

New Donors

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Abstract: Aid given by non-DAC donors (“new donors”) gains increasing attention. The recent literature moved beyond the presentation of qualitative evidence to more rigorous analyses based on improved data collection. In this paper we investigate the lessons of this emerging literature. We discuss whether the allocation of aid from non-DAC donors is different from that of DAC donors and how non-DAC donors differ among each other. We also discuss how the presence of non-DAC donors might impact on the effectiveness of aid. Overall, we argue that non-DAC aid is not necessarily inferior to DAC aid.

Keywords: Non-DAC donors, aid allocation, aid effectiveness, donor coordination

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1. Introduction

The increasing importance of donor countries operating outside of the OECD’s Development Assistance Committee (DAC) challenges the existing international aid architecture.¹ The DAC’s role as *the* major institution to set the aid agenda is questioned by (seemingly) new actors in international development cooperation, notably by the group of emerging economies. The numerous activities of non-DAC donors are most visible in humanitarian assistance, where virtually every country in the world acts as a provider of at least some humanitarian aid. This underlines that, in contrast to widespread perceptions, “[h]umanitarian action is not the preserve of the rich, industrialised West, but a common pursuit among nations, rich and poor” (Harmer and Martin 2010: 1). The same applies, albeit to a smaller degree, to other forms of development assistance. According to Woods (2008), this (re)emergence of non-DAC donors is a “silent revolution” in the world of development assistance.

Figure 1 visualizes the increasing importance of non-DAC donors. We plot their share in total aid (as reported on AidData, Tierney et al. 2011) and the corresponding share in food aid (as reported on FAIS, World Food Programme 2011). Although international development cooperation continues to be dominated by DAC countries, the role of other donors gains momentum. Only 1.8 percent of reported food aid originated from non-DAC countries in the first half of the 1990s. This share increased to 18.8 percent in the second half of the 2000s. The same tendency is visible in data provided by AidData. The fact that the increase is less pronounced here (5.2 percent in 2005-09 compared to 3.0 percent in 1990-94) is at least partly due to non-availability of data for major non-DAC donors and China in particular.²

While the term “new donor” is usually employed as a synonym for a donor country that operates outside the DAC, it does not take account of the long history of aid-giving by many non-DAC donors (see Manning 2006). Russia, for example, is anything but a new donor, considering the role of Soviet aid during the Cold War and the country’s aid competition with Western donors (e.g., Rai 1980). Almost ten percent of development assistance during the Cold War era originated from Eastern Bloc countries and significant amounts came from Arab countries – peaking in 1978 with the provision of 30 percent of aid (Manning 2006). Similarly, the

¹ The DAC is the aid forum of the OECD and consists of the European Union and 23 OECD member countries. South Korea joined the DAC in 2010 only.

² Moreover, part of this increase stems from better reporting of non-DAC donors’ aid contributions on AidData over time.

engagement of the two big Asian non-DAC donors, China and India, goes back to the 1950s.³ As we note in Dreher and Fuchs (2011), what is actually “new” is rather the attention that these donors receive in the public debate. This applies in particular to the so-called BICS countries, namely Brazil, India, China and South Africa.

It should also be noted that the categorization of donors into “new” (non-DAC) and “old” (DAC) is fairly crude. There are considerable differences between long-standing members of the DAC and donors that only recently joined this aid forum.⁴ The group of non-DAC donors shows an even greater variability as it consists of high-income countries and low-income countries, democracies and authoritarian regimes, and comprises donors on almost all continents with most diverse cultural and historical backgrounds.

These qualifications have to be kept in mind when addressing the following questions: Is the allocation of aid from non-DAC donors significantly different from that of DAC donors? And how do non-DAC donors differ among each other in their aid allocation decisions? Section 2 provides a first tentative answer, summarizing the small literature on aid allocation by non-DAC donors. How could the (re)emergence of non-DAC donors impact aid effectiveness? Section 3 provides an overview on the state of the scientific discussion, highlighting considerations from a recipient’s perspective. Finally, Section 4 puts these findings of the previous literature into perspective and sheds the light on the question how the DAC community could react to the increasing importance of non-DAC donors.

2. Is the allocation of non-DAC aid different?

Much has been written about the motives driving the allocation of aid. Foreign aid from traditional DAC donors is often conditional, with poverty and humanitarian needs in recipient countries being just one factor shaping the allocation of aid.⁵ Political and commercial motives are also important drivers of aid (e.g., Alesina and Dollar 2000; Kuziemko and Werker 2006; Dreher and Fuchs 2011a). Moreover, there is evidence that governance-related conditionality shapes aid allocation (Öhler et al. 2012). While plenty of systematic evidence exists for the group

³ The term “non-traditional donor,” proposed by Kragelund (2010), is as misleading as “new donor” since it denies long-standing non-DAC donors like China, India or Saudi Arabia to have aid traditions (Fuchs and Klann 2012).

⁴ Doucouliagos and Manning (2009) analyze the provision of development aid from Greece, Luxembourg and Portugal, three rather new members of the DAC, and find that aid does not specifically target poorer countries.

⁵ See Nunnenkamp and Thiele (2006), and the literature given there.

of DAC donors, empirical evidence is scarce for donors outside of the DAC.⁶ Early work by Neumayer (2003) is restricted to Arab donors and does not extend beyond 1997. Only very recently did data become available allowing analyses similar to those for the donors of the DAC. Relying on AidData (Tierney et al. 2011), Dreher et al. (2011) assess the aid allocation across recipient countries for a group of 16 non-DAC donors over the 2001-2008 period. Dreher and Fuchs (2011) focus on China, Fuchs and Vadlamannati (2012) on India, Lee (2012) on South Korea, and Fuchs and Klann (2012) on emergency aid from 105 donors, including 83 non-DAC donors.

With respect to *recipient need* as a motive of aid giving, one might suspect that emerging donors provide better targeted aid than the traditional and more advanced DAC donors. Various “new” donors have been at the receiving end of foreign aid until recently. Others are still recipients of considerable aid amounts. Given their own experience on what helped them develop, “new” donors may have a better understanding of recipient needs, while recipients may be more inclined to take lessons from emerging donors than adhering to conditions attached to DAC aid (Dreher et al. 2011). Apart from focusing on particularly poor recipient countries, a needs-based allocation of non-DAC aid may also be reflected in “new” donors playing an increasingly important role in disaster relief and post-conflict resolution (Harmer and Cotterrell 2005). Nevertheless, most DAC donors have decades of experience in the aid business and long-established aid institutions that may make it difficult for non-DAC donors to outperform DAC donors in terms of needs-based targeting of aid. Recent studies typically find that poorer countries receive more DAC aid (e.g., Berthélemy 2006). This applies even to DAC donors that are widely perceived to be less altruistic, notably the United States (Dollar and Levin 2006).

It is mainly with respect to *merit*, as defined from a Western donor’s perspective, that the allocation of non-DAC aid may be distinct. This could be expected if non-DAC donors provided aid unconditionally without interfering with the recipients’ economic policies and local governance issues. According to Lammers (2007), such an approach can be traced back to the Principles of Peaceful Coexistence adopted at the Bandung Conference of Asian and African states in 1955. China, in particular, is widely held to provide aid “without Western lectures about governance and human rights” (The Economist 2010). This reasoning suggests that non-DAC aid should be unaffected by governance structures in recipient countries. It could even be that “new”

⁶ Much of the available evidence is descriptive, with ECOSOC (2008) and Kragelund (2008, 2010) providing good overviews that cover essentially all non-DAC donors.

donors concentrate on recipient countries with particularly bad governance to fill the gap left by the DAC donors.⁷

Turning to *self-interest of donors*, major DAC countries have often been berated to provide aid as a means of promoting bilateral trade or rewarding politically aligned countries (e.g., Berthélemy 2006). At the same time, it appears to be common wisdom that major “new” donors are not altruistic either. While China is the chief villain among new donors in the literature (see Dreher and Fuchs 2011 for a discussion), political considerations may also affect the allocation of aid by regional powers such as Brazil and South Africa. Indeed, Asian donors such as India (Manning 2006; Woods 2008), Arab countries (Villanger 2007), and Venezuela (Manning 2006; Naím 2007) have been blamed for commercial and political selfishness. Woods (2008) notes that a quest for energy security, enlarged trading opportunities and new economic partnerships is common to most non-DAC donors. Fuchs and Vadlamannati (2012) hypothesize that aid from poorer countries is to a larger extent driven by self-interests than aid from richer donor countries, given the developmental problems a “needy” donor faces domestically. To obtain the electorate’s support for the aid program, poor donors need to emphasize their own benefits. Naím (2007: 95) takes an extreme view and claims that “rogue aid providers [e.g., China, Iran, Saudi Arabia and Venezuela] couldn’t care less about the long-term well-being of the population of the countries they “aid.””

With theoretical considerations being ambiguous, rigorous data analysis is required. Dreher et al. (2011) provide a first attempt to close the gap in the literature by assessing the aid allocation across recipient countries for a group of 16 non-DAC donors in the 2001-2008 period. Their results indicate that “new” donors attach less importance to recipient need than DAC donors when allocating aid. “New” and “old” donors appear to behave similarly in other respects. Both groups disregard merit by not taking the level of corruption in recipient countries into account. Concerns that commercial self-interest distorts the allocation of aid seem to be overblown for both groups. As major drawback of this study, it should be stressed that the two major non-DAC donors, India and China, are not included, due to data limitations.⁸

⁷ However, previous evidence points to a considerable gap between the DAC rhetoric of rewarding good governance and actual allocation behavior (e.g., Alesina and Weder 2002).

⁸ Lee (2012) compares the allocation of DAC aid with aid provided by South Korea. Lee finds that Korea’s aid is neither correlated with socio-economic development or poverty, nor with its strategic motives. The lacking poverty orientation resembles the results in Dreher et al. (2011), whereas strategic interest variables enter significantly, but with unexpected signs in Dreher et al.

Dreher and Fuchs (2012) collect data for China and are the first to empirically analyze China's aid allocation based on data for project aid, food aid, medical staff, and total aid flows. The results show that political considerations are important in China's aid allocation decisions over all periods in the history of China's aid program. When comparing the aid motives with other (DAC and non-DAC) donors, however, China's allocation of aid does not react more strongly to strategic considerations. More surprisingly, the results show no robust relationship between Chinese aid and the availability of natural resources. Dreher and Fuchs thus conclude that denominating aid from China as "rogue aid" seems unjustified. Although we see the strength of this paper in the detailed empirical analysis of what determines the allocation of different types of China's foreign assistance, the main analysis may suffer from imprecise measurement as it relies on the number of projects completed in a certain year and country. Specifically, the timing of the effects of the explanatory variables is difficult to capture on the basis of the number of completed projects. Moreover, the measure does not take account of the monetary value of the projects undertaken.⁹ Future research would benefit considerably from the collection of better data on China's foreign assistance.

The allocation of aid from India, the other big Asian non-DAC donor, is particularly puzzling as almost half of the country's aid recipients have a higher per-capita GDP than India itself. The empirical results in Fuchs and Vadlamannati (2012) confirm that India's aid allocation is more strategic than that of DAC donors and less oriented towards needy recipients. The fact that the paper analyzes only aid commitments by India's Ministry of External Affairs could introduce noise into the comparison with DAC donors and could well provide a partial explanation of these findings. Fuchs and Klann (2012) cover 105 donors of emergency aid and thus allow for comparisons among a larger group of donors than any previous work did cover. They compare the importance of different motives for the allocation of aid between DAC members and non-DAC donors, between high-income countries and less developed donors as well as between democracies and authoritarian regimes. Their results show that non-DAC donors attach greater weight to politics when granting emergency aid. Moreover, autocratic aid appears to be biased towards countries rich in natural resources and against democracies.

Taken together, aid allocation by "new" and "old" donors appears to be more similar than one might think. Although DAC donors seem to be more needs-oriented to a certain degree

⁹ For example, the comparison of China with other donors could be biased if China focuses on (few) large infrastructure projects, while DAC donors focus on smaller projects in, say, the education sector.

(Dreher et al. 2011; Fuchs and Vadlamannati 2012; Fuchs and Klann 2012), the observed differences do not justify branding non-DAC donors as “rogue donors,” if aid allocation by DAC donors is taken as a benchmark. However, the available data are still insufficient and often of poor quality so that future research using better data is of eminent importance. Aid agencies and ministries of non-DAC donor countries should follow the DAC donors in publishing complete aid statistics.

3. Is non-DAC aid more effective?

Critics of traditional DAC aid dispute its effectiveness in promoting growth and alleviating poverty in recipient countries (Easterly 2006; Doucouliagos and Paldam 2009). With respect to non-DAC aid, the available evidence on aid effectiveness is limited and largely speculative. A frequently made argument that non-DAC donors could help promote the economic and social development in recipient countries rests on their familiarity with local conditions and their comparative advantage in overcoming bottlenecks that are typical in these environments (Davies 2010; Park 2011). Various non-DAC donors, including the major players China and India, have their own recent development experience to offer on how to put foreign aid, in combination with local resources, to productive use. Some of them, notably the Central European donors, have successfully managed their own economic and political transitions that could provide important lessons to recipient countries. Others could provide insights on how to use aid as a stimulus to growth and poverty reduction (Zimmermann and Smith 2011: 731).

Furthermore, the integration of aid into broader concepts of economic development could render non-DAC support more effective. The effects of DAC aid are often undermined by counterproductive policies in other areas, notably protectionist trade measures.¹⁰ By contrast, the ‘package approach’ of some non-DAC donors such as China has been commended as a more consistent combination of aid, trade and investment policies (see, e.g., Woods 2008). Although it would be hard to isolate the impact of aid from other elements of this package, the package as a

¹⁰ For instance, Norway belongs to the group of most generous donors but ranks last according to the trade component of the Commitment to Development Index 2011, published by the Center for Global Development (Roodman 2011).

whole is widely believed to have supported the integration of partner countries, in particular in sub-Saharan Africa, into the world economy.¹¹

The aid activities of many non-DAC donors are largely complementary to DAC activities. The structure of the aid budgets of most DAC donors has shifted from production sectors and physical infrastructure to social infrastructure (education, health, etc.) and institution building. By contrast, non-DAC donors are strongly engaged in improving infrastructure and productive capacity (Davies 2010). They may thus fill important gaps left over by the DAC donors. Moreover, non-DAC donors are widely credited for filling such gaps in a less bureaucratic way, thereby reaching targets more quickly than their DAC counterparts.¹²

Complementarities with respect to the structure of aid budgets do not necessarily imply that non-DAC aid is fully additional to DAC aid. The increase in the overall supply of aid from all sources depends on the response of DAC donors and also on how recipient countries use their improved bargaining position. As concerns DAC donors' reactions, Fuchs et al. (2012) find negative peer effects among them; i.e., an increase in other donors' aid budgets is associated with a smaller aid budget of a particular DAC donor. While such a reaction suggests that DAC donors consider aid to be an international public good (Schweinberger and Lahiri 2006), the reaction to an increase in non-DAC aid may be different if DAC and non-DAC donors perceive each other as competitors rather than partners with coordinated aid activities. Recipient countries could exploit the competition between traditional and emerging donors by maximizing overall aid inflows; or they may use their bargaining position to regain policy space "after decades of quasi-unilateral dependence on Western donors" (Reisen and Stijns 2011). DAC aid could decline if recipients grasped the opportunity of drawing on alternative aid sources in order to circumvent the DAC's governance agenda.

In some respects, however, non-DAC aid could also reduce the policy space of recipient countries. Non-DAC donors appear to be less willing than DAC donors to provide aid as general budget support which, compared to project-specific aid, offers recipients more discretion on how to use aid (Kragelund 2008; Davies 2010). The effectiveness of non-DAC aid may also be compromised as large parts are tied (Kragelund 2008; Davies 2010); i.e., recipients are obliged to

¹¹ For a detailed assessment of intensified aid, trade and investment links, see chapter 6 on "Africa and its Emerging Partners" in the 2011 edition of the African Economic Outlook (http://www.cgdev.org/doc/CDI%202011/CDI%20Brief_2011.pdf).

¹² For instance, Bräutigam (2011: 761) notes that "the Chinese focus on turnkey infrastructure projects is far simpler and does not overstretch the weak capacity of many African governments."

spend it on goods and services supplied by the donor country.¹³ Tying aid typically reduces its value for the recipient.¹⁴ Furthermore, non-DAC donors often provide subsidized loans, rather than outright grants. Nevertheless, concerns that this may result in renewed debt problems of recipient countries appear to be unfounded (Davies 2010; Reisen and Stijns 2011).

Finally, recipient countries may have to bear higher transaction costs due to the increasing number of non-DAC donors. Donor proliferation and aid fragmentation have been shown to absorb scarce administrative resources and to impair bureaucratic quality in aid-dependent countries (Knack and Rahman 2007).¹⁵ Non-DAC donors may be just as inclined as DAC donors to ‘plant their flag’ in various places, in order to render their aid more visible (Manning 2006). The focus of non-DAC donors on project-specific aid could add further to transaction costs by increasing the number of interventions by each donor.

All in all, the discussion suggests that general verdicts on the effectiveness of non-DAC aid are as unwarranted as for DAC aid. Recipient countries may benefit from additional sources of aid, but it will ultimately depend on local conditions whether aid is used effectively.¹⁶ This leaves much room for future research.

4. Non-DAC and DAC donors: Conflict, coexistence or coordination?

The DAC has established a wide array of principles, standards and procedures resulting in a complex system governing its relations with aid recipient countries. The Paris Declaration of 2005 represents a recent manifestation, calling for various steps to be taken by donors and recipients to render aid more effective. Kim and Lightfoot (2011: 712) use the notion of ‘DAC-ability’ to assess whether the established DAC framework could be effective for “steering the increasingly crowded international aid system.”

Various non-DAC donors actually appear to be willing to (co-)operate within the DAC framework. This applies especially to countries that recently joined the EU and also to OECD countries such as Mexico and Turkey (Manning 2006; Kragelund 2008). Neumayer (2004: 299) argues that Arab donors may be unwilling to succumb to DAC rules of transparency and peer

¹³ However, aid from Arab donors is largely untied (Manning 2006: 374).

¹⁴ It has been estimated that tied aid increases costs by 5-30 percent (Knack and Smets 2012). However, the costs of tied aid may be lower in the case of non-DAC donors (Park 2011: 47-48).

¹⁵ However, the consensus on the negative consequences of fragmented aid is based on results that are not robust to the choice of fragmentation indicator and regression specifications (Dreher et al. 2012).

¹⁶ See Kim and Lightfoot (2011) for a similar conclusion.

review, but “there is nothing inherent in aid-giving by Arab donors that makes them incompatible with western donors and would stand against closer cooperation.” Even Russia aligns its aid with DAC principles (Zimmermann and Smith 2011).

However, some important non-DAC donors clearly resent the traditional dominance of the DAC. China and India, in particular, frame their financial, economic and technical support to other emerging and developing countries as South-South cooperation. They do not want to be perceived as aid donors but rather as partners. The Paris Declaration lacks legitimacy in their view as they had no voice until recently, and also because they do not consider the DAC process to be conducive to more effective aid (Chandy and Kharas 2011; Woods 2011).

As noted by Bräutigam (2011), the Paris Declaration’s emphasis on ownership, alignment with country priorities and managing for results to some extent resembles the much older norms that guide South-South cooperation, notably the principles laid out by Chinese Premier Zhou Enlai in 1964. All the same, ‘aid’ in the context of South-South cooperation differs in major respects from DAC aid. The DAC notion of ownership asks recipient countries to exercise effective leadership over their development strategies, but DAC donors “find it difficult genuinely to withdraw from influencing policy and projects in-country” (Woods 2011: 15). Non-DAC donors engaged in South-South cooperation interpret ownership in a more literal way; their aid is “highly deferential to country preferences” (Chandy and Kharas 2011: 742). In line with the Bandung principles, donors claim not to interfere in internal affairs of recipient countries and or to exert pressure. Rather, ‘aid’ to peers is meant to foster mutually beneficial relationships; the political and academic debate on selfish versus altruistic DAC donors, summarized in section 2, is beside the point from this perspective.

The guiding principles of aid from some major non-DAC donors have raised concerns in the DAC community. These range from Naím’s (2007) general verdict of ‘rogue aid’ to more reasonable reservations against the hands-off approach of non-DAC donors with regard to specific standards, including environmental and social side effects of aid projects. The common denominator appears to be that non-DAC donors are blamed for undermining DAC efforts at better governance and policy reforms in the recipient countries, thereby decreasing the effectiveness of their aid. In line with this, Bermeo (2011) provides empirical evidence that the source of aid matters for institutions. Specifically, she finds a positive relationship between aid from democratic donors and the likelihood that a recipient country democratizes and a negative link between aid and democratization for aid from an authoritarian source.

However, it is highly controversial whether aid conditionality has worked to buy policy reforms or better governance.¹⁷ Non-DAC donors are also right to stress that DAC donors “have little reason to claim the moral high-ground” (Tull 2006). The wide gap between DAC rhetoric and reality is clearly revealed in its own monitoring of the implementation of the Paris Declaration. According to the most recent report (OECD 2011), just one (coordinated technical cooperation) out of 13 targets for 2010 had been met. The fragmentation of DAC aid continues unabated (Nunnenkamp et al. 2011). The substantial co-financing of projects by Arab donors may even set an example for DAC donors how to defragment and coordinate aid (Neumayer 2004).

Against this backdrop, experts from the OECD’s Development Cooperation Directorate see the need for “a more inclusive international development cooperation system” (Zimmermann and Smith 2011). The rise of non-DAC donors is regarded as a “major opportunity” of mutual learning and building trust. Indeed, small steps in this direction have been taken recently (Paulo and Reisen 2010).¹⁸ So-called triangulation provides an example, where the DAC may finance a project in a recipient country in combination with expertise from a non-DAC party.

Given the inherently political nature of aid, however, there are clear limits to cooperation involving non-DAC donors such as China and India (Chandy and Kharas 2011). While political rivalry renders it difficult to build trust, mutual learning suffers from the absence of consensus on the conditions under which aid may be effective. None of the parties involved has sufficiently strong incentives to overcome this situation. On the one hand, the DAC remains “strongly invested in the current effectiveness agenda” (Chandy and Kharas 2011: 744). On the other hand, the legitimacy and usefulness of this agenda is disputed by major non-DAC players.

Paulo and Reisen (2010) argue that non-DAC donors may not stand aloof from established standards in order to avoid criticism by the international aid community. However, recipient countries constitute the more relevant reference group for non-DAC donors. Non-DAC donors might relent if there continued to be “strong support from developing countries for this agenda [i.e., the Paris Declaration]” (Manning 2006: 378). More realistically, the current feeling of recipient countries is one of disillusionment and disaffection with the DAC regime (Woods 2008). Hence, there is no pressure from recipients on non-DAC donors for more cooperation with

¹⁷ See Collier (1997) and Dreher (2009). Öhler et al. (2012) provide evidence that conditionality can work if designed properly.

¹⁸ The Busan Partnership for Effective Development Cooperation, agreed at the 4th High Level Forum in Korea in November/ December 2011, offers “an open platform that embraces diversity, providing a forum for the exchange of knowledge and the regular review of progress” (<http://www.oecd.org/dataoecd/54/15/49650173.pdf>).

the DAC. To the contrary, recipients tend to prefer competition between DAC and non-DAC donors as coordination among them would weaken the recipients' bargaining position.

Non-DAC donors with global aspirations, notably China and India, resemble major DAC donors such as the United States in an important respect: They are reluctant to closely coordinate their aid activities with other donors if doing so compromises their policy autonomy (Rowlands 2008; Nunnenkamp et al. 2011). This is unlikely to change when supplementing, or even replacing the DAC, by more inclusive institutions such as the Development Cooperation Forum, launched by the UN Economic and Social Council in 2007, where non-DAC donors would have a larger voice (Hammad and Morton 2009). In the light of the meager achievements to defragment aid and coordinate within the DAC, the prospects of genuine cooperation between DAC and non-DAC donors are clearly remote. "Peaceful co-existence" (Kim and Lightfoot 2011: 716) of different aid regimes appears to be the most reasonable option for the future.

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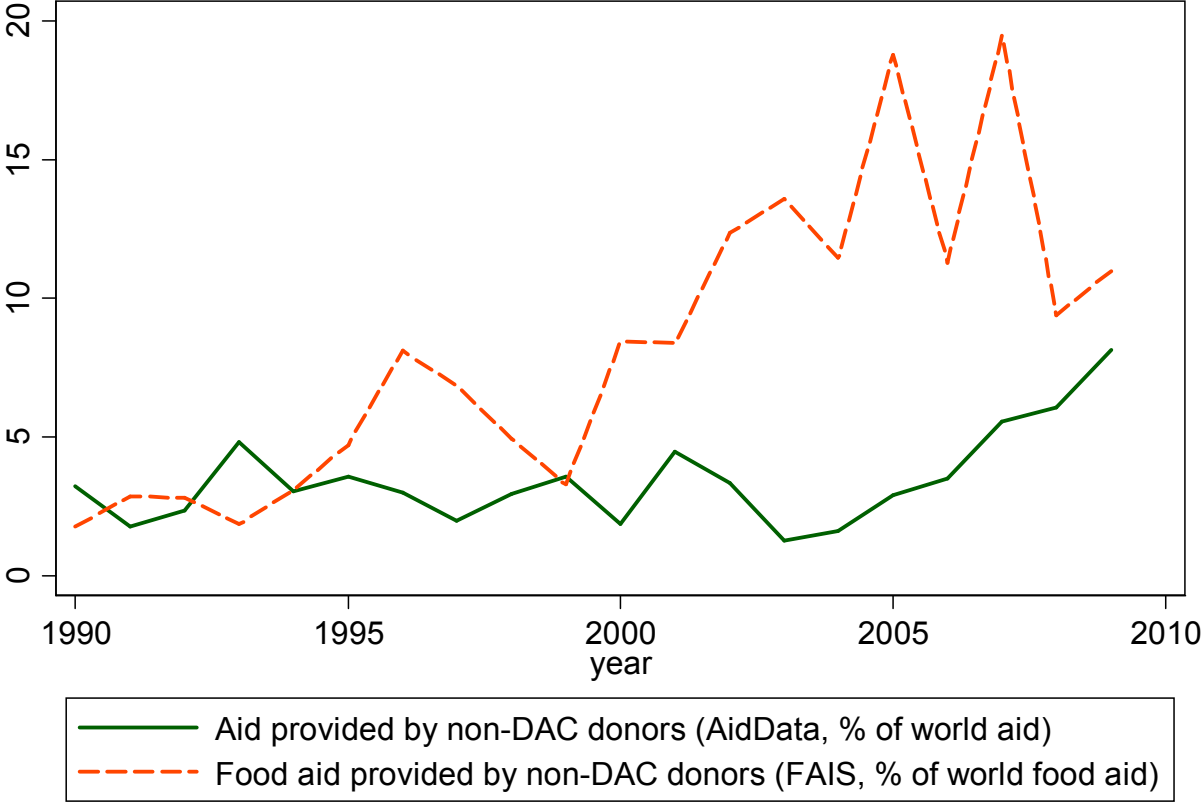
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Figure 1: Share of non-DAC donors in total aid (1990-2009)



Data: AidData & Food Aid Information System (FAIS)