

SEPTEMBER  
2020

# REPORT #3 CHINA WATCH

SinoHydro & China  
Railway 23rd Bureau  
Group Co., Ltd in  
Georgia

by

CIVIC IDEA







## ABOUT CIVIC IDEA.

Civic Initiative for Democratic and Euro-Atlantic Choice - Civic IDEA is a non-governmental organization based in Georgia, covering global issues.

The mandate of the organization serves the realization of Democratic and Euro-Atlantic choice, institutionalizing it and bringing to every citizen.

Democratic and Euro-Atlantic choice means the formation of free and fair state based on equality, where citizens equipped with the rule of law feel safe and secure.




Civic IDEA has been actively monitoring China's growing influence in Georgia. This month, the latter has published the report "Who is in charge of the post-cold war world? Chinese influence operations in Academia, Media & CSOs: The case of Georgia", which evaluates the CCP's influence operations in Academia, Media and CSOs. Civic IDEA case study Georgia, however, the report is written with a comparative perspective of similar practices in other countries. Today, China's activities in Georgia do not pose a direct, visible and immediate threat, but the ignorance of respectable and authoritative organizations, security services of our partner countries, numerous EU studies, recommendations and decisions by the Georgian government is another clear example of the disruption of foreign policy incentives and a vague vision concerning Georgia's long-term success and the development.



# TABLE OF CONTENT

Introduction .....	5
The facts of SinoHydro's International "Reputation" .....	7
Financial Milestones in Georgia .....	9
SinoHydro Georgia .....	10
Legislation and Inaccessibility of Public Information .....	10
SinoHydro and Environmental Issues .....	11
SinoHydro and Labor Rights Violations .....	12
The Problem of Due Diligence in Georgia's State Institutions .....	13
<i>SinoHydro and the Case of Africa</i> .....	13
Ghana .....	13
"Hidden Debt" .....	14
Zimbabwe .....	15
What Does Fraudulent Practice Mean? .....	16
<i>SinoHydro in Latin America</i> .....	16
Ecuador .....	16
Brazilian Odebrecht Projects Redeemed by SinoHydro .....	17
<i>SinoHydro in Europe</i> .....	18
SinoHydro in North Macedonia .....	18
China's "Debt Trap" Policy in the Western Balkans .....	19
SinoHydro in Romania .....	19
China Railway 23rd Bureau Group Co., Ltd. ....	20
Bibliography .....	23

# SINOHYDRO GLOBALLY TIMELINE

- 1996-2009  Malaysia's Bakun dam, the Malaysian government has accused SinoHydro of many crimes and fraudulent activities. However, it did not suspend the company but put extreme pressure on it to complete the project by 2009 without any delays.
- 2008  International Monetary Fund (IMF) has intervened in writing off the \$ 9 billion debt burden terms concluded between the Democratic Republic of Congo and SinoHydro, as it considered such a loan too expensive and dangerous for Congo.
- 2010  SinoHydro's first appearance on the Georgian market.
- 2011  SinoHydro started the construction of the Kobuleti bypass road section (LOT I) in Georgia.
- 2012  The government of Botswana has terminated its contract with SinoHydro due to its non-compliance with the contract terms on the International Airport (SSKIA) expansion.
- 2013  In Mali, the World Bank's Sanctions Board issued a reprimand for SinoHydro's violations over the construction of a hydropower plant.
- 2014  The World Bank investigators have accused SinoHydro of illegal machinations.
- 2014  SinoHydro has launched the Tbilisi-Rustavi road construction project.
- 2015  North Macedonian officials have been accused of corrupt dealings with SinoHydro.
- 2016  The World Bank has sanctioned SinoHydro for fraudulent and corrupt practices in , , ,  and in other African countries.
- 2016  SinoHydro started the construction of the four-lane Samtredia-Lanchkhuti-Grigoleti Highway (LOT II) in Georgia.
- 2017  The IMF has declared a \$ 2 billion deal between Ghana and SinoHydro, as illegal, since it denoted the financial machinations.
- 2017  The Nigerian energy company has filed an ICC arbitration claim against SinoHydro.
- 2017  According to the investigation of the AfDB's Office of Integrity and Anti-Corruption, SinoHydro Corporation was engaged in a fraudulent practice in bidding for works contracts related to the AfDB-financed Road Sector Support Project in Uganda.
- 2017  The Kenyan Public Procurement Administrative Review Board (PPARB) has criticized and rejected to award the contract to SinoHydro Tianjin Engineering Limited for the construction of the Thwake Dam in Kenya.
- 2017  SinoHydro started the construction of the E-60 Highway Section from Zemo Osiauri to Chumateleti (LOT I) in Georgia.
- 2018  Romania has signed its first contract with SinoHydro, in association with Nord Vest Infrastructura și Servicii SRL. In 2019, Romanian government officials were exposed and prosecuted for the local corrupt machinations..
- 2019  The Zimbabwe Construction and Allied Trades Workers' Union (Zcatwu), has revealed the numerous cases of violations of the local workers' rights.
- 2019  In Zambia, SinoHydro has suspended the construction of the Kafue Gorge hydroelectric dam.
- 2020  In Romania, SinoHydro together with the local company Good Prod won the 38 mln euro deal to build Zalau ring road.
- 2020  SinoHydro won the international tender for the Rehabilitation / Reconstruction of the 42 km Khulo-Zarzma Section of Secondary Road (LOT I; LOT II) in Georgia.

# INTRODUCTION

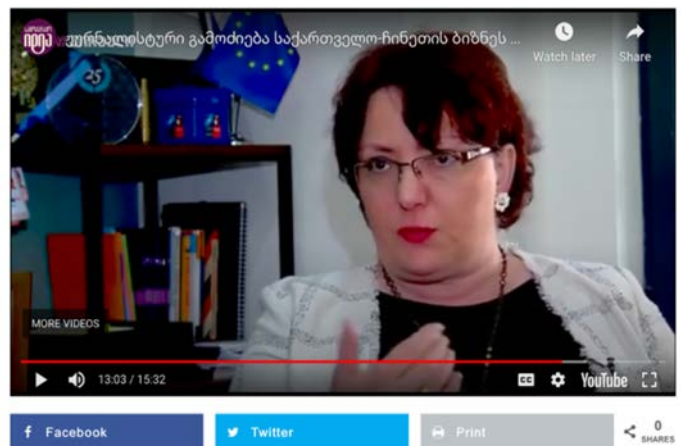


Civic IDEA's third report brings the story of SinoHydro Corporation Limited, Chinese company operating in Georgia since 2009 and famous globally not for the most noble reasons. The main objective of our investigative reports is to bring the truth about the various business actors, operating in Georgia as winners of budgetary programs. We study and research contracts, their global stories, study the pattern of privileges and violations related to their activities and bring for public judgment. All our reports simultaneously bring lots of media attention to the issues raised and discussed here and we hope that it will help Georgian government in future decision making.

On June 6, 2020 Georgian TV outlet **"TV Pirveli"** news program aired our joint findings-report about Chinese SinoHydro operating in Georgia. Object of our investigation was the Chinese company SinoHydro Corporation Limited's operations, contract, SinoHydro's GEL 37 million dispute against the Georgian government over an unfinished highway in front of the dispute board, as well as their global record rarely challenged or referred by the Georgian government.

When asked the reason for choosing SinoHydro as a tender-winner company, the Minister of Regional Development and Infrastructure, Maia Tskitishvili, highlighted that she is content with the work of the company as it completes infrastructure projects fast and with **high quality**. For any objective and, more or less knowledgeable person, Minister Tskitishvili's contradictory statements make the issue of the construction of major infrastructure projects in Georgia more obscure and dubious and it is completely unclear as to the criteria of speed and efficiency upon which the Minister relies in the above-mentioned investigative report since:

- 1) The first section of the Kobuleti bypass road project, which was completed just two years ago, is damaged.
- 2) The second part remains unfinished to this day.



- 3) The company is known for its bad reputation worldwide.
- 4) SinoHydro is blacklisted by the World Bank and other international or regional financial institutions.



It is noteworthy that the Minister herself makes the opposite statement in a [video](#) posted on August 27th, 2018 on the ministry's YouTube channel where she says that the Samtredia-Grigoleti project, won by Sinohydro, is problematic and indicates that it is because of the problems company created, that the project has been postponed several times. Another controversy we have is concerning construction of the Kobuleti bypass road, where the [Deputy Minister](#) of Regional Development and Infrastructure, Irakli Karseladze, contradicts the comments made by Minister Tskitishvili. In 2018, during the meeting with the representatives of Sinohydro, he publicly threatened them with sanctions if the company did not complete the second section of the Kobuleti bypass project in time: **"If Sinohydro fails to fulfill its obligations sanctions will be imposed"**.

Name: „JAHANPARS Engineering & Construction“  
 Bid price at bid opening: 88,535,979.05 GEL (including VAT)  
 Reason(s) for rejection: The Bid is not signed by a duly authorized representative of the company.  
 Name: „Akkord Industry Construction Investment Corporation OJSC“  
 Bid price at bid opening: 106,896,441.97 GEL (including VAT)  
 Reason(s) for rejection: The Bid is not signed by a duly authorized representative of the company.  
 Name: „Sinohydro Corporation Limited“  
 Bid price at bid opening: 96,543,432.85 GEL (including VAT)  
 Reason(s) for rejection: Sinohydro Corporation Limited had been temporarily suspended in accordance with the World Bank Sanctions Procedures, as of 04 December, 2013.  
 Name: „Jiangsu Jialong Engineering Construction Co.“ Ltd.  
 Bid price at bid opening: 76,792,598.00 GEL (including VAT)  
 Reason(s) for rejection: Invalid Bid Security

As a response to our investigative report, [PostTV](#), government controlled TV channel, claimed that Sinohydro was never blacklisted by World Bank or any other International or regional financial institution and our accusations were untrue. Despite the responses by the government-controlled TV channels facts stay facts. Here is the screenshot from website of the Roads Department of the Ministry of Regional Development and Infrastructure from one of

the earlier tender results, where one can easily read that Sinohydro was disqualified from one of the tenders exactly for the same reason cited the same reason. **"Sinohydro... has been temporarily suspended in accordance with the World Bank Sanctions Procedure, as of 04 December, 2013"** – reads the document. disqualification from the tender was announced during the construction of the Agara-Zemo Osiauri road section. Please see the Roads Department of Georgia's [document](#) stating **"Reason(s) for rejection: Sinohydro Corporation Limited had been temporarily suspended in accordance with the World Bank Sanctions Procedures as of 4 December 2013"**.

In this report, we will tell you how Sinohydro works across the globe while it is up to you to make the conclusions as to the trustworthiness of the company and quality of their activities.

The timeline below also illustrates that when, on the one hand, [the African Development Bank](#) and, on the other hand, the World Bank were discussing Sinohydro's inclusion in the blacklist and also when [the International Monetary Fund](#) was discussing plans to pull different countries out of Sinohydro's debt trap, the company was signing a contract in Georgia in hopes of getting even more benefits.

Sinohydro first caught our attention after studying the reports of international financial institutions from which we learned about its corrupt machinations and fraudulent contracts  in Zimbabwe,  in Kenya,  in Uganda,  in Zambia and  in Botswana. Consequently, [the African Development Bank blacklisted the company](#) and refused to fund their projects.


The World Bank followed the practice of the African Development Bank and **blacklisted Sinohydro and the Chinese company CAMC Engineering** for exposing corrupt transactions in Asia.


This brief review clearly shows the inability of the Georgian government to carry out due diligence towards companies embroiled in international scandals. Insufficient awareness and an indifferent attitude towards more knowledge lead to their involuntary or premeditated participation in illegal actions. In addition, there may be corrupt transactions that the Georgian government seeks to cover up by hiding behind international tenders and donors.


This report is based solely on the facts, information obtained through communication with the Georgian government and official documents from international organizations.


## The facts of Sinohydro's International "Reputation"


Please see the following brief list of facts about Sinohydro's global "work" and reputation. For a quick overview see chart at the beginning of the report.



**1996-2009** – After numerous contractor changes, Sinohydro surrendered the construction of –  the **Malaysia's Bakun dam**. The Malaysian government has accused Sinohydro of many crimes and fraudulent activities. However, it did not suspend the company but put extreme pressure on it to complete the project by 2009 without any delays.

**2008** –  The International Monetary Fund (IMF) intervened in rewriting the USD 9 billion debt terms signed between the  **Democratic Republic of Congo** and Sinohydro because it found such a loan too expensive and dangerous.


**2010** – Sinohydro's first appearance on the  Georgian market.


**2011** – Sinohydro started the construction of the **Kobuleti bypass road section (LOT I)** in  Georgia.





















**2012** –  **The government of Botswana** – terminated its contract with Sinohydro because the company failed to complete the expansion of the Sir Seretse Khama International Airport (SSKIA) within the specified time and the allocated money.

**2013** –  In Mali,  the World Bank's **Sanctions Board** issued a reprimand according to its internal sanctions system known as the Early Temporary Suspension system for Sinohydro's violations over the construction of a hydropower plant on the Senegal River.

**2014** –  **World Bank investigators** accused Sinohydro of illegal machinations.

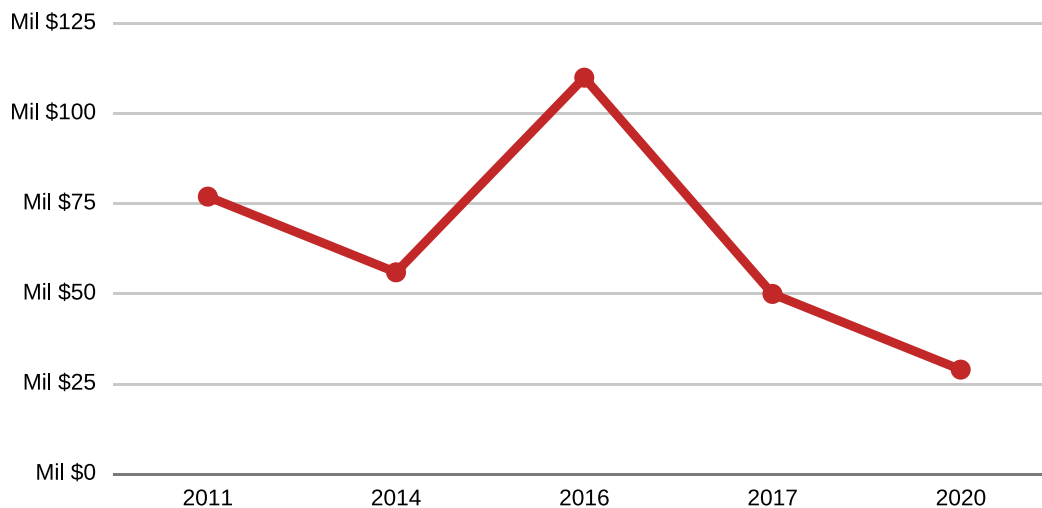
**2014** – Sinohydro launched the Tbilisi-Rustavi road construction project in  Georgia.

**2015** –  North Macedonian officials have been accused of corrupt deals as they rewarded Sinohydro with **two highway projects** (Miladinovci-Štip (47 km) and Kichevo-Ohrid (57 km)) while disregarding the local legislation.

- 2016 –  The World Bank  sanctioned SinoHydro for fraudulent and corrupt practices in  the Philippines,  in Malaysia,  in the Congo,  in Mali and in other African countries.
- 2016 – SinoHydro started the construction of the four-lane **Samtredia-Lanchkhuti-Grigoleti highway** (LOT II) in  Georgia.
- 2017 – In its report,  the IMF **condemned the contract** between  Ghana and SinoHydro according to which SinoHydro will provide USD 2 billion worth of infrastructure in exchange for refined aluminum (bauxite) mines in Ghana. This transaction is inconsistent with the Ghana loan limits set by the IMF and is considered to be an illegal act that points to the financial machinations of SinoHydro and the Ghanaian government.
- 2017 –   The Nigerian energy company **Sunrise Power** and Transmission filed an ICC **arbitration claim** against SinoHydro and the Nigerian state.
- 2017 –  According to **the investigation** of the AfDB's Office of Integrity and Anti-Corruption, the SinoHydro Corporation was engaged in fraudulent practice in bidding for work contracts related to the AfDB-financed Road Sector Support Project in  Uganda.
- 2017 –  The Kenyan Public Procurement Administrative Review Board (**PPARB**) criticized the former Irrigation Principal Secretary, Mwangi Nduati, for awarding the contract of the **Thwake Dam project** to SinoHydro Tianjin Engineering Limited.
- 2017 – SinoHydro started the construction of the **E-60 Highway Section** from Zemo Osiauri to Chumateleti (LOT I) in  Georgia.
- 2018 – During the rule of Liviu Dragnea,  Romania signed its first contract with SinoHydro in association with Nord Vest Infrastructura și Servicii SRL. In 2019, Dragnea was exposed and prosecuted for local corrupt machinations.
- 2019 – The Zimbabwe Construction and Allied Trades Workers' Union (Zcatwu) revealed that during the construction of a USD 1.4 billion thermal power plant in  Zimbabwe's Hwange Municipality, SinoHydro violated the rights of local workers while the local government turned a blind eye to the issue.
- 2019 – SinoHydro suspended the construction of **the Kafue Gorge hydroelectric dam** in  Zambia while Zambia borrowed USD 2 billion from Exim Bank in 2015 to implement the project.
- 2019 –  In Romania, SinoHydro together with the local company Good Prod won a EUR 38 million deal to build the Zalau ring road.
- 2020 – SinoHydro won the international tender for the Rehabilitation/Reconstruction of the **42-km Khulo-Zarzma Section of the Secondary Road** (LOT I; LOT II) in  Georgia.



# FINANCIAL MILESTONES IN GEORGIA



The Chinese state-owned company SinoHydro Corporation Limited is implementing numerous infrastructural projects in Georgia. According to the records of the National Agency of Public Registry of the MOJ of Georgia, SinoHydro first appeared on the Georgian market on April 8, 2010. Since then, the company has won hundreds of millions of dollars in tenders in Georgia and is mainly working on the reconstruction and rehabilitation of roads,

The scale of the company's operations is indicated by the fact that Forbes Georgia published a list of the 100 largest companies in Georgia in 2019 according to which SinoHydro was in the 62nd place with a profit of GEL 10,365,775.

According to the Roads Department of the MRDI, SinoHydro implements the following infrastructural projects: highways and bridges.

- Modernization of the Tbilisi-Rustavi Road (Sections I and III), Construction of the Kobuleti Bypass Road (LOT I and LOT II),
- Construction of the Samtredia-Grigoleti Road (km 11+500 – km 30+000; LOT II),
- E60 Highway Modernization of Zemo Osiauri-Chumateleti (km 0+000-km 5+800; LOT I and km 5+800- km 14+066; LOT II).
- Rehabilitation/Reconstruction Work on the Khulo-Zarzma Section of the Secondary Road Batumi (Angisa) – Akhaltsikhe (LOT I: Khulo – Goderdzi Pass km 5+195 – km 29+732; LOT II: Goderdzi Pass – Zarzma km 0+000 – km 17+380).

**According to publicly available data,  
SinoHydro is implementing state projects  
worth a total of GEL 1 billion.**

## Sinohydro Georgia

The Chinese state-owned company Sinohydro Corporation Limited is implementing numerous infrastructural projects in Georgia. According to the [records](#) of the National Agency of Public Registry of the Ministry of Justice of Georgia, Sinohydro first appeared on the Georgian market on April 8, 2010. Since then, the company has won hundreds of millions of dollars in tenders in Georgia and is mainly working on the reconstruction and rehabilitation of roads, highways and bridges. The scale of the company's operations is indicated by the fact that Forbes Georgia published a list of the 100 largest companies in Georgia in 2019 according to which Sinohydro was in [the 62<sup>nd</sup>](#) place with a profit of GEL 10,365,775.

According to the Roads Department of the Ministry of Regional Development and Infrastructure of Georgia, Sinohydro implements the following infrastructural projects: [Modernization](#) of the Tbilisi-Rustavi Road (Sections I and III), Construction of the [Kobuleti Bypass](#) Road (LOT I and LOT II), Construction of the Samtredia-Grigoleti [Road](#) (km 11+500 – km 30+000; LOT II), [E60 Highway](#) Modernization of Zemo Osiauri-Chumateleti (km 0+000-km 5+800; LOT I and km 5+800- km 14+066; LOT II) and [Rehabilitation/Reconstruction](#) Work on the Khulo-Zarzma Section of the Secondary Road Batumi (Angisa) – Akhaltsikhe (LOT I: Khulo – Goderdzi Pass km 5+195 – km 29+732; LOT II: Goderdzi Pass – Zarzma km 0+000 – km 17+380). According to publicly available data, Sinohydro is implementing state projects worth a total of GEL 1 billion.

Sinohydro's projects in Georgia	Start Date	Cost	Source of funding
Kobuleti Bypass Road (LOT I and LOT II)	2011	\$76 833 000	ADB
Modernization of Tbilisi-Rustavi Road (Sections I and III)	2014	\$ 56 000 000	ADB
Construction of Samtredia-Grigoleti Road (LOT II)	2016	\$ 110 000 000	EIB/EU/EWHG/CW/ICB-02
E60 Highway Modernization of Zemo Osiauri-Chumateleti	2017	\$ 50 000 000	EIB/EU
Rehabilitation / Reconstruction Works of Khulo-Zarzma Section of Secondary Road Batumi (LOT I & II)	2020	\$ 29 000 000	KFAED

## Legislation and Inaccessibility of Public Information

It is necessary to mention the fact that there is no information about any of the abovementioned projects, their tender documentation, bids, the bidder selection process and the results (including the contract) publicly released in the Georgian electronic Government Procurement (Ge-GP) system which is the official portal for public procurement activities in Georgia. This portal ensures transparency and a competitive environment for any person involved in public procurement procedures.

"According to Article 2 (d) of the Law of Georgia on Public Procurement:"

*"The purpose of this Law is to ensure publicity of public procurement"*

And in accordance with Paragraph 8 of Article 22 of the same law:

*"In order to ensure transparency of procurement proceedings, the Agency, during the procurement proceedings, shall monitor the adherence to principles of publicity, fairness and non-discrimination, it shall also monitor strict adherence to the established procedures and reporting, open and effective competition, and availability of rational and free choice."*

According to Article 13 of the Law of Georgia on Public Procurement:

“A contracting authority shall define qualification criteria for each particular procurement that the tenderers are to meet in order to participate in the procurement. The procedure for selecting qualification criteria shall be determined by a subordinate normative act. **Requirements in qualification criteria shall be fair and non-discriminatory and promote effective competition.**”

According to the aforementioned legal regulations, procuring entities must define the standard of a supplier's qualification by themselves within each specific purchase. For example, in the Electronic Tender Without Reverse Auction NAT200009873, which was announced for the rehabilitation work of the section 3.5 - km 7 of the Zugdidi - Anaklia highway which is of national importance (Sh-8) and whose estimated cost was GEL 7,284,410.00, the Ministry of Regional Development and Infrastructure of Georgia (the procuring entity) defined the following qualification requirements for bidders: “The bidder, within the reporting period and area of experience specified in the tender documents, must have completed work of a similar type, nature, complexity and content within a contract not exceeding 50% of the estimated value of the tender procurement object or not more than two (not more than two) the bidder must have work of a similar type, nature, complexity and content at a cost of not less than 60% of the estimated value of the object of the present tender.”



Observing the tenders announced on the platform of the Georgian electronic Government Procurement (Ge-GP) system by the Roads Department of the Ministry of Regional Development and Infrastructure of Georgia, it is obvious that the procuring entity defines the aforementioned qualification standards in almost every announced tender for road repair work or other full or partial construction work. However, this trend has not been revised within the Sinohydro Corporation Limited and we have completely different approaches to the tenders won by this company.

## Sinohydro and Environmental Issues

On December 20, 2013 and June 16, 2014, the Georgian government authorized Sinohydro to mine certain minerals in an area it designated.

On December 20, and June 16, , the Georgian government authorized Sinohydro to mine certain minerals in an area it designated.

### საინჟინრო სამუშაოების განხორციელებისათვის საჭიროების შემთხვევაში გამოყენებული რესურსების აღწერა

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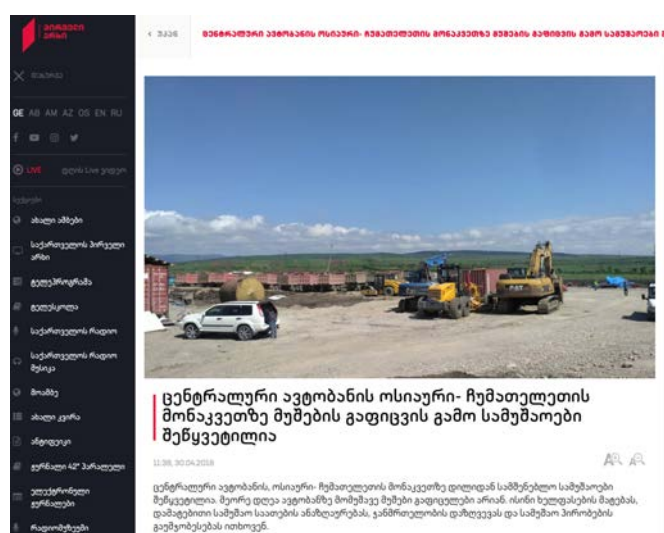
There were some **irregularities** in the company's operations which actually posed a threat to the state's environment and natural resources (minerals). For example, in April-May 2014, 841 trees were illegally felled in the construction area of the Tbilisi-Rustavi highway. A similar problem occurred in the Kobuleti municipality where Sinohydro illegally extracted the state's inert materials. **Overall, these actions caused a loss of GEL 439,088 to the state.**

Moreover, the removal of gravel and inert materials triggered flooding of the area and destruction of agricultural land bringing financial losses to the **local population**. Apparently, the Roads Department neither claimed nor paid compensation. As for the felling of trees in Rustavi, a criminal case was launched on this issue. Later the court forced Sinohydro to plant 5,500 trees and henceforth, a court hearing on this issue was terminated. As the Environmental Supervision Department reported, Sinohydro has actually planted the **trees**. Nevertheless, the location of these trees or their current condition is unknown.

Since 2018, various organizations and media outlets have been reporting on this issue, saying that during the road construction "Chinese Sinohydro" is grossly violating Georgian legislation on environmental protection. "Although **the Environmental Protection Agency** systematically fines the company, it does not pay the fines and it does not address the violations. Sinohydro avoids the obligations imposed by the contract and does not recultivate fields and pastures owned by the population at the inert materials extraction site. Moreover, it leaves families living along the road without food supplies and pushes the locals toward starvation" as is written in an **article** published by a local CSO.

## Sinohydro and Labor Rights Violations

In addition to the damage it does to the environment and the local population, Sinohydro also violates local laws and human rights. Publicly available documents confirm that the company illicitly worked on the construction of the Samtredia-Grigoleti highway. The illegality of its actions implies that Sinohydro has not formally requested a mandatory permit or expertise from the competent state agencies. Additionally, Sinohydro has systematic problems with protecting the **health and safety** of its employees which comes in direct conflict with the rules and procedures set out in Georgia's labor safety legislation. In particular, employees do not undergo periodic medical examinations; they do not have first aid kits, work wear and personal protective equipment; fire and electrical safety are not provided, heavy equipment is not fully maintained, **the area is not cleaned**, etc. Therefore, Sinohydro implements large infrastructural projects with various types of violations in Georgia.



## The Problem of Due Diligence in Georgia's State Institutions

In 2018, Giorgi Seturidze, now the former Head of **the Roads Department** (who was also a member of the tender commission), noted that the contracts with Sinohydro were international and not subject to Georgian legislation. Accordingly, the Roads Department has never considered the blocking of the company from tenders as international donors were generally responsible for such decisions. In the same year, Seturidze resigned right after the change of the minister. He has never publicly admitted this but the media outlets reported that he might have moved to a higher position in a Chinese private company that used to win tenders for years. Even after resigning, Seturidze insisted that Sinohydro would complete all projects with high quality. We should highlight that despite the sanctions or bans imposed by the World Bank and other international organizations, Sinohydro was still actively awarded **new contracts** in Georgia. This circumstance is justified by the fact that, as already mentioned above, Sinohydro won the tender for the Zarzma-Khulo road project a few months ago with a value of **GEL 96 million**. The story was reported by Construction Europe on August 11, 2020 while no such information is found on any official website in Georgia. The renewed Khulo-Zarzma road will connect the Samtskhe-Javakheti and Adjara regions. The project is funded by the Kuwait Fund for Arab Economic Development. It should be noted that an international tender was again announced for this project as the previous contract with the selected contractor company, Todini, was terminated due to **the non-fulfillment of obligations**. This occurrence contributed to the approval of the new tender for Sinohydro.

## SINOHYDRO AND THE CASE OF AFRICA

As we have seen, Chinese Sinohydro, being one of those companies which have a tainted reputation worldwide (China Railway 23rd Bureau Group Co., Ltd & China Railway Construction Co) and are blocked by the World Bank and the International Monetary Fund due to financial machinations, is still active in Georgia but with many disturbances. According to the World Bank, in addition to corrupt transactions, these companies misrepresented the facts about their personnel, equipment and work experience in the pre-qualification and bidding documents for the Highway Contract, both in Asia (i.e., the Philippines and Malaysia) and across the African continent (i.e., Ghana and Zimbabwe). Below, we will discuss the cases of Ghana and Zimbabwe and learn more about the arguments of world financial institutions are having as concern Sinohydro.

### Ghana



In 2018, the Ghanaian government signed a Master Project Support Agreement (MPSA) with Sinohydro under which the company will provide USD 2 billion worth of infrastructure (including roads, bridges, hospitals, affordable housing and other infrastructure) in exchange for **Ghana's refined aluminum ores** (bauxite) mines. Under this agreement, the Ghana Integrated Aluminum

Development Corporation (GIADC) was to set up an offshore escrow account for bauxite sales revenue from which the accrued amount would go exclusively to Sinohydro.

The International Monetary Fund, in compliance with the World Bank, says that the deal is inconsistent with the IMF's Ghana loan limits and is considered to be illegal, indicating possible financial machinations by Sinohydro and the Ghanaian government. In response to these allegations, the **Ghanaian Minister of Finance** mentioned in a speech to parliament on June 19, 2018 that "a financial deal with Sinohydro does not mean an increase in public debt stocks as it is only a barter deal and not a loan." Accordingly, they rejected the remarks of the IMF and the World Bank. In 2017, the IMF published a report devoted entirely to Ghana:

*"Off-budget operations, including ESLA, Sinohydro, and GETFund, contribute to public debt but their decentralized and not always transparent nature complicates oversight and management of public financing, raising the scope for corruption."*

*(IMF Country Report No. 19/367, Ghana, Dec 2017, p. 13)*

In 2019, Ghanaian Finance Minister, Kwesi Amoako-Atta, mentioned that a USD 2 billion debt owed by Sinohydro for 62 projects in Ghana had been fully repaid in exchange for bauxite and as for the given **62 projects**, Mr. Amoako-Atta claims that they will be completed by 2020. Beijing already issued the first tranche of the amount (**USD 649 million**) in November 2019. The IMF 2019 report on Ghana states:

*"The planned operation with Sinohydro needs to be properly designed and managed to avoid significant obligations for Ghana and encumbrance of resource assets which could adversely affect debt sustainability. More generally transparency and careful value for money assessments need to underpin planning of debt-financed investments."*

*(IMF Country Report No. 19/97, Ghana, Apr 2019, p. 28)*

## "Hidden Debt"

It is also noteworthy that Ghana is not the only debtor to China. This problem has been encountered by many states around the world. In fact, China has become a global creditor/borrower whose financial claims already exceed **5% of the global GDP**. It is a fact that Beijing mainly lends money to developing countries which gives them more leeway to manage their processes in an untransparent way since even the debtor countries themselves do not collect data on local companies that are major borrowers of Chinese loans. These actions inspired the so-called problem of "hidden debt" and, as reflected in the IMF report, international organizations and individual states find it difficult to control and monitor these financial machinations. Following the case of Ghana, we find that countries such as "Djibouti, Tonga, the Maldives, the Democratic Republic of Congo, Kyrgyzstan, Cambodia, Nigeria, Laos, Zambia, Samoa, Vanuatu and Mongolia (and possibly many others) owe a debt of at least 20% of their nominal GDP to China."

The question is why is the IMF itself interested in such an alternative creditor as China?

First of all, the IMF lending policy is transparent and usually triggered by a National Policy Improvement Plan while China's loans are mostly vague and raise a lot of questions for the debtors themselves as well as for international organizations. Consequently, if China's debtor state applies to the IMF, officials should be aware that the funds allocated by the IMF can be used not to alleviate domestic market deficiencies but repay the debts of another official creditor such as China.



# Zimbabwe



In early 2019, the Sinohydro Corporation signed an agreement with the Zimbabwe Power Company (ZPC) to build a **USD 1.4 billion thermal power plant** in the Hwange Municipality. The ZPC itself is a public enterprise and a subsidiary of the Zimbabwe Electricity Supply Authority (ZESA). The letters from the Zimbabwe Construction and Allied Trades Workers' Union (Zcatwu), the testimonies of workers and other interviews reveal the breaches in the project employing up to 400 local inexperienced workers. Particularly, staff members were humiliated, insulted and abused by Sinohydro's Chinese employees to which the Zimbabwean government was suspiciously turning a blind eye. Their complaints also included: incomplete remuneration of salaries, use of unapproved contract forms, lack of protective clothing, improper dismissal of employees, improper appraisal and the management's deliberate efforts to establish a pseudo-representative body of workers at Sinohydro. Most of the employees involved in the project for more than a year work on three-month contracts which Sinohydro constantly renews in violation of the local labor law.

OTHER SANCTIONS IMPOSED IN FY16			
Entity Name/Individual	Country	Sanction Imposed	Grounds
1. M/s. GVR Infra Projects Ltd	India	Private Letter of Reprimand	Fraudulent Practice
2. Popyr Switzerland Ltd.	Switzerland	Letter of Reprimand	Fraudulent Practices
3. Sinohydro Corporation Limited	China	Letter of Reprimand	Fraudulent Practices
ANNUAL UPDATE: INTEGRITY VICE PRESIDENCY (INT)			37

However, the government-backed company ZPC banned Zcatwu from working on the issue. Sinohydro was officially blocked by the World Bank in 2016 as evidenced in the World Bank Group Fiscal Report 2016:

The screenshot shows that the Sinohydro Corporation Limited was sanctioned for fraudulent practices in 2016. (The World Bank Group, Annual Report, INTEGRITY VICE PRESIDENCY (INT), Fiscal Year 2016, p. 37). We need to highlight that in addition to the abovementioned projects, the World Bank has detected fraudulent practices related to Sinohydro in various countries all over the world which, consequently, led to the sanctioning of this company.

In the **Democratic Republic of Congo and in Mali** (on the Senegal River), Sinohydro was financing projects related to hydropower plants and was suspected of corrupt deals.

Sinohydro was involved in fraudulent machinations **in the Philippines and Malaysia**.

## What Does Fraudulent Practice Mean?

As revealed from the World Bank's 2019 annual fiscal report, the World Bank only imposes sanctions in the following cases: 1) **Corrupt Practices**, in various direct or indirect ways, offer, give, receive or solicit any value; 2) **Fraudulent Practices** - Any act or omission, including misrepresentation, to knowingly or unknowingly mislead a party, obtain financial or other benefits, or evade liability; 3) **Coercive Practices** - When intimidating or damaging, directly or indirectly, the property of either party; 4) **Collusive Practices** - An agreement between two or more parties designed to achieve a wrongful purpose, including influencing the wrongdoing of another party and 5) **Obstructive Practices** - Deliberately destroying, falsifying, altering or concealing evidence, making false statements to investigators, and/or threatening, harassing or intimidating any party, as well as actions intended to prevent the World Bank from being audited or compromised. (World Bank Group, Sanctions System Annual Report FY19, 2019, p. 9).

## SINOHYDRO IN LATIN AMERICA

### Ecuador



Sinohydro, with its scandalous business activities, is actively involved in Latin America. Ecuador is its best illustration since China represents the state's core financial source. The fact that in 2015 Ecuador was officially the first member state of the Asian Infrastructure Investment Bank (AIIB) from Latin America proves this argument. It is also well known that this organization is controlled by the Chinese Communist Party.

Paulina Garzón, Chief of the China-Latin America Sustainable Investment Initiative (CLASII), mentioned that instead of deepening relations with China, Ecuador should learn a lesson and draw conclusions from the failed Chinese-funded projects. One such project is the famous Coca Codo Sinclair hydropower plant in eastern Ecuador which is run by Sinohydro. The project was initiated in 2010 and had a budget of USD 2 billion. It was an initiative that encouraged corruption in the country, facilitated the accumulation of large amounts of debt and made Ecuador officially dependent on China.

Nearly all Ecuadorian high-ranking officials involved in the construction of the dam are in custody on bribery charges, including the former vice president of Ecuador, the former electricity minister and the anti-corruption official who monitored the project. His recording, where he is talking about taking a bribe from a Chinese company, has been publicly aired. According to the Ecuadorian newspaper, El Universal, although the government has not disclosed the amount of [Ecuador's loan to China](#), it turns out that the state received more than USD 11 billion from Chinese credit institutions in 2010-2017. In 2018, the debt amounted to USD 18 billion. It is a clear example of the "hidden debt" mentioned above when the state hides the billions of debt accumulated by Chinese investments. Clearly, due to the accumulated debt, Ecuadorians are forced to hire Chinese companies for all significant projects. Additionally, China was allowed to receive [80% of Ecuador's oil exports](#) at a big discount, which the latter sells at double the price for further profit. Ecuador redeems its contracts with China, not in dollars but in oil. Pumping enough oil to pay off China's debts has become so necessary for Ecuador that it is forced to endanger Amazon's flora and fauna. Moreover, the Ecuadorian government has been forced to cut social spending, gasoline subsidies and abolish several government agencies and more than 1,000 public services.

## Brazilian Odebrecht Projects Redeemed by Sinohydro

The existence of Ecuador's unsuccessful precedent has not prevented Sinohydro from taking part in other new projects in different Latin American countries.

In 2016, a Brazilian construction conglomerate called Odebrecht S.A. bribed high-ranking officials in South American countries (namely Brazil, Peru and Ecuador) with USD 800 million, thus, making a name for itself across the continent. It is worth noting that engineering, procurement and construction (EPC) contractors (who are under the control of the Chinese state) tried to maintain their contracts through the replacement of this company. This fact indicated the close ties between these parties.

EPC contractors are the Chinese companies under the Chinese Communist Party, including Sinohydro. There are [many clear examples](#) of their collaboration across Latin America: 1) The Navelena consortium formed by Odebrecht and Colombia's Valorcon in Colombia envisioned a USD 916 million project to continuously navigate the Magdalena River which crashed in the wake of the Odebrecht scandal. However, Sinohydro appeared on the scene to save the project; 2) In Peru, the Chinese consortium, Three Gorges Corporation, was able to buy the Chagla hydro-power plant from Odebrecht for USD 1.39 billion; 3) In the Dominican Republic, President Danilo Medina announced a retender in 2017 for investors interested in the Punta Catalina coal-fired power plant (which was awarded to Odebrecht in a 2013 tender). It later became known that the China Gezhouba Group had won the tender and 4) In Angola, the government handed over Odebrecht's Prais do Bispo - Corimba highway project to the construction of China Railway 20 Bureau Group.



The aforementioned cases demonstrate, on the one hand, the growing interest of the Chinese Communist Party in Latin American countries and, on the other hand, the increased Chinese debt of states which is significantly hindering their economic development.

## SINOHYDRO IN EUROPE

### Sinohydro in North Macedonia



Within the framework of the "Belt and Road Initiative," Sinohydro is actively pursuing corruption and "debt trap" policies in the Western Balkans. In terms of the amount of Chinese debt, a particularly deplorable situation is noticeable in North Macedonia. In 2013, Sinohydro formally signed a contract with the North Macedonian government for the **construction of two highways**, Miladinovci-Štip (47 km) and Kichevo-Ohrid (57 km). The agreement provided the state with a loan of EUR 638 million from the Chinese Export Import Bank (same as Exim Bank) and the construction of the highways was to be completed by 2018 although only a part of the work was done within the given period. On July 6, 2019, the official opening ceremony of the 47 km Miladinovci-Štip highway connecting the capital Skopje with the eastern part of the country was held. The deadline for the completion of the second infrastructural project has been postponed to 2021 while the total cost of this contract has increased by EUR 180 million.

The second unfinished project is the **Kichevo-Ohrid highway** which was supposed to connect the capital of Skopje with the tourist zone-city of Ohrid and which has been a priority of the North Macedonian government for years. Western investors and financial institutions refused to fund the project because of the frequency of vehicles in the area and its mountainous terrain which made construction less efficient and profitable. Nevertheless, the Chinese government-affiliated Exim Bank appeared on the scene, expressing a desire for financing the project and, at the same time, obliging the North Macedonian government to select a CCP-controlled Chinese company as a contractor. Consequently, despite its already tarnished reputation, the government chose Sinohydro, thus violating national procurement legislation in line with the EU law which encourages the transparency and security of supply companies. Due to this fact, the Prime Minister, Nikola Gruevski, his Deputy for Economic Relations, Vladimir Peshevski, the Transport Minister, Mile Janakieski, and the Director of the Macedonian Public Enterprise for State Roads (PESR), Ljupcho Georgievski, had to resign in 2015. They were exposed for corrupt activities which provided the reason for their legal prosecution. The high-ranking officials were accused of power abuse which involved the use of EUR 155 million from the national budget for personal means. Moreover, they preferred a CCP-led Sinohydro to the China International Water & Electric Corporation (CWE), even though Sinohydro had much higher prices for certain materials (goods) than a rival company. Additionally, the leader of the then-opposition Social Democratic Union of Macedonia, Zoran Zaev, released 38 audio recordings in 2015 of Prime Minister Gruevski and Transport Minister Janakieski discussing how to **extract EUR 25 million** directly from Sinohydro. Further additionally, people found that ambiguous "technical difficulties" had arisen on both highways resulting in some delays and price increases. The case of North Macedonia illustrates a principal example of the coordinated actions taken by the CCP-controlled Exim Bank and the same government-run company Sinohydro and the severe problems of a state that has to repay its debt systematically in the coming years.

## China's "Debt Trap" Policy in the Western Balkans

North Macedonia is not the only victim of China's "debt trap" policy in the region. Thanks to Exim Bank and various state-owned construction companies, Montenegro, Serbia, and Bosnia and Herzegovina have also accumulated large amounts of Chinese debt. In [Bosnia and Herzegovina](#), Beijing is mainly engaged in lignite power plant projects worth EUR 870 million, Chinese companies are building EUR 5.5 billion railway projects and highways in [Serbia and Montenegro](#) owes EUR 1 billion to Exim Bank which is related to the Montenegro-Serbia highway project on the Serbian border. At the same time, the accession to the European Union is important for both the Balkan countries and the European Union. Until now, the EU has been considered as a [major foreign partner](#) in the region and a major driving force of their foreign policy. However, over the last decade these trends have also changed with the growth of Chinese debt. China's growing role threatens the unification of the Western Balkan states into the European Union and the formation of a single "European family." Consequently, this time it is up to the EU to decide whether it will help the Western Balkans to free themselves from China's financial trap or whether it will reduce its active leverage and give the arena to China in the end. If that happens and the EU hands over its influence in the Western Balkans to China, only Beijing will get the opportunity to determine the future of the region.

## Sinohydro in Romania

Like Georgia, North Macedonia and many other countries, the Romanian government is experiencing the problem of due diligence. It is evidenced by their unquenchable interest and partnership with Sinohydro. This country, like North Macedonia, may become the next victim of Sinohydro and Beijing's "debt trap" policies. Since 2018, within the scope of the BRI project, the Romanian National Road Company has actively commenced awarding Sinohydro with long and short-term infrastructural initiatives. Specifically, Romania signed its first contract with Sinohydro in 2018. The company, together with [Nord Vest Infrastructura Si Servicii SRL](#) (a local Romanian company), was commissioned to modernize the EUR 52 million Bucharest road belt in 123 months; particularly, the sections between A1-DN 7 and DN 2-A2: DN 2 (km 12 + 300) - A2 ( km 23 + 750). It should be noted that this project was signed during the governance of Liviu Dragnea, the leader of the ruling Social Democratic Party of Romania. He made the Romanian economy accessible to Chinese companies that look for new markets in the Eastern European region and expand the CCP influence. At a [May 2017](#) event, "Dialogue of Political Parties, China - Central and Eastern European Countries," Dragnea said: "China is a reliable partner for Europe and I believe that Central and Eastern Europe is the gateway to economic and trade cooperation between the two continents with its two major pillars, China, on the one hand, and the European Union, on the other." The same year, the Supreme Court of Romania exposed him for corrupt machinations and he was [sentenced](#) to three and a half years in prison. They found him guilty because he was using a state agency to transfer money to two female members of his party holding fake job positions. Nevertheless, during his tenure in power in Romania, he paved the way for Chinese compa-

nies and especially Sinohydro. According to the Romanian road infrastructure company, CNAIR, a consortium consisting of Sinohydro and a local company, Good Prod, won a EUR 38 million tender for the **Zalau ring road** project, which is located 550 kilometers northwest from the capital of Bucharest, in July 2020. The contract lasts **30 months** and includes the design and construction of five viaducts and two bridges as well as the construction of two bypass roads. It should be noted that this project is also part of the BRI which once again indicates the importance of this initiative in deepening relations between China and Eastern Europe and expanding/strengthening Beijing's malign influence.

We would like to underline that the Chinese Communist Party has already tried to increase its economic influence in Romania in the past but these attempts have been mostly unsuccessful. For example, in 2013, the Romanian Ministry of Energy signed a letter of future partnership with Sinohydro regarding the construction of the **Tarnița-Lăpuștești** hydropower plant which involved an investment of EUR 1.3 billion. In 2015, Romania officially began negotiations for a tender of this project in which Chinese Sinohydro would participate along with other European companies. Nonetheless, by 2016 the Romanian government had abandoned the project tender and postponed it for the future. The discussion on the construction of the hydropower plant was resumed only in 2019. Romania's Forecast and Strategy National Committee (CNSP) has published a report on the irreversible and unconditional importance of the Tarnița-Lăpuștești hydropower plant for the Romanian energy system. According to the Romanian media, the government is looking for **private partner** companies to implement this project. Perhaps this circumstance can be effectively used by Sinohydro, having broader access to the Romanian market than it had in 2013. Maybe in the nearest future we will see Sinohydro among the implementers of this strategically vital project.

## China Railway 23rd Bureau Group Co., Ltd.



Media reports provide information about the solid liabilities of another Chinese company, China Railway 23rd Bureau Group Co., Ltd. It was established in 2002 and is a subsidiary of China Railway Construction Corporation Limited. Its Georgian branch was established on July 30, 2010 and is still actively involved in the construction of roads and railways. As stated by Commersant, "according to the company's 2017 financial statements, China Railway 23rd Bureau Group Co. earned GEL 129,843,076 while the company's annual profit was GEL 10,396,879."

China Railway 23rd Bureau Group Co. is responsible for the construction of a tunnel (cost USD 278 million) on the Zestaponi-Kharagauli and Moliti-Kvishkheti sections in Georgia. Likewise, with Sinohydro, it **violates the rights of local workers**, creates inadequate working conditions that result in unpaid leave, they provide an unhygienic environment, a lack of proper equipment and products, negligence and high risks to health in general. Because of these breaches, Georgian workers often have to strike. On January 22, 2018, three workers

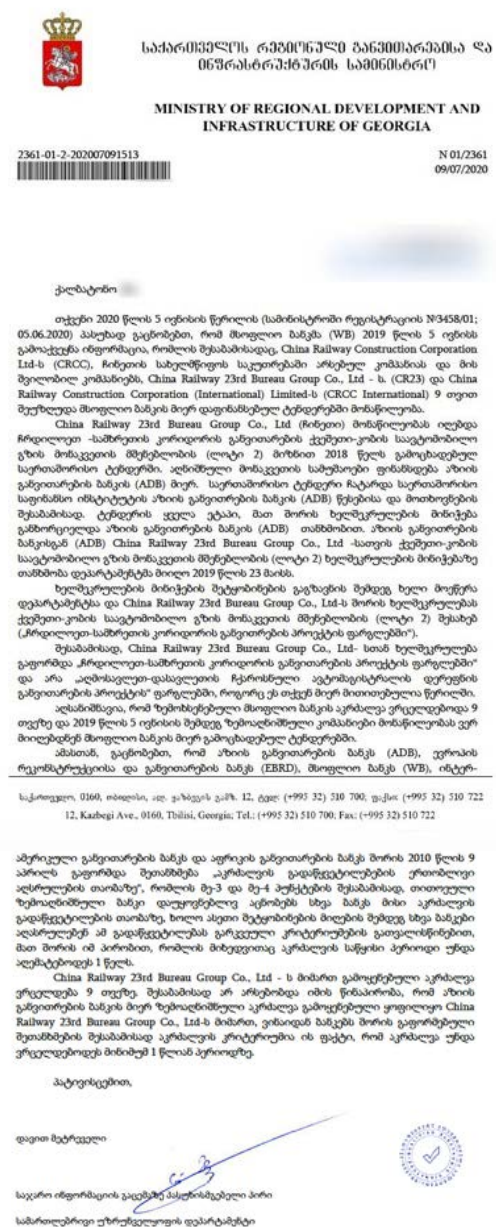


were injured during a tunnel explosion and earlier in 2017, two workers died while performing their duties. The company's representatives often either deny the allegations or ignore the questions coming from civil society and the media.

In June 2019, the World Bank imposed a nine-month **debarment** of Chinese companies; namely, the Chinese state-owned construction and engineering company and its full-fledged subsidiaries, China Railway 23rd Bureau Group Co., Ltd. (CR23) and the China Railway Construction Corporation (International) Limited (CRCC International) found themselves under the ban regulation. This sanction was related to violations within the framework of the East-West Highway Corridor Improvement Project in Georgia. This is a USD 164 million project that was officially signed in 2015 and is due to be completed by 2023. According to the official website of the World Bank, during the preliminary qualification and tender procedures for the highway construction contract, three Chinese companies named in the project prepared and submitted information that incorrectly reflected the number of staff and equipment of China Railway 23rd Bureau Group Co., Ltd. The false information they provided also misrepresented the experience of the companies and their subsidiaries. As we have already highlighted above, under the World Bank's administrative sanctions system, these actions are considered to be a fraudulent practice. We also note that the relevant Georgian authorities have never denied the existence of any liabilities, just as there is no explanation as to how the Georgian Roads Department selected this company. Through personal communication with the Ministry of Regional Development and Infrastructure, Civic IDEA requested public information about the China Railway 23rd Bureau Group Co., Ltd.'s operations in Georgia and asked why it continues to operate in Georgia when the World Bank introduced a nine-month ban due to its illegal actions and inaccuracies.

In response to our request, the Department of Legal Affairs sent us an official letter according to which they imposed the full responsibility on the Asian Development Bank (ADB) for the China Railway 23rd Bureau Group Co., Ltd.'s participation in the construction of the **Kvesheti-Kobi highway**. Indeed, this project belongs to the North-South Highway Corridor sponsored by the Asian Development Bank which also started in 2019 (until 2021) with a total cost of GEL 324,242,222.86. As for the abovementioned East-West Highway corridor which became the main reason for the World Bank's debarment, the Ministry of Regional Development and Infrastructure decided to avoid this topic.

Below, we offer the full version of the letter:



"The international tender was held in accordance with the rules and requirements of the International Financial Institution, the Asian Development Bank (ADB). All stages of the tender, including the contract award, were carried out with the consent of the Asian Development Bank (ADB). On May 23, 2019, the Department received an approval from the Asian Development Bank (ADB) to award China Railway 23rd Bureau Group Co., Ltd with a contract for the construction of the Kvesheti-Kobi Highway (Lot 2)...

Accordingly, the contract with China Railway 23rd Bureau Group Co., Ltd was entered into force as part of the North-South Corridor Development Project and not as part of the East-West highway Corridor Development Project, as indicated in your letter...

The ban on China Railway 23rd Bureau Group Co., Ltd applies for 9 months. Accordingly, there was no precondition that the above prohibition should be applied by the Asian Development Bank to China Railway 23rd Bureau Group Co., Ltd, since under the agreement between the banks, the prohibition criterion should apply for at least 1 year."

As we see from the letter, Georgia's Ministry of Infrastructure puts all the responsibility on the Asian Development Bank and its agreements with other international institutions claiming that nothing is solved on an internal basis, domestic regulations. Besides, they avoided our request concerning the East-West Highway Corridor, which became the principal objective for China Railway 23rd Bureau Group's debarment.

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