are heavily focused on the private sector. Products and services encompass loans, equity, venture capital, trade and supply chain finance, treasury solutions, asset management and advisory services, while its areas of expertise include agribusiness and forestry, financial institutions, funds, health and education, infrastructure, manufacturing, oil, gas, and mining, public-private partnerships, telecommunications, media and technology, and tourism, retail and property (IFC, n.d.a). In Fiscal Year 2015, IFC had 406 projects in 83 countries, with long-term investments totaling US$17.7 billion, including over US$7 billion mobilized from other investors (IFC, 2015a).

Accounting for over US$4 billion of those external investments, the Syndicated Loans Program is arguably IFC's signature program. Established in 1957, it serves as a platform for mobilizing investments from public and private stakeholders across the world. The Syndicated Loan Program brings together an array of financial institutions, including local, regional, and global commercial banks, DFIs, various types of funds, and insurance companies, among others. The products offered to these financial partners include: B Loans, which are offered to commercial banks; Parallel Loans, offered to DFIs and local banks; and a Managed Co-Lending Portfolio Program through which institutional investors provide IFC with capital on a portfolio basis and participate passively in future projects. To date, over US$50 billion has been mobilized for over 1,000 projects in more than 110 countries (IFC, 2015b).

1 From an address delivered by Robert L. Garner, then vice president of the World Bank, at the Inter-American Conference, New Orleans, March 3, 1955

IFC's experience and reputation have helped it bring together a broad network of investors to fund projects that enable economic development in emerging economies. DFIs participating in the Parallel Loans program include the Asian Development Bank, the OPEC Fund for International Development, the Islamic Development Bank and the Overseas Private Investment Corporation; IFC's first and so far only partner in the Managed Co-Lending Portfolio Program is the People's Bank of China, which pledged to invest US$3 billion (IFC, 2013c). The presence of a wide spectrum of financial institutions working towards investment projects in emerging markets is a sign of confidence in IFC's ability to generate positive developmental impacts while delivering returns. In Fiscal Year 2015, US$1.7 billion were committed to sub-Saharan Africa under the Syndicated Loans Program, accounting for 11% of the US$15.3 billion committed worldwide (IFC, 2015c).

Aside from financing, Advisory Services is perhaps the most important for IFC's strategic operations in developing countries. Their purpose is to assist governments in improving the overall environment for private investment, increase the efficiency and effectiveness of investments, offer assistance in project implementation, achieve positive developmental impacts, and enhance the borrower's creditworthiness. Through Advisory Services, governments and businesses gain access to global expertise on best practices, impact metrics, transparency and demand-driven project development. At the end of Fiscal Year 2015, IFC's portfolio had more than 600 active advisory projects in 101 countries, valued at US$1.2 billion (IFC, n.d.b). The program has been particularly active in sub-Saharan Africa, which, at 26.5%, accounted for the largest portion of Advisory Service's US$202.1 million in expenditures in Fiscal Year 2015 (IFC, 2015a).

3.2. Access to finance and the Africa Micro, Small and Medium Enterprise program

Within IFC's Advisory Services, the Access to Finance Program is one of the largest programs in terms of value and number of projects. Expenditures on this program reached US$68 million in Fiscal Year 2014, accounting for 29% of Advisory Services' total expenditures (IFC, 2014a). Access to Finance is essentially focused on financial inclusion, aiming to "increase the availability and affordability of financial services for individuals and for micro, small, and medium enterprises (MSMEs)" (IFC, 2014a). Funds often target financial infrastructure, supporting the creation and development of credit bureaus, securities markets, collateral registries, and payment systems, and advisors work closely with local government to improve the legal and regulatory framework as well.

Over a century ago, the economist Joseph Schumpeter (1911) argued that financial intermediaries provide services - including mobilizing savings, evaluating projects, monitoring managers, and facilitating transactions – that are essential for economic development. While functioning financial systems offer savings, credit, payment and risk management products, the most basic role of a bank is to provide a safe place in which a customer can store capital. Poor individuals without access to a formal banking system must instead rely on limited savings to invest in their own education and business ventures. According to the World Bank, the world's unbanked population still exceeds 2 billion, and sub-Saharan Africa accounts for 350 million of those people (World Bank, 2015a); Moyo (2009) put the credit gap faced by the region's MSMEs at over US$2 trillion. The limited availability of financing available to MSMEs limits their potential, despite the fact that they account for up to 67% of employers and 86% of new jobs created (IMF, 2012).

Identifying new opportunities amidst the proliferation of MSMEs throughout the region and the rapid economic growth experienced by a handful of sub-Saharan African countries, IFC's Africa Micro, Small and Medium Enterprise (AMSME) Program was established in 2006. Its goal has been to support the growth of the type of businesses that are responsible for the majority of employment and comprise a significant portion of the region's economies. The program is carried out via three main avenues: first, long-term finance to partner banks so they are able to increase lending; second, long-term advisory services, including resident advisors, to assist in establishing and expanding programs; and third, an incentive structure that encourages banks to increase lending and attain other targets. By the end of 2015, IFC was working with 110 financial institutions in 30 sub-Saharan African countries, and its long-term finance MSME portfolio in the region reached US$1.4 billion (IFC, 2015d).

The direct impacts that IFC's Advisory Services in general, and the AMSME program in particular, have had throughout the region are illustrated in the millions of loans that partner financial institutions went on to provide. In Ghana for example, IFC and World Bank advisors collaborated with the Bank of Ghana and provided the government with technical advice and training to update the Ghana's Borrowers & Lenders Act in 2008. The updated act implemented a collateral registry program that enables borrowers to use movable assets as collateral, and by December 2012, more than 9,000 SMEs and 30,000 microbusinesses had received over US$6 billion in loans backed by movable property (IFC, 2013a). In another project, IFC partnered with Mozambique's Banco Comercial de Investimentos to train over 50 women entrepreneurs in management skills – including planning, budgeting, customer relations, sales and marketing – and helped them develop business plans to gain access to finance from the bank (IFC, 2011a). In Tanzania, IFC worked with Access Bank to reach out to rural populations, developing in 2013 a new agricultural loan product that takes into account farmers' variable incomes and allows for more flexible repayment schedules aligned to the crop calendar. By the end of that year, demand proved to exceed expectations, with agricultural loans reaching US$200,000 (IFC, 2015e).

In order to guarantee transparency and track outcomes, IFC instituted its Development Outcome Tracking System (DOTS). This system provides valuable information on the impact, outcomes, and effectiveness of projects under OECD guidelines. The commitment to providing stakeholders with measurable results allows IFC to ensure that the projects have a positive return on investment. Development impact for Advisory Services projects is assessed every six months, and at project completion, overall developmental effectiveness is determined. In Africa, a team of results management specialists joins project teams to collect and validate results throughout the project term. A second, external evaluation group – the Independent Evaluation Group - is employed long-term to monitor IFC progress and adherence to its goals. The combination of internal and external monitors allows IFC to identify strengths and weaknesses and improve continually in its methods, increasing the probability of achieving positive outcomes (IFC, 2015a).

3.3. Limitations of IFC

IFC reported US$445 million in net income for Fiscal Year 2015, a precipitous drop from the US$1.483 billion reaped a year earlier (IFC, 2015a). This trend may be related to the World Bank Group's ongoing restructuring process, and could have further effects on IFC's operations and finances. The strains on leadership have been evidenced by several high-profile departures, including that of IFC's CEO since 2012, Jin-Yong Cai, a Chinese national and former Goldman Sachs executive, who announced his departure at the end of 2014 amid tensions over the approval of an investment into the Postal Savings Bank of China (Donnan, 2015).

In spite of the current turmoil, IFC's basic function and philosophy is unlikely to change. Run by its member countries, which include industrialized nations with a wealth of knowledge and experience in financial sector development, IFC operates under a firm belief that a healthy private sector and a functional financial system are central to tackling economic challenges in sub-Saharan Africa. IFC stimulates private sector development, financial markets, and entrepreneurship in developing countries by lending to and investing in for-profit ventures.

The positive impacts of its activities in the region do not preclude the corporation from suffering limitations, though. Significantly smaller in terms of assets and loans compared to CDB, IFC is deliberately conservative in the scale and scope of its activities on the continent. Smaller working capital and a limited mandate forces IFC to choose smaller, conventional projects that may not produce high returns on investment or development impacts as large and visible as those provided by a new highway, a new power plant, or a new telecom network. Furthermore, IFC's work in developing financial systems and increasing access to banking services in Africa are highly reliant on a stable economic and political environment, and on functional infrastructure. Without the basic infrastructure necessary to support their work, as is the case in much of sub-Saharan Africa, IFC may actually be impeded from serving the areas that need its services most. However, IFC funding for infrastructure in Africa surpassed US$1 billion in 2012, and its and then-CEO Jin-Yong Cai, declared the continent's infrastructure to be a priority (IFC, 2012).

IFC's convoluted governance structure may also reduce its effectiveness in identifying and undertaking high-impact projects. As seen in Jin-Yong Cai's departure, the board of directors is not immune to political wrangling, as a number of Western countries abstained from voting on projects involving Chinese banks (Donnan, 2015). Moreover, the corporation's investors, which include government bodies, commercial banks, and private foundations, represent a diverse array of objectives, motivations, and ideologies. With each of these different players pursuing their own interests and providing their own input into the process of selecting and executing projects, developmental objectives can sometimes take a back seat. At the same time, the large number and wide variety of projects being undertaking implies that no single project can ever have IFC's full dedication, suggesting that the corporation runs the risk of stretching itself thin. The fact that IFC also tends to work through local financial institutions can dilute its effective control over projects, leading to increased risks.

4. CDB and IFC: Competing or complementary?

Yu Xiangdong, a Shanghai-based scholar, when asked what French companies could do to compete with Chinese companies in securing contracts to build infrastructure in Côte d'Ivoire and Senegal, simply said, "You can never beat China; you can only turn yourself into the IBM of construction" (Sanderson & Forsythe, 2013). This meant that the French could not compete directly with the Chinese, but, much like how IBM transitioned from hardware to information technology services, they could become consulting companies, marketing their vast knowledge and experience to those looking to operate in France's former colonies.

Yu's observation highlights the competitive advantages of Western and Chinese institutions: while the West is unmatched in know-how, China is unrivalled in financing. These differences are reflected in the core goals of IFC and CDB: providing support for local private sector development and financing the construction of large-scale infrastructure projects by Chinese companies, respectively. By employing their best practices to the areas in which they are specialized, these institutions achieve tangible developmental impacts and results. The success of CDB and Huawei's contributions to bridging Africa's digital gap and of IFC's efforts to develop a robust financial sector on the continent, resulted in immediate improvements for citizens and businesses alike.

Both IFC and CDB have distinct competitive advantages. IFC was a pioneer in demonstrating that the private sector has a central role to play in international development; its success has made it the world's largest and most reputable international DFI focused exclusively on for-profit businesses. CDB spearheaded China's efforts to turn domestic companies into global brands while sharing the country's immense capacity to undertake large-scale projects; it has since become a major financier of infrastructure projects in the developing world. In part thanks to CDB's efforts, China has secured the reputation of having the world's most competitive construction and infrastructure development industries.

The mandate of each institution also reflects the ideological paradigm through which they view their work in Africa. On one hand, IFC's focus on improving access to finance and the environment for businesses reflects Western values of trust in the private sector and the wisdom of market forces, a view which prevails among the corporation's largest shareholders and well represented in its board of directors. Given capital and advice, rational, profit-maximizing firms and individuals will allocate resources efficiently, spurring economic growth. When this process is successful, the IFC, its investors and its beneficiaries reap the returns. On the other hand, CDB subscribes to a development model based on urbanization and large investments in infrastructure. With increased connectivity – be it through road, rail or fiber optics – labor, goods and services, capital, and knowledge will be better able to circulate throughout and beyond a country's territory. Aside from profit motives, CDB derives its mandate from the Chinese government, and also has the objective of executing its economic and foreign policy agendas, helping Chinese firms expand abroad and strengthening ties between Beijing and its foreign partners.

Despite their different worldviews and objectives, both institutions contribute to sub-Saharan Africa's development, and in at least one occasion, CDB and IFC have been able to work together. In 2011, in the first ever syndication between Chinese banks and IFC, CDB and the Export-Import Bank of China contributed US$45 million and US$27 million respectively towards a US$115 million financing package offered to Vodafone Ghana for the development of that country's telecommunication infrastructure (IFC, 2011b). At the time, Sergio Pimenta, IFC's Director for East Asia-Pacific, declared that the partnership between IFC and Chinese banks "will contribute to making Chinese projects sustainable and in the long-run more profitable" (IFC, 2011c). Since then, however, cooperation between IFC and Chinese companies in the region has remained limited. It includes a US$22 million loan from IFC to CRJE Estate Ltd for the construction of a 29-story hotel in Tanzania (IFC, 2013b); a US$112.5 million syndicated loan from the Industrial and Commercial Bank of China to help IHS Nigeria expand its mobile phone infrastructure (IFC, 2014b), and the creation of the US$300 million IFC-CITIC joint investment platform to develop environmentally-friendly, affordable urban housing in sub-Saharan Africa, starting with projects in Kenya, Rwanda and Nigeria (IFC, 2015f).

CDB and IFC do not appear to have collaborated again in the region, yet, together, they present African governments with a variety of tools and strategies with which to foster economic development. At once, having options allows those African governments more leverage in negotiating conditions for investments, and they need not choose one over the other, when they can clearly benefit from both. A report conducted by the United States Government Accountability Office in 2013 suggests that there is very little direct competition between American and Chinese firms in Africa. Indeed, when looking at CDB and IFC, there is no apparent conflict between infrastructure projects and the strengthening of the private sector. Instead, what is becomes evident is the complementarity between these projects. While CDB-financed projects promote connectivity, IFC activities provide liquidity. Both result in more modern, integrated and dynamic economies throughout the region, opening opportunities as much for local entrepreneurs as for multi-national corporations.

In terms of what they offer to Africa's development, the synergetic nature of their activities is clear. A concrete example of how this may work could be provided by CDB-financed telecommunication networks, which can aid IFC's Access to Finance efforts by expanding the reach of mobile banking. The sectors that CDB and IFC formally invest in are both necessary components in the foundation of a strong economy. In order to grow, businesses require dependable infrastructure that facilitates transport and communication and guarantees the provision of inputs such as electricity and running water, minimizing uncertainty and increasing the ability to access new markets. Individuals too, need access to information and a means through which to participate in the labor market and receive the wages needed to improve their quality of life.

If African governments are to make the best use of CDB and IFC engagement, then they mustn't overlook each of their weaknesses. One of most criticized aspects of CDB – and of China's international engagement at large – is the lack of transparency when it comes to its activities abroad and the methods through which it secures international contracts. A lack of reliable data precludes an accurate assessment of the institutional and financial health of the Chinese government and consequently of its related institutions. Fears of economic instability in the context of a weak regulatory framework are a cause of concern. IFC, while far more transparent, lacks the vast financial capital of CDB. This prohibits the organization from funding larger projects that would benefit far more people. Furthermore, with its broad range of stakeholders, bureaucratic hurdles can stall the approval and execution of projects and limit flexibility and response time when challenges arise.

Despite these shortcomings, the growing number of development finance players operating in sub-Saharan Africa presents the region's governments with more options than ever with which to grow their economies. The emergence of finance institutions from other developing nations such as Brazil, India, and Indonesia, even provides alternatives to established Western and Chinese institutions. In this increasingly competitive environment, cooperation between Western and Chinese institutions could not only benefit African economies, but could also create opportunities for mutual institutional improvement. Chinese financial institutions, raised in a protected domestic market, can benefit from Western experiences operating in commercial financial markets and can adopt better practices regarding transparency, impact assessment and social and environmental safeguards. Meanwhile, Western institutions can learn from China's expertise in providing financing "packages", which couple loans, project execution, and innovative repayment options, while also reconsidering the importance of infrastructure and industrial development projects.

4.1. Making the most of complementarity: Opportunities for cooperation

Collaboration between IFC, CDB and African governments could increase the efficiency and effectiveness of investments. One important first step would be for them to create channels for dialogue, to share best practices and identify opportunities for coordination at least, and cooperation at best. In a tripartite forum, African governments could define priority areas for investment, and CDB and IFC could design projects that combine their areas of expertise. A telecom project, for example, could use Chinese hardware and construction firms while IFC support MSMEs providing ancillary services to those firms or engaging in the commerce and repair of handsets and computers operating on the new network. IFC could further help other local companies upgrade their communications equipment, which would increase their productivity. This expansion of the discourse of investment-led development finance in Africa could build on FOCAC's design and on events such as the World Bank's Investing in Africa Forum (World Bank, 2015c). Integrating workshops that highlight current projects, strategies, or research that each side is conducting, the probability of positive outcomes for all stakeholders would be significantly increased.

Another possibility for collaboration would be the creation of a banking syndicate integrating the expertise of CDB and IFC with that of other banking institutions, under the direction of African leaders. This syndicate, which could include commercial lenders and other significant DFIs such as the African Development Bank and Brazilian Development Bank, would pool resources into a sizeable fund, and would collaborate with African governments to channel large investments towards integrated projects. This would allow African governments to finance projects beyond the scope of any single bank: an entire highway system, for example, as opposed to one road. This would provide ample opportunities for Chinese firms, and, as detailed in the previous paragraph, for MSMEs offering ancillary services. Using IFC's Syndicated Loans program as a precedent, risks from the investment would be shared among all member institutions, thus limiting the exposure of each particular one.

One downside of this approach is that it might actually reduce African governments' leverage in negotiating more favorable deals. In order to counter this risk, certain guidelines could be built into the syndicate's structure: African governments could set the criteria for bids, and projects could require a certain amount of local employees and managers, technology transfers, and strict environmental and social safeguards. African governments would also have to have a minimum stake in each project, a guarantee of (and incentive for) their commitment to its success. Balancing each party's risks and incentives and bringing each of their advantages to the fore, while maintaining a focus on tangible results and sustainability would provide the key to success in such a model.

5. Conclusion

The positive alignments and potential synergies between China, the West and Africa are rarely addressed in Western or Chinese media. Amid accusations of neocolonialism, meddling, resource exploitation, and hegemonic ambitions, instances of legitimate cooperation have gone largely unacknowledged; much less has been said about the nuanced ways in which Chinese investments have aided the viability of Western investments and vice-versa. This paper has highlighted the competitive advantages of CDB and IFC and has explained how infrastructure and financial sector projects can be mutually beneficial and are indeed crucial to the region's development. It has also analyzed the forms that a more direct cooperation between both institutions, as well as African governments, could take. In what might constitute a significant first step in that direction, as of September 2013, the Chinese government had committed up to US$3 billion for joint investments in emerging markets through IFC's Managed Co-Lending Portfolio Program (IFC, 2013c). In making this commitment, China has given IFC the authority to make decisions on loan origination, structuring and portfolio management. Furthermore, a handful of joint projects between IFC and Chinese banks and firms give reason for cautious optimism. This demonstration of active cooperation visibly demonstrates that foreign policy is not set in stone, and that in spite of mutual wariness, truly "win-win-win" engagements between Western, Chinese and African institutions are possible.

Biographical note

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