Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance

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The world of development assistance is being shaken by the power shift occurring across the global economy. Emerging economies are quietly beginning to change the rules of the game. China, the United Arab Emirates, Saudi Arabia, Korea, Venezuela, India, Kuwait and Brazil, among others, have been increasing their aid to poorer countries. They are giving aid on terms of their choosing. None of these countries belong to the donors' club established within the OECD, called the OECD Development Assistance Committee (DAC). Conservative estimates suggest that the official development assistance provided by some of these countries will at least double to a little over $1 billion by 2010.[1] Others have estimated that non-DAC donors' disbursements were already around US$8.5 billion in 2006.[2] At the head of this group of emerging donors is China, combining loans, credits and debt write-offs with special trade arrangements and commercial investments. Common to most of these donors is a quest for energy security, enlarged trading opportunities and new economic partnerships, coupled with rapidly growing strength and size in the global economy. As these emerging powers build aid programmes and forge stronger relationships with poor countries, no existing development assistance programme will be immune from the effects. This article analyses the likely consequences for aid, multilateral institutions and conditionality.

The term 'emerging donors' is used as a shorthand to contrast these states with OECD DAC members, who are also referred to here as 'established donors'.[3] It is worth emphasizing that although they are often labelled 'new donors' most of the emerging donors are not in fact 'new' to development assistance. For example, it

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1 IMF/World Bank, 'Applying the debt sustainability framework for low-income countries post debt relief', *IMF Staff Report*, 6 Nov. 2006 (Washington DC: IMF, 2006); Helmut Reisen, *Is China actually helping improve debt sustainability in Africa?* (Paris: OECD Development Centre, July 2007).

2 Matthew Martin and Jonathan Stever, 'Key challenges facing global development cooperation', discussion paper prepared for launch of Development Cooperation Forum (London: Debt Relief International, 2007).

3 The OECD DAC's 23 existing members are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities. Against a background of enlarging OECD membership, negotiations are currently under way to bring into the DAC Chile, Israel, Estonia, Russia and Slovenia.

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has been estimated that in the period 1974–94 Arab countries' foreign aid constituted on average 13.5 per cent of all such aid.[4] The People's Republic of China began giving aid to other countries virtually from its birth in 1949, with an aid programme to Africa commencing in the 1950s. However, in recent years, in the face of increases in aid from these countries, western commentators have become more anxious and vociferous about the emerging donors and their impact on the pattern of aid provision.

The first section of this article examines these fears about the emerging donors. It assesses the claims that emerging donors are encouraging poor policies, lowering standards and increasing debt burdens in countries to which they are offering aid. To foreshadow the argument, the available evidence does not fully bear out these anxieties. China is at the forefront of the new anxiety; yet some evidence suggests that, as a result of intensified trade links with China, states in Africa have enjoyed higher growth rates, better terms of trade, increased export volumes and higher public revenues. There is no clear evidence that China is re-indebting the highly indebted poor countries (HIPC) en masse. In respect of standards (on, for example, the environment, resettlement, good governance and so forth) the article finds that there are indeed new challenges; but here it is clear that the established donor community is most successful in promulgating standards when it closely engages with other actors—including both governments and private sector actors from emerging donors.

The second section of the article analyses the background against which the emerging donors are increasing their aid—the 'established' development assistance regime—and what has happened to recent pledges by donors to increase aid, to reduce conditionalities, to enhance coordination and alignment, and to reform the aid architecture. To a large extent these promises have remained unfulfilled: a situation that to some extent explains the increasing attractiveness of emerging donor aid.

The conclusions point out that emerging donors are not overtly attempting either to overturn the rules of multilateral development assistance or to replace them. Rather, the revolution taking place is a silent one. By quietly offering alternatives to aid-receiving countries, emerging donors are introducing competitive pressures into the existing system. They are weakening the bargaining position of western donors in respect of aid-receiving countries, exposing standards and processes that are out of date and ineffectual. The result is a serious challenge to the existing multilateral development assistance regime.

The rise of emerging donors: a cause for alarm?

A great deal of adverse comment has been generated by the rise of emerging donors. 'What's wrong with the foreign aid programs of China, Venezuela, and Saudi Arabia? They are enormously generous. And they are toxic', opined Moises

[4] Espen Villanger, 'Arab foreign aid: disbursement patterns, aid policies and motives', *Forum for Development Studies* 34: 2, 2007, pp. 223–36.

Naim in *Foreign Policy* in 2007.[5] The emerging donors, we are told, will elbow aside established aid institutions that protect the environment, such as the World Bank, regional development banks and other donor agencies. Important standards and conditions for loans are being shredded. China, Venezuela, Saudi Arabia and others are supporting rogue states such as Sudan and Zimbabwe, making regional and global security and stability more precarious. Furthermore, they are introducing and pushing 'toxic ideas' that will harm both poor countries and established donors. In a more measured tone, in 2006 the then head of the OECD DAC reflected on the possible risk that loans from emerging donors to low-income countries may prejudice their debt situation (because the terms are inappropriate), may postpone necessary adjustment (because there is so little conditionality) and may waste resources on unproductive investments.[6] These concerns are all worth exploring.

Emerging donors and unconditional support of rogue states?

The most obvious critique of emerging donors focuses on their support for rogue states, or, as they would put it, their determination not to involve themselves in the politics of countries with which they deal. Zimbabwe is one such case. China has long delivered both aid and military equipment to Zimbabwe,[7] and after the Zimbabwe elections fiasco in July 2008 it joined Russia in vetoing a US-sponsored UN Security Council resolution to impose sanctions on Zimbabwe. However, the evidence does not fully bear out the 'blind support for rogue states' critique. China's relationship with Zimbabwe has not been immune to the views of other states. In particular, China has responded quietly to concerns voiced by other African states, taking a tougher line with President Mugabe, meeting with opposition politicians and, most recently, turning around a Chinese shipment of arms to Zimbabwe.

Sudan is another 'rogue' state to which China is regularly accused of giving blind support. In 2002 pressure was put on Swedish and Canadian oil companies to withdraw from the country and Chinese, Malaysian and Indian oil companies stepped in to take their place.[8] Sudan is now one of China's main oil suppliers: it shipped 4.7 million tonnes of crude oil to China in January–May 2007, a fivefold increase over the same period in 2006.[9] Western commentators vociferously complain that Chinese aid and trade have undermined pressure on the Sudanese government to end the crisis in Darfur, and that Chinese support has permitted this 'rogue' state to enjoy strong economic growth, reaching 11 per cent in 2007.[10] Further investment in Sudan was announced on 1 July 2007 by China's major

[5] Moises Naim, 'Rogue aid', *Foreign Policy*, online, March–April 2007.

[6] Richard Manning, 'Will "emerging donors" change the face of international cooperation?', *Development Policy Review* 24: 4, 2006, pp. 371–85.

[7] See Chris Alden, *China in Africa* (London: Zed, 2007).

[8] Human Rights Watch, *Sudan, oil and human rights* (New York, Sept. 2003), www.hrw.org/reports/2003/sudan1103/, accessed 26 Aug. 2008.

[9] Associated Press, 'China's CNPC OKs deal on Sudan oil block', 1 July 2007, www.forbes.com/feeds/ap/2007/07/01/ap3875543.html, accessed 26 Aug. 2008.

[10] A. S. H. Smyth, 'China masters the African game', *The First Post*, 6 Feb. 2007, www.thefirstpost.co.uk/index.php?menuID=1&subID=1117, accessed 26 Aug. 2008.

oil company (CNPC).[11] However, here too the argument that blind support is being given to a rogue state is exaggerated. In 2006 Chinese President Hu Jintao announced at a Chinese–African summit that he was urging the Sudanese president to work with the UN and other envoys to end the fighting, and in 2007 he appointed a special envoy on Darfur. Chinese officials emphasize that the Chinese approach focuses on negotiation and dialogue, a respect for sovereignty, and the use of tripartite mechanisms of the UN, the African Union and the Sudanese government.[12] China's efforts to end the conflict and to ensure the presence of a joint AU–UN peacekeeping force have been recognized by the United States as very constructive.[13]

The 'support for rogue states' argument quickly slides sideways into a broader critique about the economic model being exported by emerging donors. The fear is that a new Beijing or Chavez consensus will replace the long-hallowed Washington consensus on economic policy. For example, Naim (cited above) alleges that Venezuela's President Hugo Chávez is using his nation's oil-fuelled international reserves to recruit allies abroad, using large aid packages to 'infect' Latin America with his model. According to this argument, 'rogue aid' permits countries like Cuba (to which Venezuela has given about US$2 billion) to put off 'opening up' the economy, offering them instead an artificial lifeline that enables the recipients to put off reforms that would bring prosperity. Similar arguments are made in respect of China exporting its own model of economic policy which runs counter to the policies long pressed by western donors. But the critics do not have evidence that economic disaster has in fact followed acceptance of aid from emerging donors. Indeed, there is now some evidence that countries with intensified aid and trade links with China are enjoying higher growth rates, better terms of trade, increased export volumes and higher public revenues.[14] Clearly the general argument about China's impact on policy choices needs more careful analysis.

Free-riding on multilateral (and bilateral) debt relief?

Many western donors have voiced concerns about the potential for renewed indebtedness if emerging donors offer new loans to low-income countries that have just been granted debt relief by established donors. The debts of poor African countries have been alleviated principally as a result of the HIPC initiative and the multilateral debt relief initiative (MDRI) which dealt with their debts to multilateral institutions. The result was the relief of US$43 billion of official

[11] Associated Press, 'China's CNPC'.

[12] 'Interview with China's special envoy on China–Sudan oil cooperation', *People's Daily Online* (English edn), 17 March 2008, http://english.peopledaily.com.cn/90001/90780/91342/6375027.html, accessed 26 Aug. 2008

[13] See Edward Cody, 'China given credit for Darfur role: US official cites new willingness to wield influence in Sudan', *Washington Post Foreign Service*, 13 Jan. 2007, p. A13.

[14] Reisen, *Is China actually helping?*; A. N. Goldstein, H. Reisen and X. Chen, *The rise of China and India: what's in it for Africa?* (Paris: OECD Development Centre, 2006); OECD/African Development Bank, *African Economic Outlook 2007* (Paris: OECD Development Centre, 2007); Ali Zafar, 'The growing relationship between China and sub-Saharan Africa: macroeconomic, trade, investment, and aid links', *World Bank Research Observer* 22: 1, 2007, pp. 101–30.

debt.[15] The fear is that China is now offering new loans to these debt-relieved countries, free-riding on the established donors' debt relief programme and creating new problems for the future of the recipient countries.

In an attempt to prevent China from re-indebting poor countries, in April 2007 the G7 finance ministers announced that they would seek 'principles for responsible lending and seek to involve other interested parties'.[16] The US Secretary of the Treasury went a little further in his elaboration of how they hope to corral all donors (particularly China, though these words were unspoken) into the same framework: 'Responsible lending policies and practices are fundamental to our efforts to enhance support to low-income countries. The key to preserving debt sustainability is to build upon and support the work reflected in the IMF/World Bank Joint Debt Sustainability Framework, and for all creditors to incorporate the framework into their lending practices.'[17]

Missing from the discussion of China and the previously indebted countries is a sense of China's own involvement in debt relief. Principally this is because China does not report debt cancellation in aid figures (nor, indeed, does it report most of its aid). Chinese aid takes several forms, ranging from grant aid (principally through the Ministry of Commerce), aid in kind and zero-interest loans (some 90 per cent of which China claims to write off over time) to subsidized loans, as well as commercial loans and investments.

According to conservative estimates, China has written off total debts of some US$2.13 billion for 44 recipient countries, 31 of which are in Africa. A further debt cancellation of approximately US$1.28 billion is being negotiated at present.[18] Western reports suggest that China has been well in advance of the G8 in debt write-offs, cancelling some $10 billion of the debt it is owed by African states and, at the second Sino-African business conference in December 2003, offering further debt relief to 31 African countries, as well as opening up the prospect of zero-tariff trade.[19] China has also used debt relief to assist African nations, effectively turning loans into grants. In 2000 China wrote off $1.2 billion in African debt; in 2003 it forgave another $750 million. Ethiopian Prime Minister Meles Zenawi has proclaimed that 'China's exemplary endeavor to ease African countries' debt problem is indeed a true expression of solidarity and commitment'. Debt relief has been an excellent public relations tool for Beijing, because it not only garners popular support but also allows for two positive press events: the first to provide the loan, the second to relieve the debt.[20]

15 Reisen, *Is China actually helping?*.

16 Group of Seven, 'Communiqué of G7 finance ministers', Washington DC, 13 April 2007, at www.g7.utoronto.ca/finance/fm070413.htm, accessed 26 Aug. 2008.

17 Statement by Treasury Secretary Henry M. Paulson, Jr, following meeting of G7 finance ministers and central bank governors, Washington DC, 13 April 2007, www.g7.utoronto.ca/finance/fm070413-paulsen.htm, accessed 26 Aug. 2008.

18 Qi Guoqian, 'China's foreign aid: policies, structure, practice, and trend', paper prepared for Oxford and Cornell universities' conference on 'New directions in development assistance', Oxford, 11–12 June 2007.

19 Chris Melville and Olly Owen, 'China and Africa: a new era of south–south cooperation', *Open Democracy*, 8 July 2005, www.opendemocracy.net/globalization-G8/south_2658.jsp, accessed 26 Aug. 2008.

20 Joshua Eisenman and Joshua Kurlantzick, 'China's Africa strategy', American Foreign Policy Council, May 2006, www.afpc.org/china-africa.shtml, accessed 26 Aug. 2008.

Equally important to an evaluation of the claim that China is imperilling debt relief efforts is a breakdown of where its financing is going. It has been estimated from unpublished World Bank data that Chinese new financing commitments for infrastructure have gone to Angola (40 per cent), Nigeria (24 per cent), Ethiopia (15 per cent), and Sudan (12 per cent).[21] It is worth noting that neither Angola nor Sudan has benefited from debt relief. Nigeria has had its own special debt relief deal outside the HIPC initiative. Only Ethiopia has been dealt with under the HIPC provisions.

Fears that new loans from China will have negative effects on the capacity of low-income countries to support their debts are not unfounded. That said, there is no clear evidence that China is re-indebting—en masse—the HIPCs. A precise assessment of this risk would require more precise data about to whom China is extending which categories of aid, and with what likelihood of write-off. China does not publish this information and it is extremely difficult to assemble.

What is clear is that the main multilateral discussions under way on highly indebted countries are being held in the G7 and in the OECD DAC, which do not include China, other Asian donors, the United Arab Emirates, Saudi Arabia or other OPEC donors among their members. This poses a serious challenge for any policy aimed at forging shared principles and/or a multilateral approach to debt relief.

Bypassing good governance and environmental standards?

A further western concern about emerging donors is that their offers of ready money permit poor-country governments to turn down aid that comes with demands that they work to improve good governance, and incorporates adequate environmental and social protections within development projects. For example, China is said to have pushed aside the World Bank and its efforts to tackle corruption by stepping in with a no-strings-attached loan to fund railways in Nigeria. Similarly, in Indonesia, Beijing agreed to expand the country's electrical grid by building plants that use a highly polluting, coal-based Chinese technology when 'no international agency would have signed off on such an environmentally unfriendly deal'.[22] In the Philippines, the Asian Development Bank, having agreed to fund Manila's new aqueduct, found itself supplanted by China offering lower rates and asking fewer questions. In 2005 Angola broke off its negotiations with the IMF, which was trying at the time to put into place a staff-monitored programme to oversee Angola's economic policies, and subsequently cancelled them altogether, a decision facilitated by a $2 billion package of soft loans from China.[23]

In this way the emerging donors are said to be weakening hard-won progress made by the World Bank and other regional development banks, as well as among OECD country multinationals, towards introducing codes and standards to

[21] Reisen, *Is China actually helping?*
[22] Naim, 'Rogue aid'.
[23] Lara Pawson, 'Angola calls a halt to IMF talks', BBC News, 13 March 2007, http://news.bbc.co.uk/1/hi/business/6446025.stm, accessed 26 Aug. 2008.

safeguard the environment, indigenous peoples and natural habitats, and human rights.[24] Given an alternative source of aid, poor countries choose to work less with those who 'burden' aid or loans with such requirements, borrowing less from the World Bank and other multilateral institutions (more on this below), and so reducing the scope of these organizations to apply conditions directly. More subtly, the influence of the established donors is eroding as their staff seek to avoid projects which might bring adverse publicity on themselves, avoiding areas in which safeguards would apply and deliberately leaving these areas to donors less sensitive to such criticisms.

Overall, the argument that emerging donors are jeopardizing hard-fought-for gains in health, safety and environmental standards and the fight against corruption overestimates the extent to which these goals have been furthered by direct conditionalities imposed by OECD DAC donors. Raising standards is a much more subtle and long-term process which is furthered by engagement at the global level, as well as at the local and national levels, with a range of stakeholders including governments, companies, the media and civil society. Multilateral organizations such as the World Bank have provided an important forum within which governments can discuss and debate standards. The Bank has also provided a focal point for the activities of companies, the media and transnational activists. The World Bank's Inspection Panel has provided a tribunal to which affected groups within states have been able to bring complaints, and this has in some cases mobilized local capacity collectively to monitor standards and to act when they are not met, in some cases even in the face of serious risks of political backlash.[25] What does this imply about the impact of emerging donors on standards?

China and other emerging donors are themselves members (China with its own executive director) of the World Bank, the IMF and (in China's case) the Asian Development Bank. They have been parties to discussions over standards within each organization. China has used multilateral standards (such as the World Bank's resettlement policy) in formulating its own national policies. So why the seeming absence of conditionality in its own development assistance? Is this a particularly Chinese phenomenon, reflecting China's very vocal commitment to respecting the sovereignty of those to whom it gives aid? This is too trite an answer. All countries' bilateral aid programmes are subject to nationally determined standards which are often at odds with standards that those same countries promulgate in multilateral institutions. Many countries that push for stringent procurement rules and environmental standards within the World Bank do not apply these standards to their bilateral aid programmes. Furthermore, the standards applied (or not) in China's overseas projects are not necessarily out of line with the standards set within China.

National standards within China in some sectors are very low. Mining is one such sector. The Chinese-developed Chambishi mines in Zambia have been a

24 For example, the World Bank's safeguards are set out at http://go.worldbank.org/WTA1ODE7T0, accessed 26 Aug. 2008.

25 Margaret Keck, 'Planafloro in Rondonia: the limits of leverage', in J. Fox and D. Brown, eds, *The struggle for accountability* (Cambridge, MA: MIT Press, 2000), pp. 181–218.

recent lightning rod for criticism of its aid policies. Conditions in the mines are poor, the area remains undeveloped and 46 miners died in an explosion in 2005. Meanwhile China is benefiting greatly, importing 63 per cent of its base metals from Zambia alone.[26] China itself produced 35 per cent of the world's coal in 2003, but reported 80 per cent of all deaths in coal-mine accidents, according to statistics with the State Administration of Work Safety (SAWS). The death rate for every 100 tonnes of coal produced was 100 times that of the United States and 30 times that of South Africa. That said, improvements are occurring, albeit slowly, and the government has developed a national surveillance system and earmarked funds (in 2001 more than 4 billion yuan—over US$480 million) to help state-owned and small local coal mines prevent and monitor gas explosions.[27]

The role of standards in development assistance is an important one. It is an area in which multilateral, national and private sector actors from established donors have been actively engaged but from which emerging donors have often been absent—as, for example, in respect of negotiations taking place in the OECD and among transnational companies forging industry codes of conduct. In those organizations where emerging donors are represented (they would say under-represented), they have been quiet participants in discussions. We may well be witnessing a dilution in the capacity of established donors to apply direct conditionalities aimed at promulgating standards; but conditionality alone does not improve standards. A more important conclusion about the aid system is that more inclusive processes for setting standards need to be developed, so as to ensure that emerging donor governments, private sector companies, media and civil society groups are all engaged in generating standards that countries and communities are in a position to implement.[28]

The hysteria surrounding the emerging donors is overplayed. That said, China and other emerging donors do pose challenges for the existing development assistance regime, particularly for standard-setting by both private sector actors and multilateral institutions. These challenges are magnified when one contrasts the attractions of what emerging donors are offering against what the established donors are doing. Examined more closely, the rise of emerging donors highlights several important deficiencies in the existing system of development finance.

Why is aid from the emerging donors so attractive?

The rise of emerging donors is occurring against a background of disaffection among poor countries with the established development assistance regime. This disaffection has been recognized by OECD DAC donors, which have been grappling with a new agenda that is worth examining. Since around 2003 estab-

[26] Smyth, 'China masters the African game'.
[27] Zhao Xiaohui and Jiang Xueli, 'Coal mining: most deadly job in China', *China Daily*, 13 Nov. 2004, www.chinadaily.com.cn/english/doc/2004–11/13/content_391242.htm, accessed 26 Aug. 2008.
[28] For an analysis of the conditions under which corporate self-regulation is likely to be effective in developing countries, see Dana Brown and Ngaire Woods, eds, *Making self-regulation effective in developing countries* (Oxford: Oxford University Press, 2007).

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lished donors have promised to double their aid to Africa, to deliver it in ways that ensure more space for recipient government ownership, and better to coordinate among themselves. How have these pledges played out?

Broken promises of more aid

In recent years wealthy countries have made dramatic pledges to increase aid, such as the commitment made to double aid for Africa by 2010 at the G8 meeting in Gleneagles in 2005.[29] However, although there has been some significant debt relief, new net aid flows from the G8 countries have not increased since this commitment was made. To quote the OECD DAC itself, 'aid to Sub-Saharan Africa has stalled'.[30] In the World Bank's assessment net official development assistance (ODA) disbursements overall declined by US$3 billion in 2006, following a record increase in 2005.[31]

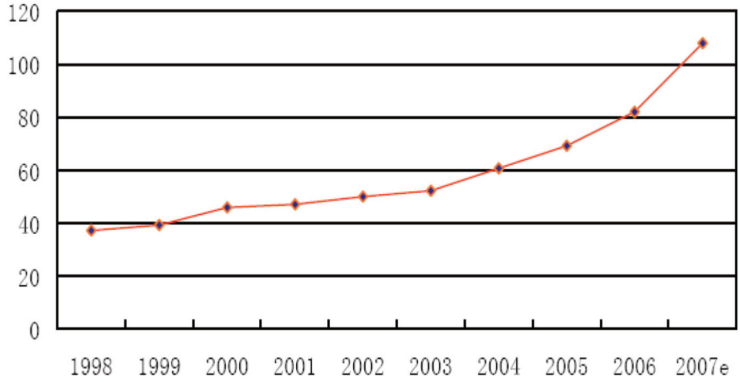
Aid flows have been greatly influenced by the wars in Iraq and Afghanistan, and by the post-9/11 security 'imperatives'. These have had a huge diversionary effect. In the early days of the so-called 'war on terror', aid flows were not diverted.[32] Instead, funding for military action was procured through supplementary appropriations. However, over time aid budgets have been reallocated to reflect the new priorities. This is most obvious in the case of the United States—the world's largest provider of global development aid, accounting in 2004/2005 for 25.4 per cent of official development aid.[33] By 2004 the top recipients of US aid had become Iraq, Afghanistan, Egypt, Sudan, Ethiopia, Jordan and Colombia.[34] Yet the wider US aid figures are more telling. For example, although the Near East (which includes Lebanon, Morocco and Middle East Regional) received some US$10 million of ODA from the United States, 600 times this amount was spent on other forms of aid—from the economic support fund and foreign military spending, which do not qualify as ODA under the OECD DAC definitions.[35]

A similar diversion of development assistance has occurred in the UK's aid budget—the fastest growing in the world, increasing from £5.9 billion in 2005 to £6.8 billion in 2006.[36] By 2005, 16.4 per cent of total net UK bilateral ODA was going to Iraq (as opposed to 0.39 per cent in 2002). Alongside this was an imputed UK share of multilateral assistance to Iraq equal to 13.6 per cent in 2004, dropping to 4.5 per cent in 2005.[37]

In sum, while G8 politicians have aspired to increase aid to the poorest countries, these promises have not translated into new net aid flows. The current financial crisis and economic downturn among OECD countries are likely to have further

[29] G8, 'Gleneagles G8 communiqué', 8 July 2005, www.g8.gov.uk, accessed 26 Aug. 2008.
[30] OECD DAC, *2006 Development Co-operation Report*, Summary, February 2007 (Paris: OECD, 2007).
[31] World Bank, *Global Development Finance 2007* (Washington DC: World Bank, 2007), p. 55.
[32] Ngaire Woods, 'The shifting politics of foreign aid', *International Affairs* 81: 2, March 2005, pp. 393–409.
[33] OECD DAC, *2006 Development Co-operation Report*, table 8.
[34] OECD DAC, *2006 Development Co-operation Report*.
[35] USAID, *Fiscal year 2008 budget request* (Washington DC: USAID, 2007), pp. 92–9, www.usaid.gov/policy/budget/cbj2008/, accessed 26 Aug. 2008.
[36] Department for International Development, *DFID Annual Report 2007* (London: DfID, 2007).
[37] Department for International Development, *DFID Annual Report 2007*, p. 263.

Figure 1: China's foreign aid expenditure increases, 1998–2008 (RMB100 million)



Source: Qi Guoqian, 'China's foreign aid: policies, structure, practice, and trends', paper prepared for Oxford and Cornell universities' conference on 'New directions in development assistance', Oxford, 11–12 June 2007. The figures cover aid in the form of grants, interest-free loans, preferential loans, cooperative and joint venture funds for aid projects, science and technology cooperation, and medical assistance, on a bilateral basis. Note that Chinese aid figures do not include debt relief, unlike DAC donors' reported ODA.

negative effects on promised increases in aid. At the same time, aid from other sources has been increasing. China plans to double aid to Africa by 2009 and there is some reason to believe it will.[38] Other emerging donors have been increasing aid, although it is very difficult to compile an accurate picture of this: although non-DAC aid is going up overall, almost no data are available about individual emerging donors.[39] Many of the new aid flows are not being officially reported: for example, India, China and Brazil do not report to the OECD DAC, whose data as a result suggest that non-DAC flows of aid are rising but still not significant.[40] A similar picture is given by the Net Aid Transfers Data Set compiled by the Center for Global Development.[41] That said, while newspaper reports speak of billions of dollars' worth of aid from China to Africa, many such reports confuse investment and other external flows, such as export credits, with 'aid' as defined by the OECD DAC.

While there are few officially reported data on Chinese aid, figure 1 was presented by a Chinese Ministry of Commerce (MOFCOM) official at a conference in

[38] United Nations Integrated Regional Information Networks, 'China to double aid to Africa', published by Worldpress.org on 6 Nov. 2006, http://www.worldpress.org/Africa/2554.cfm, accessed 26 Aug. 2008.

[39] An excellent breakdown of the increases in aid from non-DAC donors is provided by Peter Kragelund, 'The return of non-Dac donors to Africa: new prospects for African development', *Development Policy Review* 26: 5, 2008, pp. 555–84.

[40] Of those emerging donors that do report to the OECD DAC, the largest are Saudi Arabia (US$2,095 million in 2006), Turkey (US$714 million in 2006), Chinese Taipei (US$513 million in 2006) and Korea (US$455 million in 2006): OECD DAC, *2007 Development Co-operation Report* (Paris: OECD, 2008), table 33.

[41] David Roodman, *Net aid transfers data set 1960–2005* (Washington DC: Center for Global Development, 2005), www.cgdev.org/content/publications/detail/5492/, accessed 26 Aug. 2008.

Oxford in June 2007. What we do know about China's aid is that—unlike a lot of established donor aid to sub-Saharan Africa—it is strongly supported by investment and trade policies.[42] China's trade with Africa has grown dramatically to the point where China has become Africa's third most important trading partner (behind the United States and France). In the 1990s Sino-African trade grew by 700 per cent. From 2002 to 2003 trade between China and Africa doubled to $18.5 billion. In the first ten months of 2005 it jumped a further 39 per cent to US$32.17 billion. Most of the growth was caused by increased Chinese imports of oil from Sudan and other African nations. China's foreign direct investment in Africa represented $900 million of the continent's $15 billion total in 2004.[43] In 2006 trade between China and Africa reached $55.5 billion, up more than 40 per cent from 2005, according to data from China's Ministry of Commerce.[44]

Other emerging donors are also increasing aid and trade relations. India's trade with Africa has been increasing dramatically.[45] Aid from major Arab donors is difficult accurately to track; that said, the annual reports of Arab aid agencies suggest that new commitments by both bilateral and multilateral funds have increased since around 2003 and especially since 2005. This is true of both bilateral and multilateral funds. The Islamic Development Bank's new commitments for the period 2001–2006 are roughly double those for the period 1996–2001. Similarly, new commitments from the OPEC Fund for Development each year since 2001 have been on average one-third higher than the annual average in the preceding decade, and new commitments of the Arab Fund for Economic and Social Development in 2005 were almost 20 per cent higher than those in 2001. Data on bilateral relations are more difficult to find and to assess, but the Saudi Fund for Development provides an indicative illustration. In 2006, the figure of around US$800 million for new commitments was some 70 per cent higher than the average annual new commitments of around US$480 million for the years from 1995 to 2002, and almost double the 2005 figure. The largest recipients of Arab aid remain the 'frontier' states of Egypt, Syria and Jordan. However, in recent years increasing amounts of aid have been directed to South Asia, especially to Pakistan and Bangladesh, and to East Asia: for example, China has itself received approximately 15 per cent of new Saudi Fund commitments since 2003 (before which date it received none).[46]

[42] A good overview is provided in Alden, *China in Africa*.

[43] Esther Pan, *China, Africa, and oil* (New York: Council on Foreign Relations, 26 Jan. 2007), http://www.cfr.org/publication/9557/, accessed 26 Aug. 2008.

[44] Reuters, 'China defends oil trade with Africa', *International Herald Tribune*, 12 March 2007, www.iht.com/articles/2007/03/12/business/oil.php, accessed 26 Aug. 2008.

[45] See Rhys Jenkins and Chris Edwards, 'The Asian drivers and sub-Saharan Africa', *IDS Bulletin* 37: 1, Jan. 2006, pp. 23–32, esp. fig. 1, showing Africa's rising trade with China and India from 1990 to 2003, and fig. 2, describing the rising share of China and India in Africa's trade over the same period.

[46] I am very grateful to Robert Wood for compiling these figures; see also Robert Wood, 'Riyal-politik or religious duty: what explains the behaviour of the Islamic Development Bank?', M.Phil. thesis, Oxford University, 2007.

Clinging to discredited conditionalities

Established donors have long entrenched 'conditionality'—meaning demands that receiving governments adopt specific economic policies and targets—in their aid programmes. The 'Washington consensus', which emerged as a response to the debt crisis of the early 1980s, brought established donors into a system in which one set of ideas about economic policy was cemented into the foundations of the aid regime. Although different countries would have their own aid programmes, they would all look to the IMF and World Bank to ensure recipient compliance with that core set of policies.[47]

Subsequently, most donors have accepted that the conditionality model requires radical reform. For one thing, donor conditionality has not been an effective way to induce change in aid-receiving countries. In a worldwide survey of 305 IMF programmes from 1979 to 1993, one scholar found implementation failure in 53 per cent of cases, where failure was defined as a country not implementing 20 per cent or more of the programme's conditions.[48] This result is reinforced further by an independent evaluation (commissioned by the board of the IMF) of the IMF's concessional lending facility for poor countries—the Enhanced Structural Adjustment Facility (ESAF). The evaluators report that three-quarters of ESAF programmes collapsed or were interrupted.[49]

Equally, doubts have arisen about whether there is a known recipe for success. Officials in low-income countries have long been sceptical of the claim that if they fully implemented the Washington consensus, economic growth would follow.[50] Yet for a long time their arguments fell on deaf ears. Only recently have established donors themselves begun to grapple with what it would mean to put aid-receiving governments 'in the driver's seat', or at least to streamline conditionality.[51] But they have found this difficult.[52] If anything, conditionality overall seems to have increased in some countries. Debt relief has brought new layers of conditions about poverty reduction and processes of national consultation. Budget support is supposed to leave more room for governments to set their own priorities and strengthen their own procedures; however, in many cases it has come

[47] See Ngaire Woods, *The globalizers: the IMF, the World Bank and their borrowers* (Ithaka, NY: Cornell University Press, 2006), ch. 2.

[48] Tony Killick, 'Principals, agents, and the failings of conditionality', *Journal of International Development* 9: 4, 1998, pp. 483–95.

[49] IMF, 'External evaluation into ESAF: a report by a group of independent experts' (Washington DC: IMF, 1998), p. 32.

[50] Their scepticism was not unfounded. Early evaluations undertaken by the IMF and World Bank explored whether conditional lending had effects on growth, and the results were at best ambiguous: see James Boughton, *The silent revolution* (Washington DC: IMF, 2001); IMF, 'External evaluation into ESAF'; and the World Bank's three published reports of 1989, *Adjustment lending: an evaluation of ten years of experience*; *Africa's adjustment and growth in the 1980s*; and *Sub-Saharan Africa: from crisis to sustainable growth* (Washington DC: World Bank, 1989). The IMF's external evaluators found that the Fund's focus on reducing budget deficits was producing some adverse long-term effects, very poor-quality privatization and overly contractionary approaches to foreign aid, while failing to have an impact on the main goal, namely to attract investment flows.

[51] IMF, 'IMF invites comments on streamlining conditionality', public information notice (PIN) no. 01/86 (Washington DC: IMF, 4 Sept. 2001).

[52] Tony Killick, 'The streamlining of IMF conditionality', report prepared for Department for International Development (London: DfID, 2002).

with a new set of procedures, for example in Mozambique, where alongside their general budget support donors have created a regular cycle of annual and mid-term reviews based on 24 sectoral and thematic working groups which meet regularly to accompany the formulation and implementation of government policies.[53] Similarly, in Tanzania the new modalities of aid-giving have been accompanied by new procedures.[54] The result is that where previously governments were tied down in projects and reporting requirements, in some cases they are now tied down in donor consultative and oversight groups.

Disillusionment surrounds the conditions western donors have attached to aid for the past quarter-century. The donor 'consensus' is seen by recipient countries as having long been misaligned with their priorities. Every decade has brought new donor priorities and conditionalities—and none of these have been aligned with their own calls for developing the productive 'supply side' of their economies. In the 1980s donors pushed for stabilization and adjustment, with contractionary effects. In the 1990s the attention of donors turned to institution-building and poverty reduction strategies, and yet again aid-receiving governments found their arguments for investment and growth falling on deaf ears. More recently, donors have focused on health and social spending, an emphasis magnified by new institutions such as the Gates Foundation and other public–private partnerships. Throughout this time western donors have treated criticisms of conditionality as the unwarranted complaints of patients unwilling to take medicine which is good for them. This attitude has magnified the resentment felt by aid recipients and made them all the more receptive to the different approach taken by emerging donors. In the recent words of the then President Festus Mogae of Botswana, 'I find that the Chinese treat us as equals. The West treats us as former subjects.'[55]

The disillusionment of developing countries forms a powerful and important backdrop to the rise of emerging donors. While established donors are still clinging to an economic policy conditionality about which their development partners are sceptical, the emerging donors are keen to lend and give aid without these kinds of specific economic conditions. They package their aid in a strong rhetoric of respect for the sovereignty of other governments. China, for example, since Premier Zhou Enlai's visit to Africa in 1964, has framed its aid around eight principles which emphasize sovereignty, equality and mutual respect. Likewise, India's aid programme, which began in the 1950s, has centred on respect for territorial integrity, mutual non-aggression, mutual non-interference in domestic affairs, equality and mutual benefit, and peaceful coexistence.[56] Furthermore, the emerging donors have their own economic success to tout, which some present as

53 Paolo de Renzio and Joseph Hanlon, 'Contested sovereignty in Mozambique: the dilemmas of aid dependence', GEG Working Paper 2007/25 (Oxford: Global Economic Governance Programme, 2007), www.globaleconomicgovernance.org, accessed 26 Aug. 2008.

54 Graham Harrison and Sarah Mulley, 'Tanzania: a genuine case of recipient leadership in the aid system?', GEG Working Paper 2007/29 (Oxford: Global Economic Governance Programme, 2007), www.globaleconomicgovernance.org, accessed 26 Aug. 2008.

55 Smyth, 'China masters the African game'.

56 G. Price, 'India's official humanitarian aid programme', Humanitarian Policy Group background paper (London: Overseas Development Institute, 2005).

an alternative to the sequence of policies established in the Washington consensus and its successors. China and India are promoting development assistance deeply entwined with trade and investment strategies. For some this smacks of a new mercantilism. However, for aid-receiving countries it responds to a long-expressed wish for support aimed positively at directly promoting growth.

The inability to deliver on better coordination and alignment

The multilateral aid system created by established donors looks increasingly dysfunctional. A proliferation of agencies—governmental and non-governmental—within and among established donors has led to a system that is fragmented and duplicative, and places too heavy a burden on aid-receiving countries. A relatively small number of donor countries manage to present themselves to poor countries in a dizzying array of separate multilateral organizations, special funds, new agencies and bilateral aid programmes. Each aid agency requires local officials to meet, to respond to their demands, to report to them (in formats only they use) and sometimes to alter course at the whim of the donor. The result is an overriding of local needs, priorities and institutions, and the imposition of heavy transaction costs which sometimes outweigh the value of the aid.

The problem has been widely recognized. A solution is being sought among established donors through a process of negotiation and consultation aimed at better coordination among donors and alignment with recipient government priorities. The OECD DAC is overseeing this process and has produced indicators and benchmarks that allow progress to be monitored at both international and country level. The most recent high-level meeting of countries taking part in this process took place in September 2008 in Accra.[57]

How much progress has been made? A 2004 survey identified serious shortcomings in donor efforts to implement pledges made in the 2003 Rome declaration on harmonization.[58] It found 'not enough evidence that harmonization initiatives have helped curb transactions costs. Indeed, over the short term at least, they may actually have increased these costs.'[59] The obstacles to greater harmonization are substantial.[60] These findings highlight the yawning gap between the talk about coordination and ownership on the one hand and, on the other, actual donor practices, which are neither coordinated nor linked to instruments or institutions within aid-receiving countries.

The paradox about coordination is that established donors have created so many institutions to enable better coordination among themselves, and yet have simultaneously sidelined them. The World Bank is at the centre of an international

[57] OECD DAC, report of the 'Third High Level Forum on Aid Effectiveness', Accra, Ghana, 2–4 Sept. 2008, www.oecd.org/document/31/0,3343,en_2649_33721_41165727_1_1_1_1,00.html, accessed 26 Aug. 2008.

[58] OECD, 'Survey on harmonisation and alignment: preliminary edition' (Paris: OECD, 2004). For the declaration, see www.aidharmonization.org/ah-overview/secondary-pages/why-RomeDeclaration, accessed 26 Aug. 2008.

[59] OECD, 'Survey on harmonisation and alignment', p. 9.

[60] Paolo de Renzio with David Booth, Andrew Rogerson and Zaza Curran, 'Incentives for harmonisation and alignment in aid agencies', ODI working paper 248 (London: Overseas Development Institute, 2005).

development assistance regime that is notoriously cluttered with a large number of supposedly multilateral donors tripping over each other's bilateral efforts. In theory, the World Bank, by pooling information and resources, should be able to reduce transaction costs vastly on both sides of the aid relationship.

Perversely, the major donors who created the World Bank do not rely upon it. Instead, they sustain and expand their own separate aid agencies and processes, creating a cacophony of donors making different demands on overstretched aid-needy governments. The governments of the United States, Britain and Canada speak daily to developing countries through dozens of megaphones, including their own national agencies and special initiatives alongside several multilateral agencies—the UNDP, World Bank, IMF, WHO, WTO and so forth. The result is that scarce personnel and other resources in poor countries are used up in maintaining and strengthening external relations with donors and undertaking externally demanded actions, many of which are contradictory.

More perversely still, even when donors do use the World Bank they encumber it with special demands, special funds and additional procedures. One example is the increasing use of 'trust funds' in the World Bank. These are funds given to the Bank for a particular use—often supplementary to the institution's core work. As described by a former UK government aid official, 'we construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up separate financial incentives to try to get the Bank to do what we want'.[61]

The fact remains that in recent years, in spite of calls for greater coordination, most established donors are failing to increase the percentage of aid they channel through international institutions. This is true even for the UK Department for International Development (DfID), which is committed to increasing the share of its aid channelled through multilateral institutions. In 2004 DfID reported that 45 per cent of its programme expenditures were being channelled through multilaterals.[62] By 2006 this proportion had in fact dropped to 38 per cent.[63]

Although some may see greater coordination as a way to handle the rise of emerging donors, this idea faces two major obstacles: the weakness of progress on coordination among established donors and the lack of an emerging donor voice in the institutions of coordination.

The minimal reform of the aid architecture

The current multilateral system is not configured to offer sufficient incentives for emerging donors to engage in it. As things stand, they do not have enough voice or influence to make it worth their while to attempt to improve the running of the multilateral system. They are not members of the OECD DAC or G7/G8, and

61 Masood Ahmed, 'Votes and voice: reforming governance at the World Bank', in Nancy Birdsall, ed., *Rescuing the World Bank* (Washington DC: Center for Global Development, 2006), p. 90.
62 Department for International Development, *DFID Annual Report 2004* (London: DfID, 2004).
63 Department for International Development, *DFID Annual Report 2007*, p. 140.

have only a limited voice in the IMF and World Bank. The gravity of this problem has been recognized, but little progress has been made towards resolving it.

In February 2005 the OECD DAC and UN Development Programme began to meet with non-DAC member donors.[64] A new Development Cooperation Forum has been launched by the UN Economic and Social Council with the aim of better engaging all donors. Its first meeting was held in New York in 2008.[65] In respect of the IMF, detailed negotiations are under way about changes in quota shares—alterations that are palpably inadequate to alter the incentives for China and others to engage in the institution.[66] The World Bank seems to have remained immune even to these small changes. Unaddressed is the more obvious issue of the headship of each institution, including which countries are genuinely engaged in appointing and holding to account the person who sets priorities, determines staffing and promotion structures, and chairs the board of each organization. The status quo in which the United States and powerful west European countries continue to appoint their own representatives further disenfranchises emerging donors who could become significant contributors of both resources and ideas.

In sum, the international development assistance regime in which established donors work is suffering multiple stresses. Security expenditures have diverted budgets away from much-publicized pledges. A declared determination to enhance 'ownership' and improve the effectiveness of aid is proving difficult to implement. Efforts to coordinate operations among donors are not being reflected in concrete shifts towards more multilateralism. And the existing multilateral system is poorly structured to respond to these challenges. In Africa and elsewhere, governments needing development assistance are sceptical of promises of more aid, wary of conditionalities associated with aid, and fatigued by the heavily bureaucratic and burdensome systems used for delivering aid. Small wonder that the emerging donors are being welcomed with open arms.

Conclusions

A silent revolution is taking place in the development assistance regime. This article has argued that the development assistance offered by established donors has become less generous and less attractive (on its own terms), while emerging donors' aid has become more generous and more attractive. Since the 1980s most established donor aid has failed to address developing countries' demand for aid and investment which expands the productive parts of poor countries' economies. Recent trends seem only to have increased donor deafness to this call. Furthermore, where changes in conditionality have been promised, donors seem to have been unable to confer promised degrees of 'ownership' on aid-receiving countries.

64 A recent follow-up was the 'Special session with non-DAC providers of development assistance', 27 Nov. 2007 (Paris: OECD, 2007).

65 www.un.org/ecosoc/newfunct/develop.shtml, accessed 26 Aug. 2008.

66 Ngaire Woods, *Governing the global economy: strengthening multilateral institutions* (New York: International Peace Institute, 2008), http://www.ipacademy.org/asset/file/361/Woods_Economy.pdf, accessed 26 Aug. 2008.

By contrast, emerging donors robustly defend sovereignty and non-intrusion in the politics of recipients of their aid—although in several cases there is a geopolitical conditionality that accompanies their assistance, such as requiring support for an emerging donor's foreign policy. The emerging donors offer aid amid trade and investment and against a background of flourishing growth within their own economies. Alongside their aid they offer technology, advice and professional assistance that many aid-receiving countries find more useful and more appropriate to their needs than that offered by established donors. It is no surprise, then, that emerging donors are stepping into relations with the 'development partners' of established donors.

This is a *silent* revolution because emerging donors are not overtly attempting to overturn rules or replace them. Rather, by quietly offering alternatives to aid-receiving countries, they are introducing competitive pressures into the existing system. They are weakening the bargaining position of western donors in respect of aid-receiving countries—with a mixture of implications. On the one hand, the competition exposes standards that are either out of date or ineffectual. It also highlights the extent to which some donor 'standards' are more about aspirations than reality. While DAC donors have agreed to meet standards to facilitate coordination among themselves, they have said much more than they have done. On untying aid (from the requirement that it must be spent in the donor's own economy), as the head of the DAC notes, not all DAC donors have made requisite progress, while some non-DAC donors (such as Middle Eastern funds) already meet the benchmarks.[67] Better standards of donorship are important but still very much in their infancy.

The silent revolution is unlikely to be manageable from within the existing multilateral development assistance regime. While some hold up increased donor coordination as part of a solution, this seems unlikely. Established donors are finding coordination among themselves very challenging. Multilateralism in the international development assistance regime is weakening; and there are very few incentives in the existing governance structure of multilateralism to give emerging donors an incentive to engage.

[67] Manning, 'Will "emerging donors" change the face of international cooperation?', p. 378.