



Report

Hedging belts, de-risking roads

Sinosure in China's overseas finance
and the evolving international response

Yunnan Chen with Zongyuan Zoe Liu

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Key messages

Sinosure's provision of state-backed credit risk insurance has played a less visible, but pivotal role in the Belt and Road Initiative. Beyond export of goods and services, Sinosure underwrites the export of Chinese capital to low- and middle-income countries, making otherwise unbankable projects bankable.

Coverage of overseas risk from Sinosure has contributed to moral hazard issues. Sinosure's risk appetite has diminished over time, even for strategic BRI partners, coinciding with a wider slowdown in overseas lending and a broader shift to a 'small yet smart' BRI.

The use of export credit within China's wider official financing is a challenge to OECD regimes that separately govern finance for trade and for aid. Sinosure and other Chinese Export Credit Agencies offer highly favourable terms and longer-term finance, potentially undermining the 'level playing field' of the OECD.

Reforms in development finance and export credit regimes are underway, and seek to better compete with China's official finance. As a consequence, this has also narrowed the space between the mandates and instruments of national DFIs and ECAs.

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Acronyms

BII	British International Investment
BIP	British International Partnerships
BOC	Bank of China
BRICS	Brazil, Russia, India, China, South Africa
BU	Berne Union
CCB	China Construction Bank
CDB	China Development Bank
CPEC	China-Pakistan Economic Corridor
C-ROSS	China Risk-Oriented Solvency System
DAC	Development Assistance Committee
DFC	development finance corporation
DFI	Development Finance Institution
DSSI	Debt Service Suspension Initiative
E3F	Export Finance for Future
ECA	export credit agency
ESG	environmental, social and governance
ESIA	environmental and social impact assessment
EU	European Union
GIP	Green Investment Principles
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
ICBC	Industrial and Commercial Bank of China
IWG	International Working Group
LIC/LMIC	low-income country/lower middle-income country
MDB	multilateral development bank
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency
MLT	medium and long-term
MOF	Ministry of Finance

MOFCOM	Ministry of Commerce
MSMEs	micro, small and medium enterprises
NAFR	National Administration for Financial Regulation
NDICI	Neighbourhood, Development and International Cooperation Instrument
NDRC	National Development and Reform Commission
NEXI	Nippon Export and Investment Insurance
NHFO	non-honoring of financial obligations
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PBOC	People's Bank of China
PEBCs	preferential export buyers credits
PICC	People's Insurance Company of China
PRI	political risk insurance
PSI	private sector instrument
RMB	renminbi
SAFE	State Administration for Foreign Exchange
SDG	sustainable development goal
SOE	state-owned enterprise
ST	short-term
SWF	sovereign wealth fund
UKEF	UK Export Finance
USAID	US Agency for International Development
ZISCO	Zimbabwe Iron and Steel Company

Executive summary

Sinosure has played a pivotal role in the evolution of China’s Belt and Road Initiative (BRI). The state-owned, policy-oriented insurance company has been intimately tied to national strategies, in de-risking the exports of Chinese goods and services, but also the ‘going out’ of Chinese firms and the global expansion of Chinese capital and credit. By providing risk-mitigation finance, Sinosure has enabled significant portions of China’s overseas credit export, supporting its companies to invest in high-risk regions – and reducing financing costs for sovereigns seeking infrastructure investment.

Sinosure’s medium- and long-term (MLT) risk insurance products play an integral role in rendering non-bankable infrastructure projects bankable. A conservative estimate suggests a significant portion, at least one-tenth of total overseas lending (an estimated \$185 billion from 2000-17) from Chinese policy banks and commercial banks, has been enabled through Sinosure. This has supported some of the largest infrastructure megaprojects in the BRI, with a notable concentration in the energy sector and in strategic partner countries. For commercial lenders, Sinosure coverage acts as a credit-enhancement tool, while for China Eximbank, China’s principal lender to low- and middle-income countries, coverage provides additionality, expanding the scale of lending in these regions.

Longstanding issues of moral hazard have shadowed Sinosure’s coverage of overseas projects. This stems in part from issues of institutional capacity, but also incentive structures that have favoured policy-driven financing in strategic BRI projects in support of national companies, where Sinosure has little ability to

influence projects, but bears a significant portion of the default risk.

Sinosure has adopted a more cautious stance and reduced its risk appetite, even in major BRI partner countries such as Pakistan. Shrinking provision of MLT coverage since 2018 has coincided with, and contributed to, a wider slowdown in overseas lending. While Sinosure’s activities continue to expand, its stance is more cautious and it has sought to strengthen its risk management capacity. In the wake of new global shocks, its mandate has broadened beyond the BRI to an economic stabilisation role, providing more support for micro, small and medium enterprises (MSMEs), in line with the dual circulation strategy.

Sinosure has taken a backseat role in recent debt restructuring and in the G20 Common Framework, despite its critical position in approving debt agreements and its cross-bank role underwriting both policy bank and commercial lending. Recent multilateral negotiations have led to contention over the classification of Sinosure loans. Chinese pushback has set the precedent that commercial loans with Sinosure guarantee will not be classed as official lending – a significant departure from Paris Club norms.

China’s official financing practices pose a challenge to existing OECD regimes governing aid and trade finance. First, Chinese export credit agencies (ECAs) such as China Eximbank blend concessional and commercial financing, going against established OECD norms that separate the mandates and purpose of aid and trade finance. Second, Chinese ECAs such as Sinosure offer highly favourable terms at much longer-term horizons more comparable to development

finance institutions (DFIs) than ECAs, and at a scale that dwarfs other major official providers of credit guarantees. Third, China has resisted joining rules-based regimes for trade and aid finance, adding pressure to the ‘level-playing field’ norms that undergird the OECD Arrangement.

Competition with China has become a catalyst for reforms in trade and development

finance from major powers. The failure to integrate China into rules-based regimes on the use of export credit have accelerated reform and modernisation efforts within the OECD Arrangement. Likewise, ECAs and DFIs have also been instrumentalised by national governments in geopolitical and economic competition with Chinese offers, with a rising prominence of credit guarantee instruments across institutions.

Growing convergence between DFIs and

ECAs is one consequence of these trends. The modernisation of the Arrangement supports ECAs with more favourable terms for export credit and insurance to better compete with China and non-OECD alternatives, while private sector instrument (PSI) reforms have shifted the focus of DFIs to a broader definition of additionality. While their mandates remain fundamentally different, these trends have narrowed the gap between DFIs and ECAs, the activities they support and the instruments they offer.

Climate is rising as a north star across development and export finance institutions, and an area where Sinosure is also adapting. As clean technology and green finance become a new sector of industrial competition, and a key focus of competing G7 and EU infrastructure initiatives, Sinosure’s role will also see a bigger emphasis on these strategic sectors and technologies. Despite historically weaker risk management, Sinosure is also evolving in its capacity, with implementation

of new green standards, to play a role in the shift towards a ‘Green BRI’ under a ‘small yet smart’ approach.

Risk guarantees serve as a versatile instrument of export finance and industrial promotion, and are increasingly valued in development

finance. Sinosure’s case illuminates the risks of moral hazard in officially financed guarantees, but also underscores the power of public finance to catalyse investment overseas. For the wider landscape of official finance, mobilising additional resources from ECAs in coordination with development finance from DFIs and multilateral development banks (MDBs) serves clear gains: in leveraging their complementary strengths to meet development and climate objectives, and in expanding available resources for low- and middle-income countries.

1 Introduction

China's model of international development finance has been supported by three pillars: state-led financial institutions that provide capital, state-owned enterprises (SOEs) that provide services, and a state-backed insurer that underwrites risks. This state-led financing model challenges the norms and structures of aid and development finance traditionally dominated by 'northern' lenders – and challenges OECD norms emphasising creating a 'level playing field'.

China's rise as a 'muscular' provider of development and other official finance over the last two decades has raised alarm among traditional Western aid providers, particularly over its lending and contracting practices (Gelpert et al., 2021). The role of official finance as a 'coordinated credit space', and in supporting SOEs as part of an 'aid-contracting nexus' has also been well-examined (Chin and Gallagher, 2019; Zhang, 2020). However, less has been said regarding how China hedges its overseas financing and investment activities. The use of risk mitigation instruments in the form of credit guarantees, deployed by the state-funded export credit agency China Export & Credit Insurance Corporation (Sinosure) has been a less visible, but important, component of China's global economic and financial statecraft, and in the evolution of the BRI.

This report contributes to the rich literature on the BRI and China's role in development finance by examining how the Chinese government uses Sinosure to hedge – or protect from – risk in its overseas lending and investment. The report analyses the role of Sinosure as a policy-oriented insurance agency within the context of China's financial statecraft

with the developing world. While primarily serving to promote overseas trade and exports through short-term insurance, Sinosure guarantees have also served to augment the capacity of Chinese banks and companies to conduct overseas investment activities in lower- and middle-income countries, and have been integral in underwriting major infrastructure projects under the umbrella of the BRI.

The use of guarantees as risk mitigation instruments has long been a feature of trade finance – over 90% of global trade relies on some form of credit insurance or guarantee (Berne Union, 2021). But credit insurance – particularly from official financing – also plays a crucial role in de-risking overseas investment, reducing costs of finance and mobilising private investment in countries considered to be higher risk (Berne Union, 2021).

Within the development finance architecture, guarantees have also been championed as a means to catalyse private investment in the Global South, potentially as a more 'efficient' use of scarce official development assistance (ODA) resources than direct lending or grants (Humphrey and Prizzon, 2014; Garbacz et al., 2021; Landers and Aboneaaj, 2022). MDBs and public financing institutions such as DFIs and ECAs can have a 'halo effect,' implicitly certifying project standards and providing longer-term assurance for high-risk infrastructure sectors (Berne Union, 2021). Indeed, guarantee instruments have become central to the deployment of new infrastructure initiatives, most notably the EU's Global Gateway, in countering China's offer and the BRI (Sial and Sol, 2022).

Outside of the multilateral and OECD-DAC context, the use of guarantee and insurance instruments has been less studied (Box 1 provides a short definition). To this end, this report explores the history and evolution of Sinosure as an institution and its involvement in China's overseas lending, and situates it in the evolving landscape of international state-backed financial institutions.

The report addresses two primary questions:

1. How has the use of state-backed risk insurance via Sinosure supported China's overseas finance and the evolution of the BRI?
2. How have OECD official financing institutions and development partners adapted and responded to the rise of China's model of state-backed overseas finance?

The report makes two main contributions. First, it traces Sinosure's evolution in its capacity and risk management in support of the BRI. While its primary business remains short-term trade insurance, its capacity to support longer-term investments became an integral tool in China's financial statecraft, in supporting the 'going out' of Chinese investors and lenders into riskier markets.¹ Therefore, in tracing the patterns of Sinosure coverage, we can also trace the ebbs and flows of BRI lending.

However, the institution's limited autonomy and capacity has also generated moral hazard in the risks it has taken on from banks and investors. Sinosure's capacity around environmental, social and governance (ESG) and climate risks, as well

as considerations of new salient risks around borrower debt sustainability, remains limited. In these areas, it remains a norm-taker rather than a pioneer. As Sinosure's institutional capacity and mandate evolve – shifting to greater support for domestic SMEs and increasingly towards climate sector industries – this signals how the BRI itself will evolve.

A second contribution of this report is to contextualise Sinosure within the wider landscape of financial institutions providing guarantees and risk insurance, and the challenge and change that the rise of China's state-backed finance has provoked. Alongside Sinosure, we draw on cases of OECD bilateral partners (the US, UK, Japan) and the World Bank (Multilateral Investment Guarantee Agency, or MIGA) to shed light on their differences in scale, and highlight how other official financing institutions are responding to the rise of Chinese finance.

In utilising public money to crowd in additional finance, DFIs, MDBs and ECAs share a common catalytic role in mobilising capital for projects that would otherwise not be feasible or would be too costly, reducing the costs of finance for beneficiaries, and in enabling the entry of private sector actors. However, OECD members distinguish between institutions that serve commercial or trade interests (ECAs), and institutions with a development-oriented mandate (DFIs). Each are guided by different soft law regimes, including state aid laws around export credits for trade finance and ODA accounting rules for aid – an architecture Chinese financial institutions do not fit easily into.

¹ The 'Going Out' or 'Go Out' policy refers to the state directive beginning in the early 2000s under President Jiang Zemin of *Zou Chuqu* (走出去), which encouraged Chinese companies to invest overseas and gain international experience in order to compete in overseas markets.

Box 1 Guarantees versus insurance

Insurance and guarantee instruments serve a common purpose: to protect investors and creditors against the risks of non-payment, or losses in investment value. Coverage of such insurance and guarantee products will differ based on the type of risk coverage (political and/or commercial), the nature of the instruments and type of financing (whether on debt, equity or both) and the extent of coverage over the total value of investments (full or partial). The typical coverage of political risk insurance (PRI) includes: expropriation, exchange and transfer restrictions, war and political violence, and breach of contract (Baroudi, 2017).

In practical terms, insurance coverage tends to apply to a specific set of risk events specified within the contract, while guarantees cover against default or loss generally regardless of cause, except that which is explicitly excluded. Both insurance and guarantee instruments may cover up to a certain value of an investment, but rarely cover the full value.

A main logistical difference between the two is that guarantees have upfront documentary requirements, which allows for faster payout, and a backstop function should guarantee conditions be triggered (which is more commonly used by development finance providers), while insurance products are activated to compensate for loss and will generally require arbitration or approval over specific claims (G20, 2018). In functional terms, however, they can be treated as equivalent, and will be referred to interchangeably in this report.

China's use of its policy-oriented banks and insurers to actively pursue national strategies puts at risk the survival of these regimes and the possibility of a 'level playing field' (IFCL, 2019). In these areas, DFIs and ECAs are adapting not only to Chinese competition but also to new demands on their mandates. Reforms and modernisation processes governing export credits have sought to respond to the rise of competition from China. These evolving rules around export credit and development finance institutions have also contributed to a narrowing space between them, in the instruments and terms they provide and geographies they serve. Increasing pressure towards alignment with climate goals is also

creating growing convergence in their mandates (ICC, 2021). In turn, while Sinosure and Chinese financial institutions remain norm-takers, their capacity to manage risk is also evolving, and with new priorities emerging around ESG risk and climate.

This report draws on qualitative and quantitative data, using publicly available sources, academic and policy literature and industry reports. It also draws on interviews with 14 industry practitioners and experts, including current and former professionals from major public institutions. A redacted list of interviewees can be found in Appendix 2. Financial data on individual

institutions comes from published annual reports, while data on Sinosure involvement in China's overseas lending comes from AidData's Global Chinese Development Finance Dataset (v2), which provides the most extensive data currently available on Sinosure coverage in lending transactions. This is not verified with Sinosure, and Sinosure does not publish project-level data on its own insurance and guarantee activities. A methodological note on the use of this data is in Appendix 1.

The report is structured as follows. Part 2 explores the development and operational structure of Sinosure, analysing its role in underwriting other financial institutions within China's financial architecture in support of the BRI, its evolution in risk assessment and management and in dealing with risk events and debt issues. Part 3 situates Sinosure within the broader landscape of export credit and development finance regimes, and analyses its challenge to OECD frameworks, particularly the OECD Arrangement. While the OECD export credit regime has mobilised to compete with Chinese offers, this has also led to an increasingly blurred space within official finance between export credit and development finance. Part 4 evaluates the role of Sinosure in China's wider industrial policy, and draws implications for the BRI going forward.

2 Sinosure and China's Belt and Road Initiative

Sinosure is a state-owned, policy-oriented Chinese financial institution. Alongside China Eximbank and China Development Bank (CDB), it has supported the 'going out' and internationalisation of Chinese companies and financed the BRI since its launch in 2013. Unlike China Eximbank and CDB, Sinosure is not a policy bank but a policy-oriented insurer, meaning it does not offer direct loans or investment, but provides insurance to **underwrite the risks of foreign trade, lending and investment for Chinese exporters, contractors and lenders**. In this capacity, it has played a catalytic role in enabling project financing along the BRI in key infrastructure projects.

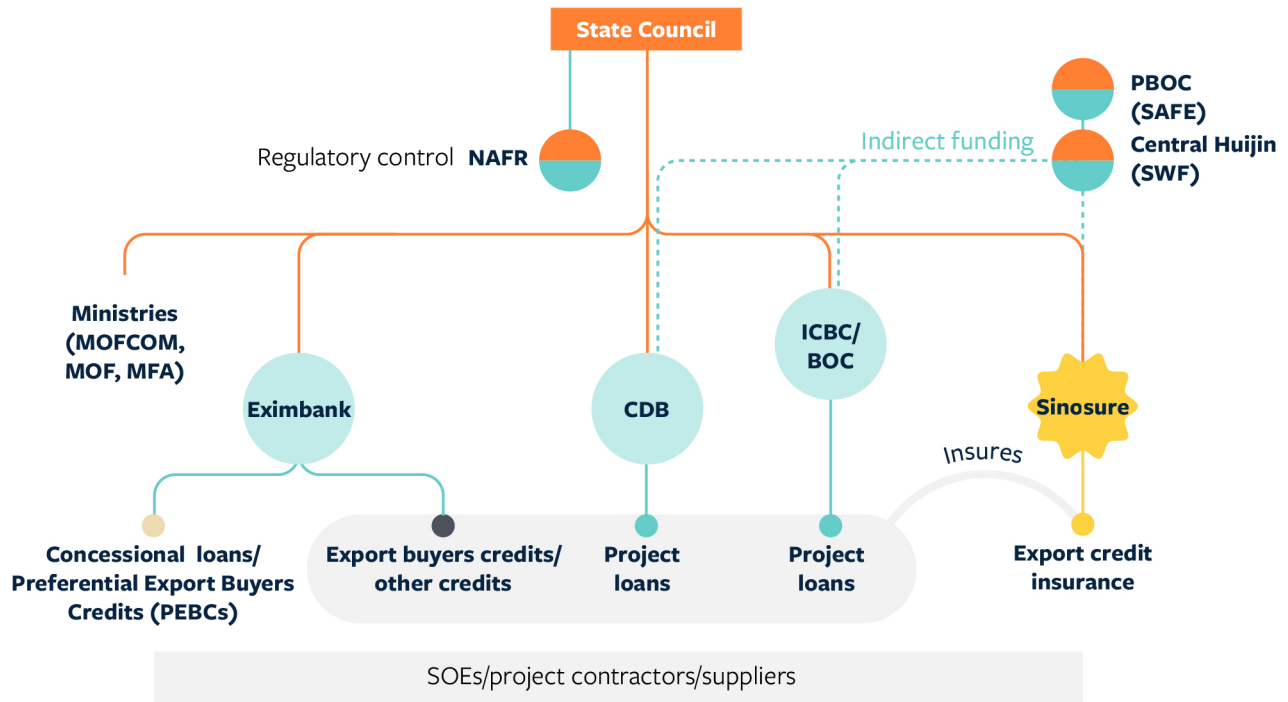
In the two decades since its creation, Sinosure has evolved from an inexperienced export credit insurance provider to a sophisticated provider of a wide range of risk management products. Its service has expanded beyond short-term trade finance insurance to include longer-term and higher-risk overseas capital investments, and more recently to playing a role in the stabilisation of China's domestic economy. It has also supported the commercial lending of China's state-owned banks and overseas trade and investment in BRI partner countries. By the end of 2022, Sinosure had provided over \$1.3 trillion of insurance on export and investment in support to BRI countries. Conservatively estimating, around \$185 billion – at least one-tenth – of China's overseas lending from 2000–2017 was Sinosure-backed.

However, Sinosure's capacity limitations have constrained its ability to adapt to and manage risk, leading to a shift towards a conservative approach to risk in recent years and efforts to strengthen its risk management capacity.

2.1 Institutional background

Sinosure was established in 2001 as a merger between the export credit insurance departments of China Eximbank and the People's Insurance Company of China (PICC), centralising the insurance functions of both institutions (and leaving China Eximbank with solely lending functions). According to the 'Notice on Establishing China Export & Credit Insurance Corporation', Sinosure was created with an initial registered capital of RMB 4 billion (\$483 million), most of which came from the PICC's export credit risk fund, combined with financing from the Ministry of Finance of around RMB 10 million (\$1.2 million) (State Council, 2001) – equivalent to a modest total of \$484 million.

Its growth and firepower was significantly boosted in 2011, when Sinosure received a capital injection of RMB 20 billion (\$3.1 billion) from Central Huijin, the domestic arm of China Investment Corporation, China's sovereign wealth fund. Central Huijin has since become Sinosure's largest shareholder on behalf of the Chinese state, owning 73.6%, with the Ministry of Finance holding the remaining 26.4%. This increased capacity paved the way for Sinosure to further expand its support for longer-term official and commercial lending.

Figure 1 Sinosure and the institutional architecture of China's overseas lending

Like China Eximbank and CDB, Sinosure is entirely state-owned and can report directly to the State Council and to the Ministry of Finance, its minor shareholder. Its political hierarchy ranks at a vice-ministry level, the same as the policy banks but below the major commercial banks and government ministries (Rudyak and Chen, 2021) (see Figure 1).²

Alongside China Eximbank, the other ECA, Sinosure has a mandate to support national development policies through facilitating export and trade activities, particularly the export of high-value capital-intensive goods and technologies such as machinery and electronics.

Sinosure plays this role by providing guarantees via credit insurance to other banks, while Eximbank provides loans (Figure 1).

Sinosure's cooperation with Chinese policy banks, local governments and financial institutions is intended to support the implementation of major government policies and to promote the internationalisation of Chinese companies and industries under the 'going out' strategy. In 2006, Sinosure and CDB signed a comprehensive cooperation agreement. This marked the first time that a Chinese policy bank and a policy-oriented insurance company had come together to promote the 'going out' strategy and support overseas investment and foreign trade activities by Chinese firms.³

² Under the leadership of Chen Yun, CDB was elevated to full Ministry status, though there is some disagreement over whether this still holds. As such, CDB is labelled as equivalent in rank to China Eximbank for the purposes of this figure.

³ 'China Development Bank and China Export & Credit Insurance Company join hands for the first time to help domestic firms export and invest', Xinhua, 13 February 2006.

Box 2 Sinosure's risk management products and services

Over the past two decades, Sinosure has developed products and services covering market development, financing facilitation, loss compensation, financial statement optimisation, credit enhancement, risk management and domestic trade insurance. It also provides bonds and guarantees, insurance policy finance and information services.

Table 1 Sinosure's major products

Name	Tenor	Description and coverage
Medium- and long-term export credit insurance	2–15 years	Covers risks in relation to the collection of accounts receivables for financial institutions, exporters of financial leasing companies under the export-related loan agreement, commercial contracts or leasing contracts
Overseas investment insurance	20 years or less	Protects investors and financial institutions from economic losses resulting from political risks such as expropriation, exchange and transfer restrictions, war and political violence and breach of contract in the host country
Short-term export credit insurance	1 year or less, and no more than 2 years	Covers risks in relation to the collection of accounts receivable for goods and services exported from China by means of L/C or non-L/C
Short-term project insurance ('special coverage')	2 years or less	Protects exporters from the loss of costs incurred or accounts receivable due to the buyer's failure or inability to fulfil its payment obligations under export or engineering contracts
Domestic trade credit insurance	1 year or less	Protects enterprises registered in China from loss of account receivables resulting from commercial risks on the buyer's side, or the loss of advance payment resulting from commercial risks on the supplier's side in domestic trade

For overseas transactions, all products insure against political risk, while export buyers credit insurance covers both political and commercial risk (Chen et al., 2019).. In the event of non-payment, Sinosure will pay the insured party up to the value of **95% of the insured equity or debt**, with a **maximum tenor of 20 years**, compared to the 85% coverage and 10-year maximum for OECD ECAs. For BRI-associated infrastructure projects, Sinosure typically provides **MLT export buyers credit insurance and investment insurance**.

There is no pre-determined list of eligible countries where Sinosure insurance products are offered, and decisions are made on a case-by-case basis. However, certain countries that do not have diplomatic relations with China, or that are affected by conflict, are excluded.

According to public sources, Sinosure fees vary according to project, **up to a maximum of 7% of the total debt servicing** (including principal and mark-up for the entire loan tenor), though they often fall below this threshold. Typically, the fee is paid upfront prior to project commencement or in proportion to the loan disbursement. In some cases, this may also be covered as part of the export credit or loan contract itself with the Chinese creditor, and incorporated into the cost and repayment schedule, though in recent years this has become less common.

As well as its risk transfer functions through insurance, Sinosure provides risk management services to companies and exporters through its knowledge and information services and networks. One of its key products to companies is the provision of risk intelligence and country data reports. The National Risk Analysis Report, released annually since 2005, categorises countries into high, medium and low risk levels, based on internal assessment of national risk and sovereign credit risk levels.

Sources: NEPRA, 2016; 2018; Sinosure, 2021; 2022

Over the past decade, Sinosure has rapidly expanded its domestic and international presence. It established its first overseas representative office, in London, in 2004. More recently, new offices have opened in Johannesburg in 2020 and Dubai in 2021. In February 2022 it registered a fourth overseas office in Moscow.⁴ Institutionally, there is a division of labour in risk coverage services, with short-term insurance managed by local offices across China, while MLT insurance coverage for larger, long-term transactions such as major BRI infrastructure projects is processed in Beijing.

In its early phase, Sinosure was said to have an ‘expansionary strategy’, which sought to gain political influence and status for the institution through supporting deals. However, under more recent leadership there has been a shift towards a more cautious approach to risk. As one interviewee put it: ‘don’t make big mistakes’.⁵ In the wake of international economic shocks, including the trade war with the US and the Covid-19 pandemic, Sinosure’s role has increasingly extended beyond export promotion into a counter-cyclical economic stabilisation function, buffering impacted exporters and SMEs through providing domestic-targeted support (Leng, et al., 2019; China Eximbank, 2020). Interviewees noted that Sinosure’s claims payouts to companies have increased substantially in scale and speed in recent years, as one tool of providing domestic support to firms.

2.2 Sinosure as a tool of Chinese international economic strategy

Sinosure’s main mandate is the promotion of Chinese exports, but it also plays a wider role in supporting national economic and industrial strategy, and in providing counter-cyclical support to export sectors in the economy. Since the launch of the BRI in 2013, Sinosure has become an indispensable partner for BRI-related project finance and trade, and its explicit commitment to the BRI is publicly stated on the company’s official website as one part of its ‘social responsibility’.⁶

At the project level, Sinosure provides risk mitigation finance and risk management for Chinese firms engaged in international trade and investment operations, offering ex post economic compensation and ex ante business intelligence. At the macro level, Sinosure also engages with other Chinese government agencies to support BRI projects and trade with BRI countries, including through export credit insurance and guarantees. A ‘Framework Agreement on Collaboratively Promoting the Belt and Road Production Capacity Cooperation’ was signed in November 2017 with the National Development and Reform Commission (NDRC), one of the key government agencies driving the BRI, with the goal to improve financial support and risk guarantee for production capacity cooperation.⁷

4 Both Dubai and Moscow were upgraded from a pre-existing ‘working group’ to a full representative office. The opening of the Moscow office coincided in timing with the outbreak of Russia’s invasion in Ukraine, though the decision likely predated the outbreak of war. Other working group offices are located in Sao Paulo, Jakarta and Cairo, with plans to upgrade each of these to a full representative office. See: <https://axtongli.com/blog-sinosure-sa>

5 Interview, 13 April 2022.

6 Sinosure website: <https://www.sinosure.com.cn/gywm/shzr/ydyl/index.shtml>. As one of its policy mandates, Sinosure is obliged to ‘serve the Belt and Road Initiative’, to support MSMEs, and provide ‘targeted poverty alleviation’.

7 ‘Sinosure and the NDRC signed the Framework Agreement on Coordinated Promotion of Belt and Road Production Capacity Cooperation’ (中国信保与国家发展改革委签署“关于协同推进”一带一路“产能合作的框架协议”), Sohu.com, 10 November, 2017. (https://www.sohu.com/a/203663666_264447).

Sinosure is a member of the Berne Union (BU), a global association of insurers that is largely voluntary and non-rulemaking (this stands in contrast to its resistance to joining the OECD Arrangement, or the DAC where it participates as a recipient of aid, not a donor). As part of the BU, Sinosure has been actively engaged in data and knowledge sharing.⁸ In 2019 the company's representative was elected as BU's Vice President (Sinosure, 2021).

Sinosure has also engaged in strategic partnerships directly with foreign banks and entities as a means to support Chinese exporters. In Latin America, Sinosure has signed cooperation and framework agreements with major banks, including Argentina's El Banco Nacion and Colombia's Bancoldex. A 2020 agreement signed with Banorte in Mexico allows Sinosure to directly provide guarantees to Banorte to support Chinese exports and projects in Mexico (Sinosure, 2015; Myers, 2022). In March 2020, Sinosure signed a \$5 billion agreement with Turkey's sovereign wealth fund TWF to promote bilateral trade and investment in the context of the BRI. Under the agreement, Sinosure will recommend Chinese investors, contractors and financiers to TWF for energy, petrochemicals and mining projects, and provide guarantees for TWF's financing of BRI

activities.⁹ These proactive engagements with overseas financial institutions are another channel through which Sinosure can indirectly underwrite risk for Chinese exports.

Over the last decade, Sinosure's underwriting activities in BRI countries have significantly expanded. By the end of 2022, Sinosure's stated support totalled over \$1.3 trillion of insurance on export and investment to BRI countries, covering over 3,800 projects mainly in industrial sectors such as power, transportation, petroleum equipment, housing construction, telecommunications, shipping and infrastructure. The total claim payout exceeded \$4.3 billion.¹⁰

Figure 2 outlines Sinosure's total insurance activities globally between 2014 and 2022. BRI country activities constituted an estimated one-quarter of Sinosure's total insurance activities over this period. In 2022 alone, Sinosure underwrote \$899.58 billion in insurance for over 170,000 clients and paid out \$1.53 billion in insurance claims.¹¹ To put this in context, in 2022 Sinosure received a net insurance premium of RMB 12.6 billion (\$1.87 billion, using an average exchange rate of RMB/USD in exchange rate for 2022), and earned a net profit of RMB 682.4 million (\$101.5 million).¹²

8 Interview, 10 February 2023.

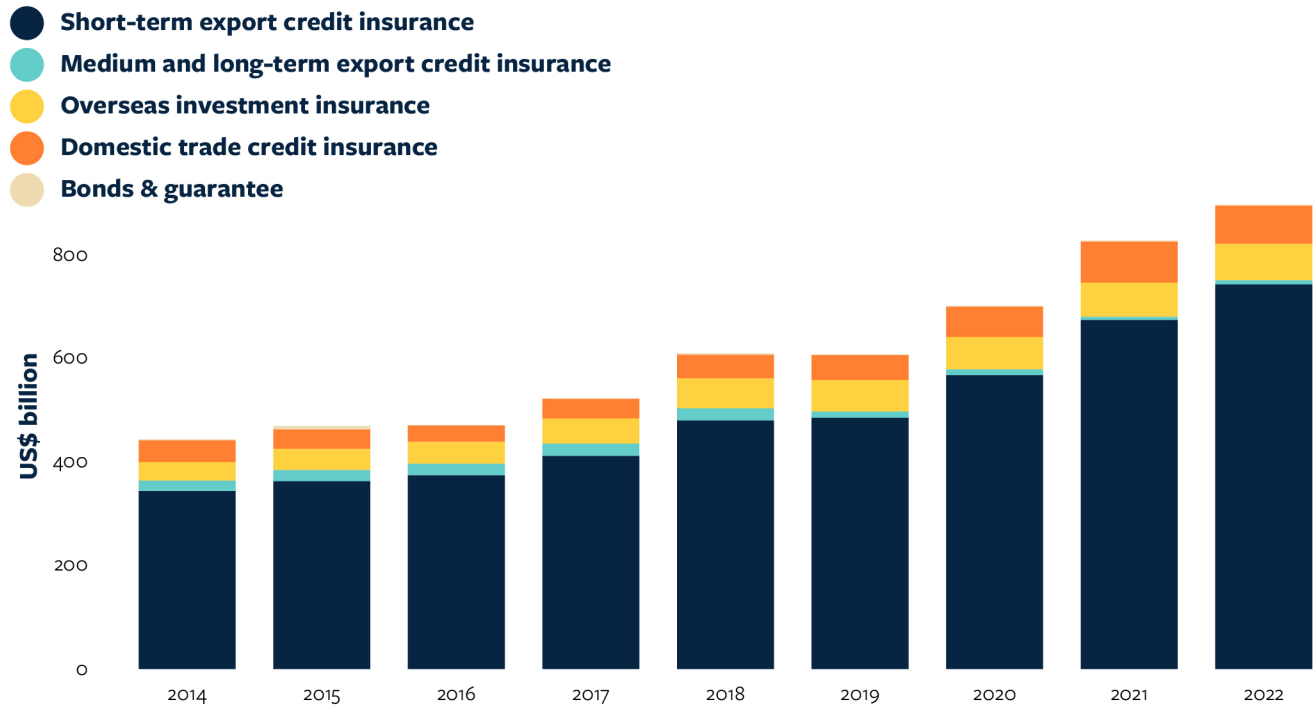
9 <https://www.tvf.com.tr/en/contact/disclosures/2020/twf-and-sinosure-signed-mou-for-cooperation>; <https://www.gtreview.com/news/asia/turkey-inks-us5bn-bri-agreement-with-sinosure/>

10 Sinosure website, English information is available at <https://www.sinosure.com.cn/en/Resbonsibility/iec/index.shtml>; Chinese information is available at <https://www.sinosure.com.cn/gywm/shzr/ydyf/index.shtml>

11 Sinosure (2023); 'In 2022 Sinosure's underwriting exceeded \$890 billion', Xinhua, 14 January 2023 (http://www.news.cn/fortune/2023-01/14/c_1129284250.htm).

12 *ibid.*

Figure 2 Volume and composition of Sinosure insurance activities (2014–2021)



Short-term (ST) insurance dominates Sinosure’s service portfolio, constituting 80% of its activities in 2022 (Figure 2). ST insurance covers largely short-term trade activities for SMEs, with a tenor of less than two years. Despite the impact of trade tensions with the US and Covid-19 on wider global trade, 2020 and 2021 were peak years of Sinosure activity. The boom in ST insurance reflects the wider boom in Chinese exports in 2021, largely driven by strong global demand during the pandemic.¹³

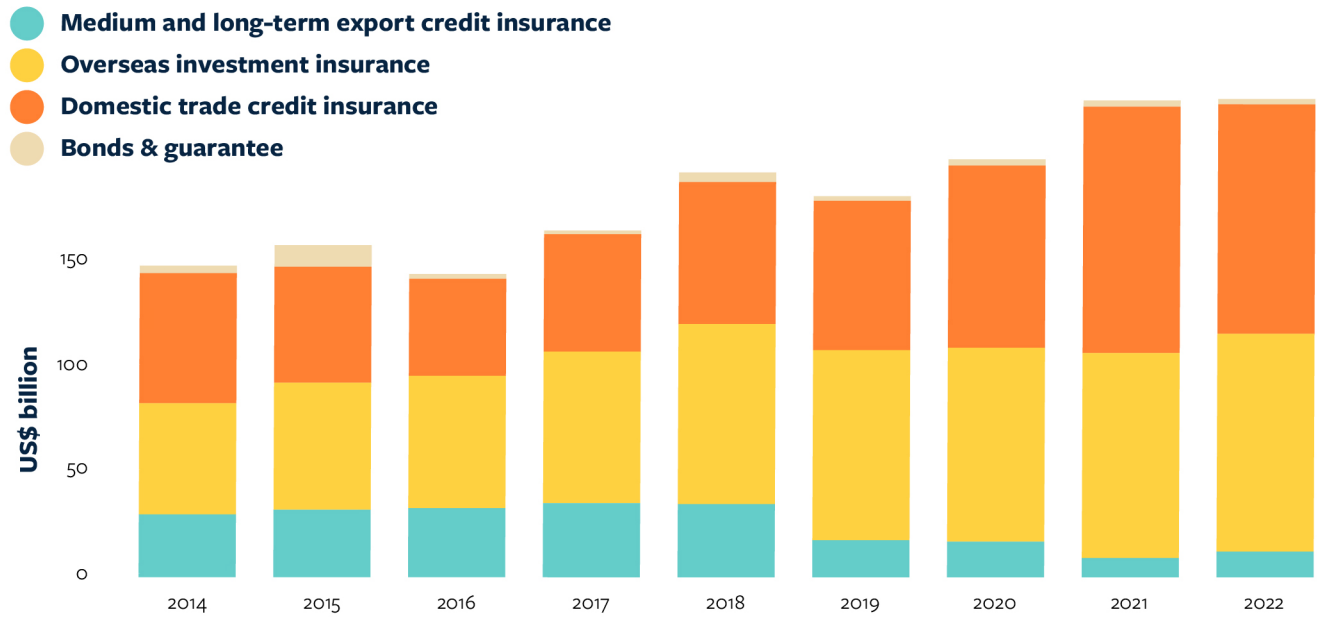
At the same time, there has been a dramatic peak and then squeeze in the provision of MLT credit insurance, which covers tenors between 2 and 15 years (see Figure 3). MLT credit insurance peaked in the early 2010s, when it constituted around 5%

of the total portfolio, but fell to less than 1% of the total portfolio in 2021–2022, when it stood around \$8 billion, down from a peak of \$24 billion in 2017 (Sinosure, 2022). This fall is in line with recorded declines in China’s overseas lending from its policy banks, which has collapsed substantially since 2017 (Gallagher and Ray, 2020).

While MLT has fallen, overall activities have continued to boom and diversify, and coverage via overseas investment insurance and domestic trade credit both nearly doubled in value between 2014 and 2022 (Figure 3). Sinosure insurance has also supported new export credit refinancing models with China Construction Bank (CCB) as well as other Chinese lenders, which supports contractors to purchase export seller credit

13 ‘China Posts Record Trade Surplus in Dec and 2021 on Robust Exports’, Reuters, 14 January 2022 (<https://www.reuters.com/markets/currencies/chinas-exports-imports-grow-more-slowly-december-2022-01-14/>).

Figure 3 Sinosure activities excluding short-term business



insurance from Sinosure, transferring the obligations and eventual compensation rights to CCB (CHINCA, 2021). This marks a shift in approach from the classic form of export buyer credit insurance, which insures creditors in financing EPC-type projects, to export sellers credit, which insures the contractor (who then in this model compensates the creditor).

Sinosure’s growth has also occurred in a context where its mandate appears increasingly counter-cyclical. In the shift to a dual circulation strategy, with an increasingly hostile global economic environment, its economic stabilisation role has become more salient. In 2022, Sinosure jointly issued with the Ministry of Commerce a ‘Notice on Expanding the Support of Export Credit Insurance to Adjust for Business Cycles and

Stabilize International Trade’. This stated that the focus of export credit insurance would be on BRI countries, emerging markets and free trade zone partners, but also indicated an enlargement in Sinosure’s role, including towards more domestic support for enterprises. The Notice pledged to increase support specifically to MSMEs and buffer them from financial difficulties and to promote new business models for foreign trade, including e-commerce and overseas warehousing, as well as expanding insurance coverage of industrial chains and leveraging domestic trade credit to expand domestic demand.¹⁴ This has coincided with a capital injection between 2021 and 2022 of nearly 25%, from \$6.8 billion to just under \$9 billion, marking extra state support to boost its capacity (Sinosure, 2023).¹⁵

14 ‘Notice on Expanding the Support of Export Credit Insurance to Adjust for Business Cycles and Stabilize International Trade’ (商务部 中国出口信用保险公司关于加大出口信用保险支持 做好跨周期调节进一步 外贸的工作通知 商财函 [2022] 54号)), 21 February 2022. Full text in Chinese available at https://www.gov.cn/zhengce/zhengceku/2022-02/24/content_5675325.htm

15 Author’s calculations.

2.2.1 Underwriting China's outward finance

Sinosure's most significant role in financing the BRI has been its credit enhancement function for borrowers and projects financed by Chinese creditors or undertaken by Chinese contractors. In underwriting this overseas finance, Sinosure's credit enhancement transforms otherwise unbankable projects into bankable ones.

No comprehensive official data on Sinosure-guaranteed loans exists, though we use the AidData Global Chinese Development Finance (v.2.0) dataset, which provides some data on insurance provision and details on Sinosure involvement for the overseas loans it tracks at the global level.¹⁶ While partial in time period and granularity, the data allows analysis of overall trends in Sinosure's involvement in overseas Chinese loans, its geographic and sector balance, from 2000–2017, with the caveat that these figures likely systematically underestimate Sinosure's involvement.¹⁷ For the total of 313 projects identified up to 2017 that had confirmed Sinosure involvement, this would amount to around \$179 billion out of the \$1.7 trillion counted in the data – or just over one-tenth (10%) of China's total lending from 2000–2017.

The data sheds light on Sinosure's credit enhancement function in supporting Chinese financial institutions' overseas lending and investment. First, Sinosure-backed loans are concentrated in a small number of countries and key BRI partners; second, energy dominates coverage by sector; and third, Sinosure coverage serves a differential role with different Chinese financial institutions, supporting additionality of Eximbank lending while playing a credit enhancement function with other commercial creditors. This accords with the patterns of backing described by interviewees.

Nominally, the largest recipients of Chinese lending have been major strategic partners such as Russia, Venezuela and Iran. However, among China's top borrowers, Nigeria, Vietnam and Angola are the top three countries where the data shows the highest proportion of lending with confirmed Sinosure coverage (Figure 4), demonstrating Sinosure's outsized role in BRI lending, which often comes as part of major framework agreements. We also see a high concentration of financing in other BRI partner countries including Ethiopia, Argentina, Belarus and Pakistan.

¹⁶ An updated version of the dataset (v.3.0) was released in November 2023, but unfortunately too late to be utilised in the analysis of this report.

¹⁷ The AidData dataset comprises tracked loan commitments from Chinese financial institutions of loan-financed projects from 2001–2017, with updated project completion data to 2021. Compared against figures from Sinosure annual reports, AidData tracking of Sinosure-backed loans gives an estimate of under \$12 billion of loans with confirmed Sinosure backing in 2014, while the annual MLT provision in that year was over \$20 billion. Figures for 2017 indicate \$22 billion of loans had Sinosure coverage, which is closer to, though still below, the figure for MLT provision of \$23.9 billion. The dataset contains information on whether a loan is coverage with insurance, and the accountable actor, but these are likely to be underestimates. Methodology on how Sinosure coverage is assessed within this dataset is described in Appendix 1.

Figure 4 Top 20 loan recipients: proportion of lending portfolio with Sinosure coverage (2000–2017)

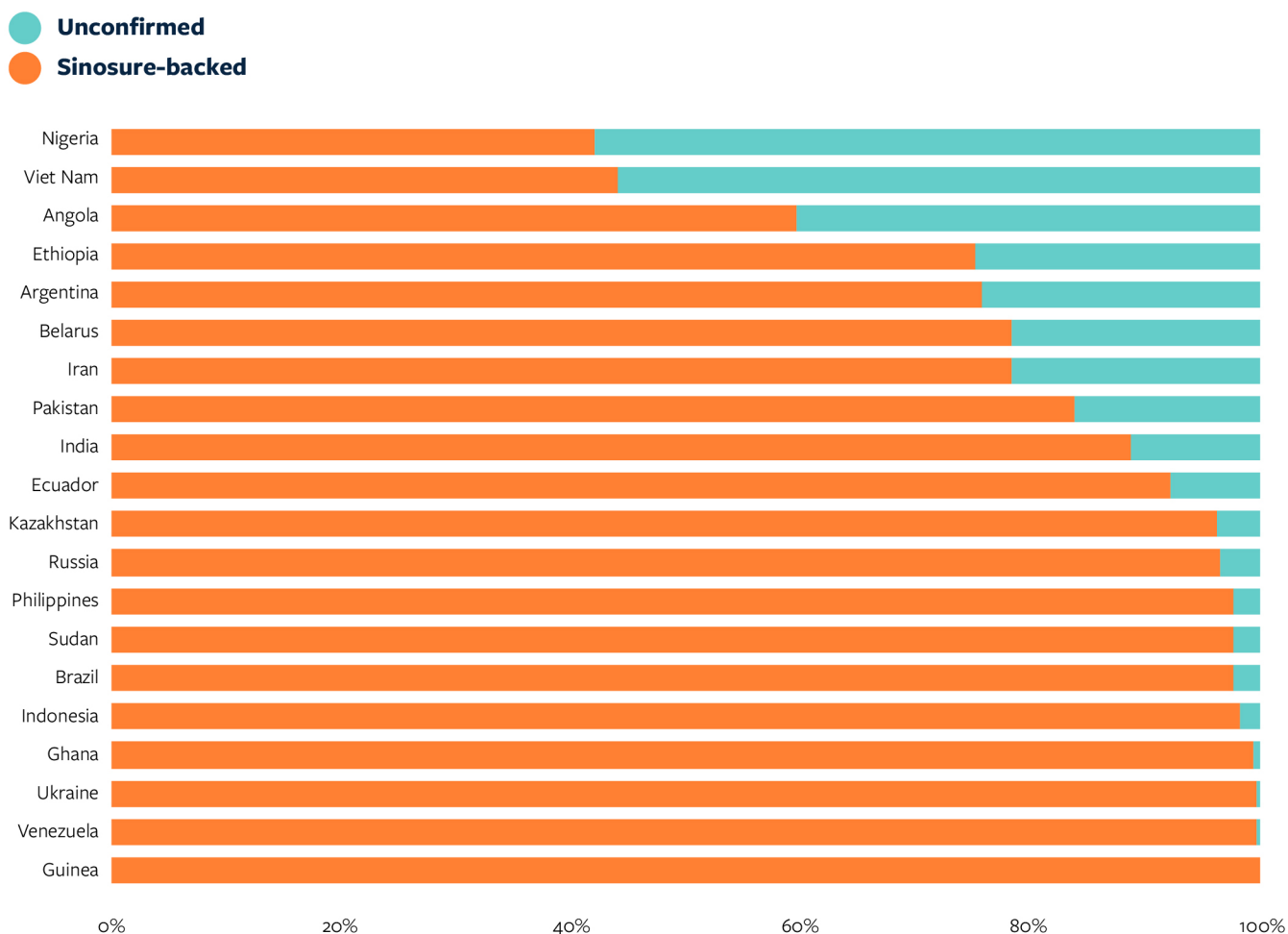
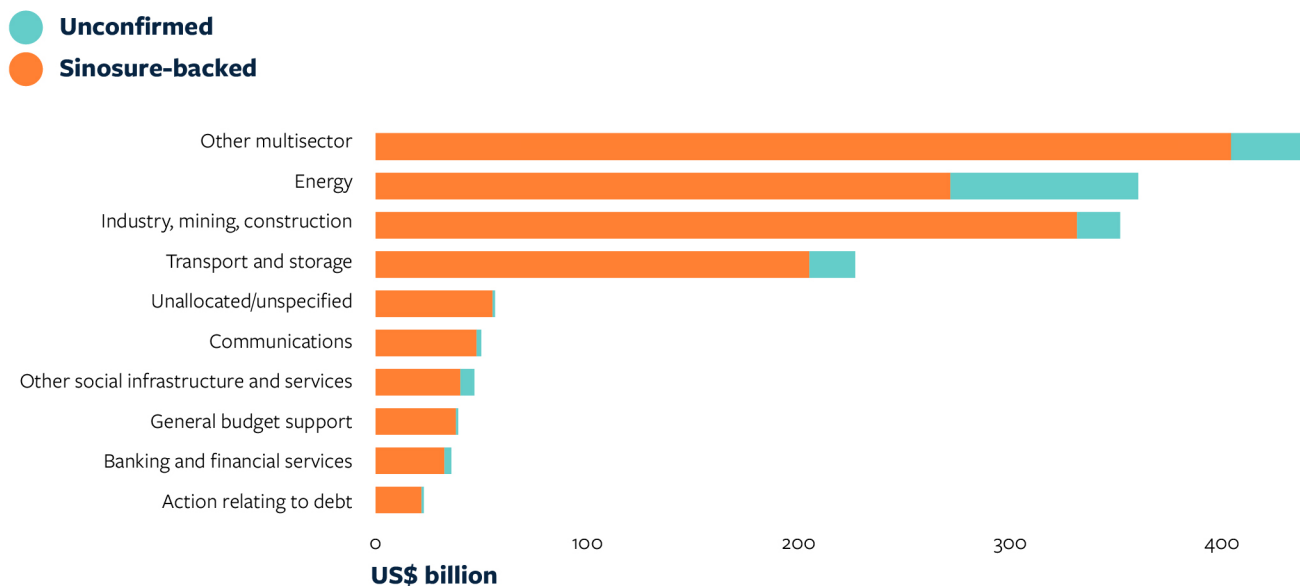


Figure 5 Sinosure coverage in China’s overseas lending by sector (2000–2017)



By sector, energy lending dominates Sinosure coverage compared to other sectors (see Figure 5): by value, at least 25% of the total portfolio of lending from all Chinese creditors in the energy sector is underwritten by Sinosure, compared to the sector average of 11%.

Although not all Chinese overseas projects require insurance coverage, **in higher-risk countries Sinosure coverage is often viewed by banks as mandatory for them to be willing to extend credit for projects**, making it a critical risk mitigation tool for financiers involved in the BRI. For wind energy projects in Pakistan, for example, Sinosure coverage was an obligatory component of loan contracts in accessing financing from Chinese financial institutions, with little say from the borrower (Taninecz Miller, 2017).

While there seem to be no clear-cut rules on which loans require Sinosure backing, expert informants agreed that Sinosure guarantees are seen as near-essential in ‘high-risk’ countries for commercial banks such as Industrial and Commercial Bank of China (ICBC), and strongly preferred though not required for policy banks, depending on individual project risk assessments. For Eximbank’s concessional loans and preferential export buyers credits, loans do not always need Sinosure coverage: since the interest rate is already subsidised, the additional cost of Sinosure coverage is unnecessary.

The majority of confirmed Sinosure-guaranteed loans in the data come from China Eximbank,

reflecting its status as the largest overseas creditor to lower- and middle-income countries, particularly in Africa (Figure 6). For projects that are considered high-risk, due to the country profile, project size or when the country’s existing loan portfolio to China is already large, interviewees note that purchasing insurance from Sinosure allows Eximbank to go above the ‘country ceiling’ – i.e. the maximum level of lending determined by the country risk rating – and increase the envelope of finance that Eximbank can provide. This can be critical in financing large-scale infrastructure projects.¹⁸

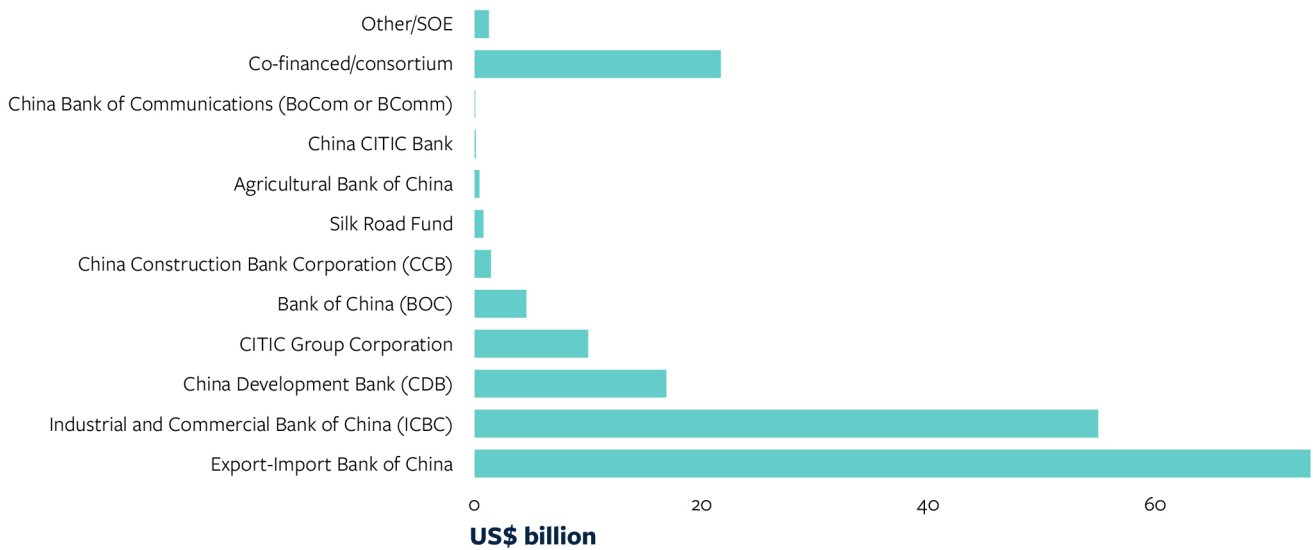
Several major Eximbank projects that Sinosure is known to have insured include flagship BRI projects such as the standard gauge railways in Ethiopia and Kenya, the Maputo–Catembe bridge in Mozambique, as well as the Caculo Cabasa hydropower dam in Angola. This latter project was a syndicated loan between Eximbank, Bank of China (BOC), CCB and ICBC (Wang, 2018). Co-financed or consortium projects between two or more Chinese banks also account for a significant proportion of the loans Sinosure has covered, at around \$21.4 billion (Figure 6).¹⁹

Sinosure’s role for Eximbank loans is largely that of providing additionality, while it plays a credit-enhancement role for commercial lending institutions. Eximbank loans with Sinosure guarantees tend to be larger in scale, but less concessional, reflecting its coverage of the more commercial portions of Eximbank lending. However, for CDB, ICBC and BOC, Sinosure

¹⁸ Interview, 30 November 2020.

¹⁹ These are recorded under ‘Other’ and include project loans from China International Water and Electrical Corporation (CWE), China Putian Corporation, Citic Group Corporation, Harbin Electric Company Ltd. and Poly Technologies.

Figure 6 Value of lending with confirmed Sinosure insurance by creditor (2000-2017)



coverage is associated with lending that is on average smaller in value but more concessional in terms, compared to loans without confirmed insurance. Guaranteed loans show a higher average grant equivalent element (see Table 2), indicating that Sinosure guarantees for commercial loans are associated with higher concessionality (and imply a greater ability of lenders to bear risk). The effect for BOC is significant, though this is likely skewed by the relatively small sample (eight) of confirmed Sinosure loans.

These trends highlight the mobilising role that Sinosure plays in supporting China’s debt finance for many of the largest infrastructure projects along the BRI. For finance from commercial banks, and for CDB, Sinosure coverage provides a credit-enhancement function, associated with more favourable lending terms; for China Eximbank, the largest overseas creditor to lower- and middle-income countries, its coverage provides financial additionality, expanding the scale of Eximbank lending. However, these patterns of lending have

not been without controversy, as the next sections discuss, and there are signs this model is in a process of recalibration.

2.3 Managing risk in the BRI

There is a latent moral hazard issue in Sinosure’s relationship with Chinese firms and lenders. This is due in part to challenges of capacity, and the policy-oriented incentive structure in which it sits, where lenders and insurers have a policy mandate to support the commercial expansion of SOEs and firms overseas, who in turn play a role in incepting projects with host governments, and brokering finance from Chinese lenders.

When first created, Sinosure lacked a clearly defined role in Chinese overseas investment. While the State Council’s ‘Notice on Establishing China Export & Credit Insurance Corporation’ in 2003 designated Sinosure as a policy-oriented export credit insurance company, it did not have a legally defined role in providing insurance for overseas investment until 2005, when it was

Table 2 Four major creditors: comparison of average terms and conditions for loans with and without confirmed Sinosure coverage

	China Eximbank		China Development Bank	
Sinosure coverage	Unconfirmed	Sinosure-backed	Unconfirmed	Sinosure-backed
Project count	1547	151	679	18
Mean value:	<hr/>			
Loan value (USD)	279,424,041	415,828,346	946,060,763	518,854,233
Maturity (years)	17.6	19.6	9.6	11.1
Interest rate (%)	2.7	4.2	4.9	4.2
Grace period (years)	5.3	4.8	2.5	3.4
Mean Equivalent Grant element*	18.98%	6.52%	0.2%	4.39%
	ICBC		BOC	
Sinosure coverage	Unconfirmed	Sinosure-backed	Unconfirmed	Sinosure-backed
Project count	146	25	48	8
Mean value:	<hr/>			
Loan value (USD)	724,854,914	717,471,835	516,571,350	149,773,864
Maturity (years)	7.2	12.6	7.0	10.2
Interest rate (%)	5.3	4.1	3.8	2.8
Grace period (years)	2.2	3.1	2.2	3.0
Mean Equivalent Grant element*	0%	5.29%	4.59%	11.74%

Source: AidData Global Chinese Development Finance Dataset (2022), authors' analysis.

Note: Projects filtered for confirmed insurance and Sinosure involvement, and include only projects with a single financier or creditor, excluding consortium projects with explicit co-financing.* Mean equivalent grant element are calculated using the IDA Grant Element (GE) calculator using the mean values using an assumption of 2 repayments a year, equal principal payment and 5.0% discount rate. GE calculator: <https://ida.worldbank.org/en/financing/debt/grant-element-calculator>

designated officially as a provider of overseas investment insurance to domestic and foreign financial institutions to fund major overseas projects, with the power to independently review insurance conditions.²⁰ It was also mandated to provide services in risk consulting, assessment and control.²¹

While it plays a key role in assessing country-level risk for firms and exporters, Sinosure has historically faced challenges in institutional capacity, with reliance on second-hand information and external studies from contractors and lenders in assessing individual projects.²² In 2018, Sinosure's chief economist publicly criticised the poor due diligence of Chinese overseas loan projects. In the case of the Addis–Djibouti railway, the loan restructure caused reported losses to Sinosure of \$1 billion (Pilling and Feng, 2018; Acker, et al., 2020). This period after 2018 marked a sharp decline in overseas lending and Sinosure coverage for MLT.

Despite the authority to critically assess and reject high-risk projects, one interviewee noted that, in reality, Sinosure has limited ability to refuse a loan – particularly when projects are endorsed by

the State Council or senior party leaders. It may, however, request greater assurances through other means as a condition for approval (such as the provision of sovereign guarantees or the use of collateral).²³ Broadly, however, these incentive structures create a systemic moral hazard that pushes banks to lend, since Sinosure's generous coverage (for some products, up to 95% of the project value) meaning it bears nearly all the default risk.

National strategic relationships can also strongly influence Sinosure operations, as in the case of Angola, where a high-level agreement was signed in 2015 between Sinosure and the Angolan Ministry of Finance under the umbrella of a bilateral Presidential meeting. The agreement pledged to increase total insurance coverage for the country by \$6 billion (a prior framework agreement in 2014 had already covered \$2.7 billion of projects) (China Hyway, 2015). The agreement was followed by a significant boost in Chinese lending to Angola in 2016–2017 (CARI, no date). Strong diplomatic relationships, in this sense, can constitute another form of risk mitigation, allowing Sinosure to expand its risk appetite.²⁴

20 国家发展改革委、中国出口信用保险公司关于建立境外投资重点项目风险保障机制有关问题的通知, <http://fgcx.bjcourt.gov.cn:4601/law?fn=chl321s822.txt>

21 Under the 'Notice on Issues Concerning the Establishment of Risk Protection Mechanisms for Major Overseas Investment Projects', direct regulation was established on overseas investment insurance, and a risk projection mechanism for critical overseas investment projects.

22 Interview, 27 November 2020.

23 Interviews, 23 and 30 November 2020.

24 For example, strong diplomatic relationships may reduce certain forms of political risk, such as national appropriation of assets

2.3.1 Evolution and learning in risk management

Sinosure's risk management architecture has evolved over time, and issues of capacity in staffing and resources were noted by several interviewees.

When first established, Sinosure was in a situation of excess risk taking without sufficient risk reserves. The State Council Notice specified three sources through which Sinosure's export credit insurance risk fund could be replenished: (1) through the company's export credit insurance business income; (2) the company's recovery payments; and 3) state budget supplements, at a ratio of 1:20, i.e. the ratio of risk reserves to the insured amount (State Council, 2001). This ratio was far greater than the international common practice of 1:15.²⁵ The lack of reserves restricted Sinosure's ability to underwrite high-risk countries and buyers, and limited its potential to expand the scope of export credit insurance.

Following Central Huijin's RMB 20 billion (\$3.1 billion) capital injection in 2011, Sinosure's financial solvency, underwriting ability and risk-bearing capacity improved. A subsequent institutional restructuring in 2012 further strengthened its position: the new Articles of Association included overseas investment political risk, and established a corporate governance structure, setting up a

board of directors and a board of supervisors, including representatives of the NDRC, Ministry of Finance, Ministry of Commerce, and the PBOC – cementing its status as a policy-oriented insurance company.²⁶ Larger transactions are subject to approval from the Ministry of Finance if coverage value exceeds \$30 million, and by the State Council if exceeding \$300 million, although these thresholds may vary.²⁷ Ministry of Finance country risk ratings also determine Sinosure's coverage capacity by country and the premiums it can charge. However, as in the Angolan case above, this coverage capacity can be expanded under the umbrella of bilateral political agreements.

The implementation of a new regulatory framework in 2016, the China Risk-Oriented Solvency System (C-ROSS), imposed new rules on China's insurance sector similar to the Solvency II rules in Europe (Fung et al., 2018). These rules also applied to Sinosure as a policy-oriented insurer, despite it being government-owned. Its solvency ratio in recent years has been 'well in excess' of the regulatory minimum (FitchRatings, 2022), and in 2020, Sinosure also received a small capital infusion from its shareholders in the form of a \$2.1 billion (or 32%) increase in its paid-in capital, ostensibly to support its countercyclical buffer role during the Covid-19 crisis.²⁸

After 2018, there has been a noticeably more cautious approach to risk in Sinosure's operations,

25 'China's Import-Export Policy-Oriented Financial System Reform' (我国进出口政策性金融制度的改革), Haifeng Wang () (<http://ielaw.uibe.edu.cn/wtoflzdyj/7093.htm>).

26 'Interview with Sinosure Chairman Wang Yi' (王毅：发挥政策性保险的“稳定器”功能：访中国出口信用保险公司董事长王毅), China Finance (中国金融), 1 July 2013. (<http://finance.sina.com.cn/360desktop/money/insurance/bxdt/20130701/115915974023.shtml>).

27 "Accessing Chinese solutions for mining, energy and resource infrastructure clients," Norton Rose Fulbright, March 2021. (<https://www.nortonrosefulbright.com/en-bj/knowledge/publications/723180e6/accessing-chinese-solutions-for-mining-energy-and-resource-infrastructure-clients#section2>).

28 Author's calculations based on annual reports 2021 and 2022.

for example, emphasising payment of fees beforehand or proportional to disbursement,²⁹ and shifting more risk onto lenders. The use of reinsurance, particularly in its shorter-term export credit insurance business, has grown in the last five years (FitchRatings, 2022), obtained from commercial sector reinsurers but also from other ECAs such as UK Export Finance (UKEF).³⁰ In some countries, Sinasure may ask a reinsurer to co-insure its portfolio to transfer some of its risk, for example if it is exceeding the country ceiling at which it can cover.³¹ Another development since 2020 is the emerging participation of private sector insurance in the newly formed Belt and Road Reinsurance Pool, comprised of commercial reinsurers (notably China Re) and insurers in risk-sharing and providing more specialist coverage under the new phase of the BRI (CMS, 2020).³²

These trends indicate a process of learning according to interviewees, who also observe attempts to bolster risk assessment capacity and improvements to data aggregation. Respondents noted much faster response times on claims following a process of digitalisation.³³ Post-pandemic, there is also greater recognition of geopolitical risks, weak economic recoveries, and the need for ‘strengthening debt monitoring capabilities’ (CHINCA, 2022), particularly as sovereign debt has emerged as a major challenge in the last few years.

2.3.2 Claims management and debt restructuring

Some of Sinasure’s largest claims payouts have been for political violence following the political crisis in Libya in 2011. The value of Sinasure’s underwriting in the Middle East and North Africa stood at about \$8 billion.³⁴ At the outbreak of civil war, 75 Chinese companies were operating in Libya across 50 projects with a total contract value of \$18.8 billion, and several SOEs suffered significant financial losses.³⁵ Major SOEs received claim payouts from Sinasure, including China Gezhouba Group for RMB 162 million (\$25 million).³⁶ This case was a milestone in demonstrating both Sinasure’s role in de-risking Chinese firms’ ‘going out’, and keeping them afloat.

Compared with rare cases of political violence claims, loan non-repayment claim payouts are more common and standardised. In a typical case of a loan non-repayment claim, Sinasure will reimburse the amount owed by the borrower, based on the terms of the contract. Typically, this would entail reimbursing unpaid instalments as they fall due (for insured debt), or a lump-sum payment up to 95% of the outstanding debt or equity insured – meaning it potentially bears almost the entire default risk. According to one informant, Sinasure rarely takes the second option of paying in full.

29 Previously, it was not uncommon in projects to have the Sinasure fee absorbed as part of the total loan contract cost and repaid under the terms of the loan.

30 https://exportcatalyst.com/wp-content/uploads/2019/09/Introduction-to-UKEF__August-2018.pdf

31 Interview, 13 April 2022.

32 On the China Belt and Road Reinsurance Pool, see: <https://eng.chinare.com.cn/zzywwwzgb/news/Highlights/2022010703533536622/index.html>

33 Interviews, 23 November 2020, 2 December 2020, 19 September 2023.

34 <https://business.sohu.com/20110318/n279886867.shtml>

35 ‘中国企业在利比亚资产达188亿美元 损失难估量’, Huanqiu, 23 March, 2011. (<https://finance.huanqiu.com/article/9CaKrnJqE6q>).

36 <https://business.sohu.com/20110318/n279886867.shtml>

At the point of default, Sinosure is subrogated to the rights of the lenders, and is legally mandated to exhaust all means to recover the loan or equity value.³⁷ In practice, this is more nuanced. In theory, Sinosure's final approval is mandatory to any restructuring or refinancing that takes place between borrower and creditor. In practice, however, its limited capacity restricts its participation in renegotiations, which are led by the creditor bank. One early case of this was the Zimbabwe Iron and Steel Company (ZISCO), which went through a series of debt restructurings with China Eximbank between 2003 and 2010. Sinosure paid out in the early period of the restructuring, and the Eximbank loans were subsequently and repeatedly rescheduled. However, ZISCO continued to owe Sinosure arrears for the debt Sinosure had subrogated from Eximbank (Acker et al., 2020). Reportedly, Sinosure were unhappy with the failure of Eximbank – on whom it relied – to push Zimbabwe to repay these arrears; as a consequence, this has led to a practice of delaying compensation payments via instalments instead of lump-sum payments.³⁸

According to one legal expert, if a sovereign default occurs, Sinosure has the right to assume the obligations of all Chinese creditors for restructuring – even for loans that are not guaranteed by Sinosure. It would then act as a single, concentrated representative of all creditors in communicating with the State Council, in coordination with the Ministry of Finance and

PBOC, in order to minimise conflicts of interest between Chinese creditors.³⁹ As Sinosure does not have the authority to write off debt, escalation to State Council approval tends to lead to a protracted, ad hoc restructuring process.⁴⁰

In practice, however, experts have not observed a visible role for Sinosure within recent debt restructuring initiatives, including under the G20 Debt Service Suspension Initiative (DSSI) and Common Framework. China's participation in these initiatives has put strain on internal coordination within China's policy finance architecture. It has also thrown ambiguity over Sinosure's official status within it.

In the case of Zambia's 2021 default, Sinosure played a background role in restructuring discussions and eventual restructurings for the loans it had guaranteed from CDB and ICBC (Bräutigam and Huang, 2023). However, the classification of Sinosure-backed loans as official credit under Paris Club definitions⁴¹ by Zambia's Ministry of Finance (MOF) and the IMF has been a bone of contention, triggering strong pushback from Sinosure and Chinese negotiators, as this would substantially increase the amount of debt eligible for debt relief under the G20 Common Framework, and reclassify high volumes of CDB and other commercial bank lending as official. A subsequent revision and clarification from Zambia's MOF confirmed Sinosure-backed commercial debt (excluding that from China

37 Interviews, 23 and 27 November 2020.

38 Interview, 10 November 2022.

39 Interview, 30 November 2020.

40 Interview, 30 November 2020.

41 Under Paris Club rules, 'debts owed by private entities and guaranteed by the public sector are considered to be part of the public debts'. See <https://clubdeparis.org/en/communications/page/definition-of-debt-treated>

Eximbank) would be handled in private sector talks and treated as private sector lending, setting the status of ‘official’ loans as defined by the creditor institution, rather than the nature of the loan itself. The compromise that emerges from the Common Framework, however, challenges the Paris Club norm that ECA-guaranteed lending is necessarily classed as official.

While Sinosure pays out its claims, it also appears to penalise countries after the fact. For sovereign borrowers that have defaulted or have fallen into arrears, Sinosure may stop all future disbursement of loans and limit further access to finance. Following Ethiopia’s default in 2018, Eximbank finance for the next phase of the SGR railway project was halted, though other concessional financed projects (without Sinosure guarantees) in the country have gone ahead. Some legal experts point to an unofficial country blacklist where Sinosure refuses to insure: this seems to include countries where political violence has occurred, and countries such as Libya and Zimbabwe, where it has previously made payouts or is owed arrears. Nigeria was reportedly blacklisted for export credit around 2016 due to foreign exchange risks in the country.⁴² In Zimbabwe’s case, Sinosure refused further guarantees to the country due to the outstanding arrears from ZISCO from 2003; this brought to a halt a project in 2016 for the expansion of the Hwange Thermal Power Plant (Acker et al., 2020). As one informant put it, until arrears are repaid ‘everything stops until the red alarm is cleared’.

For sovereign borrowers where strategic diplomatic relationships are salient, Sinosure’s ability to make recovery claims can be limited (Lui and Chen, 2021). Where the borrower is a non-sovereign public (e.g. parastatal or SOE) or private entity, in the case of much of its ST insurance business, Sinosure’s approach to non-payment appears far more aggressive (Harris, 2021).

Blacklisting due to default on a Sinosure-backed loan can block further access to coverage for other transactions. As informants emphasised: ‘you’re unplugged from the ecosystem of suppliers ... if your entire business depends on importing from China, this is a heavy penalty to suffer’.⁴³ However, as one legal expert highlighted, Sinosure shows a limited and extremely rigid approach to asset recovery: ‘They’d rather get zero than settle for less than the full amount’ when it comes to recovering losses on claims made. This may in part be down to the bureaucratic structures of personal accountability, as with other Chinese financial institutions (Lui and Chen, 2021), since ‘when you write it off, you admit it’s a bad debt’.⁴⁴

Sinosure’s role in Zambia’s restructuring appears to have been largely silent and unobstructive, however default is likely to have longer-term repercussions. The ‘red alarm’ that an instance of default has triggered means future access to financing from Chinese creditors may be more constrained, as Sinosure is likely to become more risk-averse in underwriting further lending to a defaulting country. Even with strategic partners such as Pakistan, Sinosure has in recent years

42 See: <https://businessday.ng/exclusives/article/chinese-credit-insurance-firm-blacklists-nigeria-on-naira-woes/>
 43 Interview, 3 March 2023.
 44 Interview, 19 September 2023.

been 'reluctant' to insure new power projects due to rising overdue payments in already commissioned China-Pakistan Economic Corridor (CPEC) projects: in 2023 Sinasure reduced its coverage from 95% to 70%, requiring banks to seek additional third-party coverage in order to guarantee an operation (Ghumman, 2023a; 2023b) and essentially making bankability impossible without additional risk-sharing from other insurers.

While Pakistan remains a primary strategic partner in the BRI, meaning complete withdrawal is unlikely, the pullback from Sinasure signals a potential reduction in future Chinese investment in the country and a less ambitious scope for the future development of the flagship CPEC. More broadly, this pullback represents a clear attempt from Sinasure to reduce risk exposure in its overseas operations, and a shift towards mitigating against historic issues of moral hazard.

3 Challenge and change: situating Sinosure in comparative perspective

This chapter situates Sinosure comparatively within the wider global development and export finance regimes. It highlights the uneasy fit of China's policy finance, where Sinosure's state-backed risk insurance supports policy bank and commercial lending, within existing OECD frameworks. China's model of official finance challenges the division between development and export finance within the OECD, and adds pressure to existing norms around a 'level playing field'.

In response, export credit regimes have sought to absorb China, and then to reform against it, while national DFIs and ECAs have also seen growing instrumentalisation by their state owners – driven in part by the need to compete with China's offer. Mirroring Sinosure's de-risking role for China's overseas strategic interests, ECAs and DFIs have also increased the use of guarantee instruments for developmental purposes, and for economic statecraft.

Compared to major public providers of guarantees and risk insurance from the US, the World Bank, Japan and the UK, Sinosure dwarves these institutions in its size and the scale of its activities. At the same time, Sinosure is still slowly playing catch-up to international best practice, such as around ESG and in supporting climate sectors, where it is gradually converging with the public finance institutions of the OECD.

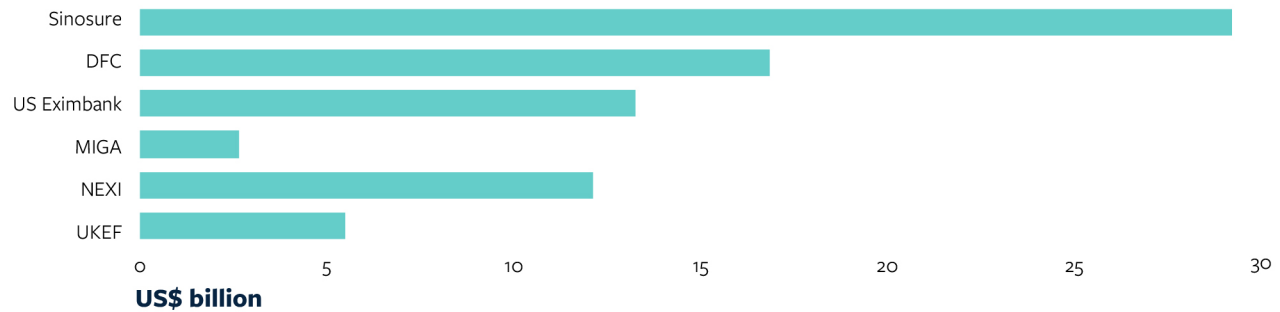
3.1 China's challenge to the aid and trade regimes

To understand the challenge China presents to OECD frameworks, we should first understand the regimes themselves. The use of risk guarantees and insurance within the OECD has for decades been governed by evolving normative frameworks, or 'soft law'. Rules around the use of official finance for export promotion were first developed in the 1970s as a 'gentleman's agreement', crystallising over time under the OECD Arrangement on Officially Supported Export Credits, which sought to ensure a 'level playing field' between its members in the provision of export credits.

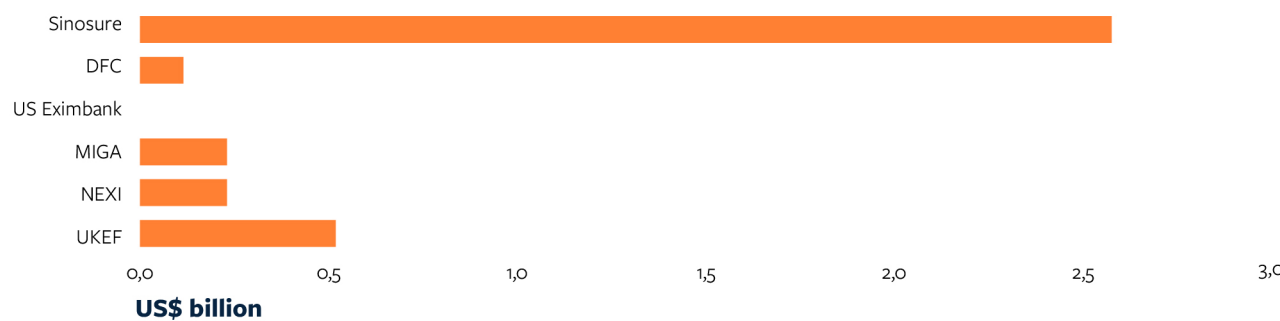
New measures introduced under the 1991 Helsinki agreement restricted the use of tied aid, while the 1997 Knaepen package later set out principles for premium fees from ECAs, including minimum premium benchmarks for ECA guarantees. These were based on country and sovereign risk, and sought to ensure that premium rates covered long-term costs and losses. These rules served two goals: first, that there would be value for money from aid, guided by recipient rather than donor needs or commercial incentives; and second, to ensure a liberal trading order where state money was not used to unfairly support a country's own exporters or undercut competitors (Fritz and Raza, 2017).

Figure 7 Sinosure activities in comparison to other public providers of risk insurance⁴⁵

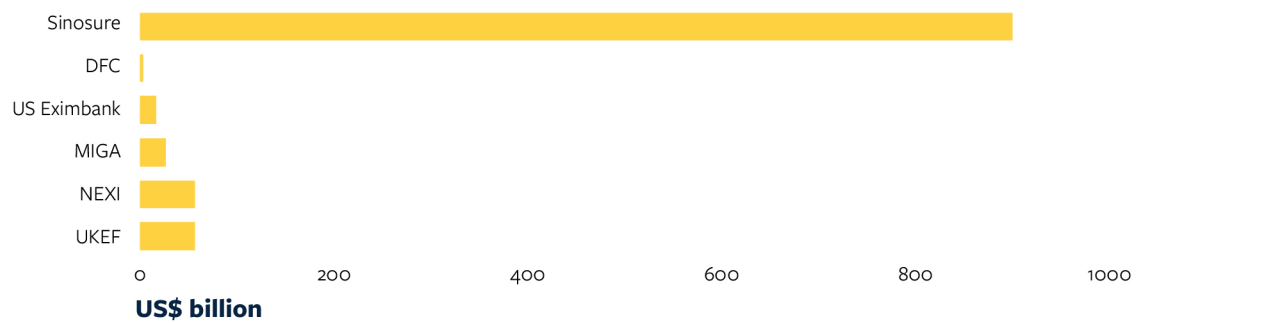
Total assets (2022)



Gross premium income (2022)



Total guarantee and insurance portfolio exposure (2022)



Alongside the OECD Arrangement, aid has been governed under separate but overlapping rules under the Development Assistance Committee (DAC). ODA accounting rules delineate what kind of official finance can be counted towards ‘aid’, with an evolving regime in the measurement and categorisation of PSIs. Meanwhile, the

OECD Recommendation on Untying Official Development Assistance, issued in 2001, encourages untying bilateral ODA to low-income countries, and mandates against its tying to national companies – and thus becoming a form of export promotion.⁴⁶

⁴⁵ Source: 2022 annual reports Sinosure, DFC, US Eximbank, MIGA, NEXI and UKEF. Gross premium income for US Eximbank is not provided, due to the major differences in the accounting model of US Eximbank respective to other institutions.

⁴⁶ In practice, informal tying of aid through privileging national companies is found across OECD-DAC donors to varying degrees (Meeks, 2017).

China's rise as a provider of overseas finance challenges these regimes. For lending, Eximbank's provision of concessional loans, subsidised through foreign aid, contravenes OECD norms around tied aid. Research on Chinese policy banks, China Exim and CDB, indicates loan terms often more favourable than the OECD Arrangement would allow: at rates below market, with longer maturities (Bräutigam and Gallagher, 2014; Chen, 2020; Hopewell, 2021).

China has refused to join the OECD-DAC (for aid) or the OECD Arrangement (for trade), maintaining its status as a developing country, but also maintaining discretionary advantages outside of the system. As one sector expert on the Arrangement put it, China 'didn't want to join a table where the food was already prepared' – where it did not have a voice over rules already negotiated.⁴⁷ However, by virtue of the sheer size of the financial resources at its disposal, this is a fundamental challenge to the OECD Arrangement (Hopewell, 2021).

Sinosure exemplifies this issue. In terms of assets, Sinosure is significantly larger than rivals DFC and US Eximbank, the US DFI and ECA, respectively, and other Berne Union member ECAs UKEF and Japan's Nippon Export and Investment Insurance (NEXI), as well as the major multilateral provider of guarantee and insurance instruments, MIGA. When we look at Sinosure's scale in terms of income, and in its total global exposure, it dwarfs these other providers (Figure 7).

Sinosure's size in large part reflects its role in supporting China's outsized dominance in global trade. However, Sinosure guarantees in China's

overseas financing model to support commercial projects also indicate rates that would be considered highly favourable compared to other competitors.

As an example, data on Sinosure-guaranteed energy projects under the CPEC with a 15–20-year tenor indicate a premium rate of 6–7%, with a maximum of 7% of the project value (NEPRA, 2016; 2018). Other flagship BRI projects including the Kenyan SGR loan indicate a 6.93% rate (of the total \$1.6 billion loan) (Brautigam et al., 2022).

OECD ECAs, meanwhile, are subject to a *minimum* floor in their charges for premiums under the Arrangement, calculated on a case-by-case basis with a byzantine formula for minimum premium rates based on variables including country risk classification, buyer risk and percentage of cover (OECD, 2019: 128). In the case of UKEF, industry analysis indicates its 'typical' premiums are around 6–7%, which industry pressure groups argue are significantly higher than other European ECAs (BExA, 2021). Examples from US Eximbank give medium-term transactions ranging from as low as 1% in a 'highly creditworthy' country to 6.68% in a 'highly risky' one. While the premium rates of 6–7% are comparable, the timeframe is not: medium term for US Eximbank is considered to be 3 years, while Sinosure coverage extends over 15 years, over the lifetime of the project. Anecdotal, this would appear to be 'on the cheap side'.⁴⁸ While systematic comparison is outside the scope of this report, these examples illustrate how favourable Sinosure fees are when it comes to long-term finance, and their importance in de-risking BRI infrastructure.

47 Interview, 2 February 2023.

48 Interview, 22 March 2023.

3.1.1 Reforming trade and development finance

In meeting the China challenge, Western donors and major powers, as well as OECD institutions, have primarily responded in two ways: first, to socialise China into new frameworks around export credit rules; and second, to reform existing rules and frameworks and compete directly.

Attempts to bring China into line with international norms began in 2011, under the International Working Group (IWG). Initiated by Barack Obama with Xi Jinping when he was Vice-President, the IWG was a ‘second-best solution’ to bringing China into the Arrangement. The IWG sought to create an expanded framework on export credits that included China alongside other major emerging economies, including the BRICS countries, as well as Israel, Turkey, Indonesia and Malaysia.

Despite initial foot-dragging, both China Eximbank and Sinosure participated regularly in IWG meetings between 2012 and 2019. However, there was little meaningful progress on key areas – premiums, interest rates and transparency. OECD members were frustrated over the lack of political commitment: one interviewee noted that Chinese interlocutors from China Eximbank had ‘zero authority’ to make any decisions.⁴⁹ As the US–China relationship deteriorated, the IWG was ‘temporarily suspended’ in 2020 (US Treasury, 2023).

Following the failure of the IWG to bring China into a new regime, there has been a broader urgency within the OECD export credit space to reform the Arrangement. In recent years, these reforms have culminated under the OECD Modernisation Package. The Modernisation has been rationalised as a way to mobilise finance to meet the urgent climate change challenge and support the UN Sustainable Development Goals (SDGs). But, as one interviewee explained, competition from Chinese ECAs has been a key factor, but also from non-OECD ECAs, private sector actors, as well as DFIs, and: ‘the Arrangement needs to be flexible enough to meet the competition.’

Modernisation is also necessary as a way to stop ‘leakage’. Interviewees cited how some ECAs were ‘moving out’ of the Arrangement or shifting from classic export credits to other forms of investment loans and untied support. Japan’s JBIC, for example, has moved over time from an ECA towards more untied support and developmental purposes, often working in conjunction with Japan International Cooperation Agency (JICA).⁵⁰

The Modernisation Package for the OECD Arrangement was agreed in March 2023, and offers terms and conditions extending beyond those previously established under the Arrangement. The previous 10-year maximum repayment term was extended to 15 years for most projects, and to 22 years for climate-friendly and green transactions. Matching the competition is one rationale behind the initiative, but as interviewees emphasised, this is also

49 Interview, 2 February 2023.

50 Interview, 2 February 2023. See case studies for a discussion of Japan’s credit and insurance providers.

in line with what the industry is demanding, where ‘transactions do need more flexibility’. In infrastructure, where ‘you need 3–5 years for positive cash flow’, projects relying solely on commercial financing with a 5–7-year tenor would be impossible without longer-term ECA support.⁵¹

Aside from longer tenors, the minimum premium rate rules will be lower for long-term transactions: for obligors with higher credit risk ratings (BB+ or worse), the rules apply an ‘adjustment factor’ for transactions of 10 years or more, dampening the premiums ECAs can charge, to the benefit of buyers or borrowers in countries considered ‘high-risk’ (OECD, 2023a; 2023b). In sum, with longer, lower terms for loans and insurance, OECD ECAs are catching up to DFIs and Chinese ECAs in their product offer.

To ‘level the playing field’, the European Commission has since 2021 been exploring options for an EU export credit facility and to enhance coordination of EU financial tools, in order to counter competition not only from China and non-OECD participants, but also the US (Atkins, 2023). Such a facility would act as a complement to national export credit facilities, development aid and the NDICI.⁵² ECAs will also be essential

in ‘mobilising private capital and stakeholders required for the successful implementation of the EU Global Gateway Strategy’ (Council of the EU, 2022). In the lead-up to the Modernisation Package reform, during the Covid-19 pandemic, EU ECAs were also given additional leeway within the legal framework ‘to utilise every means at their disposal ... to increase their competitiveness’, including matching competing offers from non-participants of the Arrangement. A ‘Temporary Framework’ between 2020–2022 raised the maximum risk coverage from 85% to 95%, matching the terms that Sinosure offers, and lowered minimum premiums on guarantees.⁵³

In parallel to export credit reforms, changes in the OECD-DAC reporting rules around aid have reformed to better recognise donor effort and incentivise the deployment of PSIs, including guarantees (Meeks et al., 2020), shifting to a more catalytic use of aid resources to mobilise greater support from the private sector. This has allowed investments in DFIs to be classified as ODA based on their mandate and their share of financing to ODA-eligible countries.⁵⁴ The expansion in definition from concessionality to additionality

51 Interview, 2 February 2023.

52 The Neighbourhood, Development and International Cooperation Instrument (NDICI), or ‘Global Europe’ for the period 2021–2027, is the EU’s main instrument for international partnerships in EU neighbouring countries and beyond.

53 Interview, 14 December 2023. The Temporary Framework was intended to be a countercyclical measure to counter the impacts of Covid-19 for European exporters. It faced pressure to be phased out from private sector insurers due to fears of being crowded out. While the Temporary Framework expired in June 2022, the Arrangement still allows for a Common Line for sovereign or public buyers for Category II (mid-risk) countries with a guarantee from the Ministry of Finance or Central Bank; this allows for maximum official support to 95% of total export value and is currently extended to November 2023. See:

[https://www.oecd.org/trade/topics/export-credits/documents/Participants_CL_still_valid-\(2023\).pdf](https://www.oecd.org/trade/topics/export-credits/documents/Participants_CL_still_valid-(2023).pdf)

54 Using the ‘institutional approach’. See for example <https://www.oecd.org/dac/financing-sustainable-development/HLM-PSI.pdf>

also narrows the gap between the activities of DFIs and ECAs financing similar commercial activities in low-income countries.

On guarantees, 2018 PSI reforms arrived at an impasse: unless they were called, guarantees were excluded from ODA accounting.⁵⁵ However, new DAC rules in 2023 have proposed new treatments for credit guarantees, allowing them to be ODA-eligible under the following conditions: (1) they are made to ODA-eligible recipients; are developmental in objective; (2) they are financially additional; and (3) with a maturity of over one year (OECD, 2022; 2023c). The changes to accounting rules have generated concerns over potential inflation of ODA (Craviotto, 2023). Alongside lower and longer terms for export credit, this potentially means the distinction between the guarantees that DFIs can provide compared to a credit guarantee from an ECA (which is not ODA-able) lies primarily in its ‘developmental’ objective and the institution’s mandate, further blurring the space between the two.

3.2 Competition and convergence: the landscape of public guarantee finance

A growing convergence in mandate between development and export finance institutions was noted by interviewees, who saw a more crowded space between DFIs and ECAs in infrastructure

finance. Both sets of institutions have converged in their standards around ESG, in their alignment with the SDGs and climate change. Both now face competition over the same markets (ExFi Lab, 2021; IFCL, 2019). Increasingly, both sets of national institutions are also seeking to directly compete with China.

As one interviewee put it, ‘there are not too many projects ... and a lot of ECAs and DFIs – we are competing on the same transactions more and more’.⁵⁶ Some interviewees shared the sentiment that ‘DFIs should be concentrating on riskier markets’ in LDCs and in making projects bankable through taking the first loss, given they utilise aid resources, more diverse products such as mezzanine finance and equity, and do not have a break-even requirement, unlike ECAs.⁵⁷

ECAs are also increasingly supporting projects in emerging economies with developmental priorities. Some have liberalised their policies towards a ‘looser’ definition of national interest and relaxation of national content requirements.⁵⁸ Japan’s ECA, NEXI, has seen its use of untied loan insurance products grow to nearly one-third of its overall commitments in 2022.⁵⁹ UKEF also requires relatively low proportions of national content, at only 20%.

At the same time, some DFIs are also shifting away from a purely developmental role towards

⁵⁵ Under the 2016 HLM Communique, guarantees were to be counted under a grant-equivalent basis, applying differentiated discount rates and an additional risk premium for the private sector. Discount rates would take into account only operating costs and risk adjustment costs, not the funding cost.

⁵⁶ Interview, 2 February 2023.

⁵⁷ Interviews, 10 February 2023; and 2 February 2023.

⁵⁸ Interview, 10 February 2023.

⁵⁹ Based on NEXI Annual Reports 2022, authors’ calculation. Overseas Untied Loan Insurance was ¥5.3 trillion in 2022, while overall insurance commitments were approximately ¥16.1 trillion.

advancing national strategic interests – including competing with China (Chen et al., 2023). The US Development Finance Corporation (DFC) is a clear example of the narrowing space between development finance and economic statecraft. Both US publicly financed institutions, the US Eximbank and the DFC, have seen restructuring and expansion with explicitly geopolitical motives. US Exim has been given an explicit mandate to match rates and terms to be ‘fully competitive’ with Chinese offers.⁶⁰ Meanwhile, DFC was restructured in 2018 to merge the Overseas Private Investment Corporation (OPIC) with the US Agency for International Development (USAID) Development Credit Authority loan guarantee programme, and has been framed as an ‘alternative model’ to the BRI.

In competing with China’s model of overseas lending, some institutions have shifted their emphasis towards the use of guarantee products over debt instruments. Among DFIs, DFC stands out for its substantial use of risk insurance and guarantee instruments, which constituted around 72% of its outstanding portfolio up to 2020 (Attridge and Novak, 2022). Guarantees frontload documentary and eligibility requirements and offer a broad form of coverage (instead of insurance, as is more common with European ECAs), providing a more attractive instrument for recipients and minimising delays and transaction costs from claims. The use of guarantees is also rationalised in strategic terms: as a means of ‘lower[ing] countries debt burden’, an area ‘[the] PRC uses to gain influence’.⁶¹

Likewise, the role of the UK’s DFI, British International Investment (BII), within the UK’s aid strategy is implicitly situated in counterpoint to China in helping countries ‘avoid unsustainable debts and “bad loans”’ (Loft, 2022). Under the banner of British International Partnerships (BIP), both BII and UKEF have the goal of enhancing the UK’s international trade and foreign policy relationships. As part of this, UKEF has received significant capitalisation from the UK government, widening its product offering with guarantees and insurance overtaking direct lending within its business over the last five years (UKEF, 2023). Sustainable lending has also become a feature: UKEF’s guarantee and insurance coverage requires not only an IMF/World Bank waiver for sovereign borrowers to access MLT cover, but also that investments ‘assist in the social and economic development of the country or territory...’, making the provision of export credit conditional on a developmental rationale.⁶²

At the multilateral level, the World Bank’s MIGA, the primary provider of risk insurance, has also broadened its range of guarantee instruments since 2009, expanding from PRI to new Non-Honoring of Financial Obligations (NHFO, or NH) instruments. These cover a broader range of risks than PRI and remove the need for post-hoc arbitration. While a powerful instrument, NHFOs have also been criticised for the narrow scope of eligibility: the threshold of a BB- credit rating means that few LIC and LMIC countries are actually able to access the product.⁶³ Relaxing this

60 The Program on China and Transformational Exports Mandate directs US Exim to establish a new programme to support extension of loans, guarantees and insurance at rates and terms fully competitive with that of PRC entities, and reserves 20% (\$27 billion) of its total financing authority, to support the programme. See: https://img.exim.gov/s3fs-public/reports/annual/2022/exim-fy22-amr-final_signoff.pdf

61 Interview, 24 February 2023.

62 See <https://www.gov.uk/guidance/country-cover-policy-and-indicators#sustainable>

63 Interview, 5 December 2022.

threshold would significantly expand the range of countries that could access the instrument and would boost its catalytic role for investment in low- and middle-income countries (Mathiasen and Aboneaaj, 2023).

Alongside the expansion and provision of guarantees and financial instruments, other guarantee providers have sought to gain a competitive edge against Chinese official financing in non-financial terms, including ESG standards and in climate alignment. However, these are areas where Sinosure is also evolving.

3.2.1 Managing risk and ESG

MDBs such as the World Bank, but also DFIs and ECAs, are known for their ‘halo effect’ in transactions, bringing high standards for due diligence and underwriting that offer security and assurance to private sector partners (Humphrey and Prizzon, 2014). Their role goes beyond de-risking in a financial sense (by providing longer-term finance), to encompass normative standard-setting, endowing credibility to projects.

This is an area where Sinosure and Chinese institutions have historically been weaker, and which others explicitly saw as their comparative advantage. Interviewees from DFC emphasised the organisation’s contrasting approach in terms of its rigorous ESG screening and climate impact assessments so as not to ‘burden countries with unsustainable practices or projects that aren’t respectful of local conditions or local

communities’.⁶⁴ These ‘high standards’ are one way in which DFC seeks to compete with Chinese models of overseas investment.⁶⁵

Of the major public insurers, MIGA was pointed to having the most advanced (and strictest) requirements. One informant declared that ‘this is why World Bank projects are more successful’.⁶⁶ Others noted the advantage for firms in leveraging MIGA as an ‘entry point’, or a marker of credibility that can help them access better terms of finance from the local private sector.⁶⁷

Against that, however, a running criticism of MIGA and DFC is that they are ‘slow and difficult to work with’. Over the last decade requirements around risk assessment have become more comprehensive, covering not only macro fundamentals, project risk, political risks, project financials and development impact across several variables, but also increasingly Paris alignment, and alignment with gender strategies.⁶⁸ MIGA also requires insured investors to establish consultative processes with local stakeholders and grievance procedures with affected communities (MIGA, 2021). The process has become increasingly onerous, involving longer approval times and larger assessment reports – one respondent noted ‘from 50 to now 100 pages’.

Likewise, ECAs such as UKEF has also received criticism for the cost and phasing of its environmental and social impact assessments (ESIA) process, which carries impacts for the cashflow for project developers (Manders, 2019).

64 Interview, 24 February 2023.

65 Interview, 24 February 2023.

66 Interview, 9 December 2022.

67 Interview, 14 December 2022.

68 Interview, 5 December 2022.

For smaller ECAs, enforcing standards in practice is another challenge: since most tend to work as junior partners within a consortium, good standards depend on mutual enforcement from all financiers; in certain country contexts, ECAs also face a dilemma where if they pull out, ‘your exporters won’t be invited back’.⁶⁹

On ESG, most informants agreed that Sinosure is lagging behind. While Sinosure conducts due diligence and country visits as part of its approval process, it remains relatively weak when it comes to ESG and project assessments, relying on companies to comply with the general requirements of a contract. Compared to the IFC or OECD requirements, this contributes to a much more streamlined process: ‘this is simpler for the investor’, as one informant acknowledged. Sinosure’s approach appears reactive rather than proactive. Another informant commented that, unless a case comes up of loss arising from environmental risk, institutional inertia would prevail: ‘when payment arises, then things will change’.

Nevertheless, risk assessment and management is an area of continuing adaptation and response from Sinosure and Chinese financial institutions. In its early years Sinosure sought to engage with MIGA to build institutional capacity around the underwriting process, contracting and risk assessment and due diligence.⁷⁰ More recently, Sinosure and other Chinese financial institutions are developing standards, particularly around climate alignment, with initiatives such as the Green Investment Principles (GIP) under the

‘green’ BRI; it has also joined several capacity-building initiatives for major banks and insurers on topics such as climate risks and disclosure (ClientEarth, 2021).

3.2.2 Supporting climate investment

Climate is the clearest area of convergence between Sinosure, other ECAs and the wider export credit and development finance landscape. As one interviewee put it, ‘climate is now a big part of the business’.

Two major trends emerge: first, the introduction of new restrictions on what national risk insurers can support; and second, a new drive to reshape business operations towards renewable energy and clean technologies, with climate seen as an opportunity for future industrial strategy.

Climate risk is increasingly being integrated into risk assessments for business operations, both in terms of the risk of the project to the climate and the risk of climate to the project. MIGA has committed to be 100% Paris-aligned by 2025, and has introduced restrictions on its support if projects fail to integrate mitigation and adaptation activities. Within the OECD, an agreement in October 2021 pledged to end export credit support for unabated coal-fired power plants under the OECD Arrangement (Council of the EU, 2022). Driven by a small group of countries at the ministerial level,⁷¹ the Export Finance for Future (E3F) coalition pledged to end international public finance for unabated oil, gas and coal by the end of 2022 (E3F, 2021), as a means to shape wider norms

69 Interview, 2 February 2023.

70 Interview, 9 December 2022.

71 The group comprises Denmark, Finland, France, Germany, Spain, Sweden, the Netherlands and the UK.

in the OECD Arrangement, where consensus-based decision-making has made it difficult to advance this agenda.

Some national ECAs have historically strongly supported fossil fuel sectors. UKEF, for example, provided over three times as much financing to fossil fuels (primarily oil and gas) sectors between 2018 and 2020 than to clean energy (Gençsü et al., 2021). However, in recent years there has been a clear political directive to shift this business towards supporting wider net zero policies, and UKEF has been a pivotal participant in the E3F coalition. One interviewee noted ‘an inherent tension between [supporting exports] and climate objectives unless there’s a political directive from above – and we are seeing that now’.⁷² Notably, UKEF has been a pioneer among ECAs in the introduction of ‘pause clause’ mechanisms through its climate-resilient debt clauses for lower-income countries, which provide relief from debt payments in the event of climate-related shocks.

Sinosure has been subject to similar political directives regarding climate, and has explicitly declared its alignment to national commitments to carbon neutrality by 2060 (Cai, 2021). Following Xi’s announcement in September 2021 that China would stop building coal plants overseas, Sinosure has halted support for overseas coal plants, affecting a number of pipeline coal projects.⁷³ In Pakistan, several coal projects along the CPEC corridor have been halted or delayed precisely because Sinosure has not approved insurance on any new projects (Ghumman, 2022).

Public-financed risk guarantees not only support climate objectives, but also intersect with national industrial strategies. Alongside restrictions on finance to fossil fuel sectors, regulatory reforms at the OECD leverage climate action as a means of industrial promotion in green industrial sectors. The New Climate Change Sector Understanding, under the OECD Arrangement and the Modernisation Package, explicitly targets renewable sectors and clean energy technologies for more favourable, flexible terms of finance.

Under the new Arrangement rules, renewable energy now enjoys a maximum 22-year repayment term for export credit, making ECAs – like DFIs – powerful institutions in ensuring project viability and bankability for climate sector investments. While ECAs’ activities are largely driven by the industries of their home countries, certain ECAs such as UKEF are proactively using risk mitigation instruments such as its new export development guarantee product to ‘hold their hand’ for home-grown firms, build up domestic capacity in renewable energy and clean technologies, and shift its domestic export base.⁷⁴

While respondents acknowledge, ‘Sinosure is rarely going to be [a] leading institution on these issues’, climate alignment is an area of common convergence with OECD institutions. Sinosure’s role in the trajectory of the ‘green BRI’ will be central: the institute has publicly emphasised its ambition to increase the proportion of green business in its portfolio, particularly in renewables.

72 Interview, 10 February 2023.

73 Interview, 11 April 2023.

74 Interview, 10 February 2023.

The agency has introduced new underwriting guidelines for ‘small yet smart’ projects (Sinasure, 2023), guidelines on due diligence on environmental and social impacts, and integrated the EU–China Green Taxonomy into its business information systems (Chen and Shen, 2022; BU Climate Working Group, 2023). In 2022, it supported \$38.5 billion of ‘green’ trade and projects (Sinasure, 2023). While still small (at only 4% of its total portfolio that year), these signal the strategic prioritisation of this sector in coming years, as the BRI recalibrates in a greener, smaller-scale, direction.

4 Conclusion

Over the last two decades, China has emerged not only as a major trade partner but also as an important creditor for countries in the Global South. Chinese policy banks and state-owned commercial banks have been prominent actors in delivering this change. The growing role of Sinosure in China's overseas finance and investment has been less visible.

Since its establishment in 2001, Sinosure has grown to become one of the world's largest policy insurers, dwarfing other multilateral and bilateral providers of guarantees and insurance in terms of assets, income and global exposure. The capital injection in 2011 and the institutional restructuring in 2012 replenished Sinosure's risk reserves and strengthened its underwriting and risk-taking capacity. They also paved the way for the institutionalisation of Sinosure as a policy-oriented insurer supporting national strategy through the globalisation of Chinese goods, services and capital.

As one instrument of China's financial statecraft, Sinosure has moved beyond its traditional role of promoting Chinese goods exports towards supporting the export of Chinese capital. Since the launch of the BRI, Sinosure has been critical in incentivising commercial capital to follow the lead of state-owned policy banks in 'going out'. To do so, it has strategically partnered with Chinese financial institutions and national governments, as well as international partners, to provide medium- and long-term export credit insurance, as well as non-financial intelligence and risk analysis, to underwrite investors and creditors against political and commercial risk. In high-risk countries, Sinosure coverage is near-essential for commercial banks, to enable projects in lower- and middle-income countries to reach financial closure, rendering otherwise unbankable projects bankable.

Our research highlights issues of moral hazard in how Sinosure coverage has been used to underwrite the financing of strategic BRI projects, and shows a slow process of evolution in its attitude to risk and its capacity for risk management. Chinese entities' risk appetite, their willingness to venture into high-risk countries and the strategic orientation of their sponsored projects suggest that Sinosure has had – and will likely continue – to manage a more complex risk portfolio than its peers.

When risks beyond China's borders disrupt business operations, Sinosure pays out, as seen in Libya in 2011 and in more recent cases of high-profile sovereign defaults and debt restructurings in Zambia. Sinosure's involvement in these loans has also complicated the negotiations and governance of sovereign debt issues.

Geopolitical tensions and exogenous shocks in recent years, from trade tensions with the US to the Covid-19 pandemic and Russia's war against Ukraine, and ongoing, unresolved tensions regarding sovereign debt sustainability, have seen a squeeze in Sinosure's MLT provision, even as the rest of its portfolio grows. Sinosure has over time become more conservative and reduced its risk appetite, even in key BRI partners such as Pakistan. This coincides with, and has contributed to, the wider slowdown in overseas lending to Global South countries.

Even amidst this slowdown, the immense scale of China's overseas finance has provoked growing concern and competition from Northern donors and states. The scale of China's state-backed export credit to directly support national enterprises, often at concessional or extremely favourable rates, challenges the frameworks of

the OECD, which Chinese institutions including Sinosure have resisted joining. Under the OECD Arrangement, members agree to abide by export credit rules to promote a 'level playing field', while donor countries under the OECD-DAC follow its ODA accounting rules. These soft law frameworks draw a normative separation in the use of official finance for development versus export credit to promote commercial interests.

The combination of prior failed attempts to integrate Chinese financial institutions into the OECD Arrangement and recent rising geopolitical tensions has revived activism among Western state-owned financial institutions; this is particularly evident in the rise of the US DFC, whose restructuring was strongly influenced by geopolitical competition with China. National DFIs and ECAs, as well as the OECD and the EU, have taken steps to improve their competitiveness through restructuring, recapitalisations and making the rules more flexible, most notably in the Modernisation Package of the OECD Arrangement. The drive to mobilise and compete against the Chinese offer has further narrowed the gap between aid and export finance, as DFIs and ECAs increasingly converge in their sectors of interest, mandate, and the nature of the instruments they provide.

One part of this convergence is the growing deployment of guarantees and credit insurance for risk mitigation in overseas investment, as in the case of DFC and UKEF. Few DFIs or ECAs solely provide risk coverage in the model of Sinosure; in this, Sinosure more closely resembles MIGA, the only dedicated institution at the World Bank providing de-risking finance for political and commercial risks to support private sector investment. However, MIGA remains underplayed – its small scale and limited eligibility for its key instruments has limited its impact, in contrast to the less rigorous risk management but significant scale of Sinosure.

As higher interest rates raise the cost of funding and project finance, the credit enhancement role that state-backed guarantees play will be even more important in credit enhancement for investments in lower- and middle-income countries, and in financing for infrastructure to support decarbonisation and climate adaptation goals.

Sinosure's experience in relation to the BRI's rise and evolution illustrates some lessons for newer infrastructure initiatives. First, sufficient capitalisation and institutional capacity is critical in mobilising financing at scale, but also in ensuring the capacity and institutional autonomy to assess and bear risk and mitigate potential moral hazard. Second, Sinosure has played an arguably catalytic role in China's overseas finance, but does so in the context of a state-coordinated system where insurers, creditors and firms are strategically aligned to common national goals. For newer infrastructure initiatives from Europe's Global Gateway and from the G7, strategic alignment between official finance and the private sector will not be organic: incentivising private sector investment will be a more challenging prospect.

Alignment – and coordination – between development finance and ECAs will also be critical in ensuring efficient and legitimate use of ODA resources alongside other official finance, so that both play complementary, rather than competing, roles in expanding the available financial resources to support sustainable investments in low- and middle-income countries. This will require a whole-of-government approach to official finance, a clearer division of labour and risk-sharing, and open channels of communication between ECAs and DFIs at the national level, and in cooperation with MDBs at the global level.

4.1 The road ahead: Sinosure in China's global economic strategy

In light of global economic shifts, with the tightening of export controls and investment screening in the US and Europe, Sinosure's risk profile will reflect new changes in Chinese business operations. Trade protectionism in unsettled global markets and Xi's prioritisation of 'dual circulation' means that Sinosure's role in the immediate term will shift to domestic priorities. The impact of the trade war between the US and China has already seen a larger role for Sinosure in buffering against geopolitical risk and increasing its guarantee and credit enhancement capacity for small Chinese exporters and strategic sector SMEs, both through short-term insurance and domestic trade credit coverage.

If Chinese domestic consumption fails to pick up and tensions with the US continue to rise, Chinese foreign economic policy may lean further into partnership with the Global South, where markets for Chinese goods, services and new technologies will become even more important. In this scenario, policy banks and Sinosure may have to gear up their venture in risky environments, increasing the pressure on their management teams to improve their proficiency in risk management.

In the wake of the Third Belt and Road Forum in October 2023, and the recalibration and revitalisation of the BRI, Sinosure's role will further adapt to serve new goals, moving away from the large mega-projects of the previous decade towards supporting 'small yet smart' projects.⁷⁹

As China scales up clean energy development at home to meet energy transition and carbon neutrality goals, this will likely spill over into increased exports of clean energy products and services. These green industries and new low-carbon financial innovations are likely to see stepped up support from Sinosure, under the aegis of a 'green BRI'.

Sinosure's continued support for green projects and green finance means it will need to strengthen its risk assessment and management capabilities, an area where Chinese policy banks and commercial financial institutions are still catching up with international norms and standards, and an area where it will seek to develop its own indigenous standards.

As global supply chains continue to diversify, the Chinese government will further emphasise Sinosure's role in supply chain risk transfer to increase supply chain security in strategic industries and key sectors, such as semiconductors, clean energy, telecommunications and information technology, and biotech and pharmaceuticals. Under Xi's leadership, the Party and the government have called on China's insurance industry to strengthen support to strategic industries and frontier and emerging technologies. If Sinosure were to be mobilised to give preferential support to firms in concentrated state-prioritised industries, it would inevitably face the challenge of managing concentrated risk exposure in capital-intensive industries that are at the forefront of global competition.

⁷⁹ This is a reference to the wider slogan of 小而美, 'small is beautiful', 'small and smart' and other slogans. 'Small yet smart' is the slogan used in the annual reports.

China's deepened relationships with Global South countries risks being interpreted as revisionist by the US and its partners. However, this does not necessarily mean either China or Western powers would have an easy win in competing to gain support from the Global South. While the US has recently stepped up its engagement with countries in the Global South, US sanctions against Russia have failed to gain support and have increased incentives to develop alternatives to hedge against the impact of sanctions and secondary sanctions. The Third Belt and Road Forum heralded a new direction for the BRI, but also a closer relationship between China, Russia and other strategic partners of Global South countries. The opening of a Sinosure representative office in Moscow is one hint of this deepened economic and trading relationship.

Meanwhile, US monetary tightening and its recent deployment of industrial policies have increased the risk of capital flight in lower- and middle-income countries. This further increases demand in the Global South for self-protection to mitigate the negative impact on their own economies triggered by US policy. In this context, members of the Global South are likely to exercise more activism and agency in voicing demand for reforming the existing US-led global economic and financial system. As the BRI enters its second decade, China's model of overseas finance may still hold appeal if the existing economic order fails to meet the demand for change.

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Appendix 1.

Methodological note on data

For analysis of Sinosure involvement in China's overseas lending patterns, we use the AidData China Global Development Finance Database (version 2.0), which has the most systematic data on the provision of insurance for Chinese overseas lending activities. The dataset version used in this report only tracks lending commitments up to 2017, and does not track disbursements. As such, it gives only a partial picture of China's overseas lending activities. While a newer version of the database with data up to 2023 is set to release in November 2023, the timing of publication meant it was not possible to use this in the analysis.

AidData tracks whether a project has been insured, and the accountable body, which includes insurers and guarantors, usually including recipient governments who have provided sovereign guarantees. We use a filter for projects where Sinosure was an accountable body. Alongside this variable, we filter for mentions of Sinosure involvement in project descriptions for verification.

Of these, only projects in the pipeline, implementation or completion phase were tracked, removing projects that were cancelled or suspended. Following advice from the AidData team, we also manually adjusted the database to correct for Sinosure projects that were not correctly labelled, and for a large set of projects under a framework agreement in Angola, which would have represented a large data discrepancy – these approximately 95 China Eximbank-funded projects were manually classed as Sinosure-backed.

We classify the 313 projects with confirmed Sinosure insurance as 'Sinosure-backed' loans, and we treat all other projects as 'unconfirmed'. By value, Sinosure backed loans constitute around 10.9% of China's total overseas lending portfolio up to 2017; though these loans constitute only 2.3% of the total number of project transactions tracked.

This subset is likely to be an underestimate of the transactions that Sinosure has been involved for certain countries and regions. The data also does not track Sinosure's provision of other forms of insurance for companies, such as PRI for overseas investments that fall under equity instruments, which would not be captured in a loans database, and offers limited capture of instruments such as export suppliers credits where Chinese contractors and firms are involved.

Row labels	Count of AidData TUFF Project ID	Sum of amount (Constant 2017 US\$)
Unconfirmed	12995	\$1,520,215,059,549.19
Sinosure-backed	313	\$185,048,114,326.04
Grand Total	13308	\$1,705,263,173,875.22

Appendix 2. List of interviewees

Names are anonymised where requested

Name	Affiliation/description
Carlo Bongiani	Independent advisor on infrastructure finance
Dan Harris	Harris Sliwoski
David Drysdale	OECD Secretariat
DFC Official 1	Development Finance Corporation (DFC)
Interviewee 1	Former employee of a Chinese finance institution
Interviewee 2	Risk insurance professional and expert on China's overseas finance
Interviewee 3	Practitioner in the export credit sector
Interviewee 4	Expert on China's Belt and Road Initiative and Sinosure
Interviewee 5	Expert on China's financial institutions and overseas lending
Interviewee 6	Banking sector professional and expert on China's overseas finance in Africa
Interviewee 7	Expert in risk insurance sector and former staff of multilateral and bilateral development finance institutions
John Lentaigne	Tysers Insurance Brokers
Khurram Husain	News journalist based in Pakistan
Lennart Skarp	Former employee at Berne Union and External consultant to OECD
Pekka Karkovirta	Finnvera, OECD Working Party on Export Credits and Credit Guarantees
UKEF Official 1	UK Export Finance
UKEF Official 2	UK Export Finance