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Financing for Development Series: Southern Non-DAC Actors in Development Cooperation

Since the beginning of the 21st century the world has been witnessing new dynamics in international development cooperation. Additional actors, mainly from the South, have emerged or re-emerged and are challenging the traditional donor-recipient modality. Understanding these changes calls for greater transparency of the role played by southern non-DAC actors and their impact in the field of development cooperation.

However, in assessing the role of non-DAC actors, we face two challenges in particular:

- There is no globally agreed definition of what constitutes development assistance/development cooperation.
- Many southern countries do not publicise their development assistance activities, with the result that reporting is unclear and transparency is lacking.

With these constraints taken into account, an analysis of available data and documents shows the main features of southern non-DAC development cooperation policies to be as follows:

- The development cooperation policies of most non-DAC actors are based on a more holistic approach than classical Official Development Assistance (ODA) policies. Southern provision of development assistance is not strictly separated from the countries' trade and investment activities. A simple analysis of the development cooperation policies of

southern providers from an ODA point of view therefore falls short of revealing the new role played by southern actors.

- Most southern non-DAC actors accept the Aid Effectiveness Agenda as recipient countries, but do not see it as a framework for their own bilateral development cooperation activities.
- Among non-DAC actors the volume and scope provided to developing countries varies considerably. In financial terms the most relevant southern non-DAC providers are China, India, Venezuela and Saudi Arabia, each providing around US\$ 1bn annually.
- In contrast to the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC), southern development cooperation policies have specific characteristics which differ from classical donors' provisions. The sectoral focus of financial flows is mainly on infrastructure, and most contributions are provided on the basis of non-interference, i.e. they are not linked to any such conditions as "good governance" and human rights.

To unlock the full potential of international development cooperation, ongoing dialogues between the OECD/DAC donors and southern non-DAC actors should be intensified. These dialogues in multilateral fora and more examples of triangular cooperation will be needed to ensure transparency and to avoid failures to comply with existing environmental and social standards in development cooperation.

1. Current developments in South-South trade, investment and finance

In recent years South-South cooperation has grown rapidly. This is true of trade, foreign direct investment (FDI), credit relations and development assistance.

Most South-South trade is intra-regional, although supra-regional trade is also on the increase. A further indicator of growing South-South cooperation is the rise in the number of regional and bilateral trade agreements (RTAs/BTAs) among developing countries. In the early 1990s there were only 50 such agreements. Now there are more than 200.

Total South-South trade has now reached more than 26 per cent of world trade.

South-South FDI has also undergone unprecedented growth in the past decade. Having amounted to US\$

14bn in 1995, its value has more than tripled to US\$ 47bn since the beginning of the 21st century. The increased FDI flows in the South have thus partly compensated for the decline in FDI from the industrialised countries.

As much of the FDI from developing countries has recently been confined to the investors' own regions, it is becoming more important for countries at the same or lower level of development. In terms of sectoral distribution, the available data indicate that South-South FDI is largely concentrated on extractive industries and infrastructure/services.

The rise in South-South FDI brings new opportunities, but it also poses problems for the recipient countries. A particular advantage is that businesses in developing countries usually have considerable know-how about their region. This is especially true of regional distribution networks, appropriate local technologies and in-

puts as well as readiness and willingness to take the risk of investing in a difficult political environment or in post-conflict situations.

However, the specific significance of these favourable opportunities can be assessed only on a case-by-case basis, since by far the most South-South FDI goes to the extractive industries and to infrastructure projects, where linkage and spill-over effects that benefit general development tend to be less pronounced.

2. Southern non-DAC development cooperation

South-South development cooperation has a long history, with some southern institutions and developing countries contributing development assistance for almost half a century. Many southern actors still see the *Bandung Principles* (Box 1) as the guide to cooperation with partner countries.

2.1 Volume and scope of South-South development cooperation

While DAC donors still account for the bulk of development cooperation flows, disbursement by non-DAC contributors has been increasing at a remarkable rate. According to some recent estimates for 2006, including those of a number of southern multilateral funds, the volume of such disbursement has reached between US\$ 9.5bn and US\$ 12.1bn, which is equivalent to between 7.8 and 9.8 per cent of total aid flows.

Box 1: The Bandung Principles

The ten Bandung Principles were adopted by the first Africa-Asian Conference, held in Bandung (Indonesia). They remain the main guidelines in international policy-making for the Non-aligned Movement, the G-77 and South-South cooperation. Among the most important principles are:

- Respect for fundamental human rights
- Respect for the sovereignty and territorial integrity of all nations
- Abstention from intervention or interference in the internal affairs of another country
- Refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country
- Settlement of all international disputes by peaceful means
- Promotion of mutual interests and cooperation

Today the largest southern contributors in terms of resource flows are China, India, Saudi Arabia and Venezuela (each providing at least US\$ 1bn p.a.), followed by the Republic of Korea (ROK) and Turkey (over US\$ 500m p.a.).

If recent pledges by southern contributors materialise, development assistance flows may grow to US\$ 15bn by 2010. China and India in particular are planning an appreciable increase in assistance to Africa and other countries. The ROK too has indicated a doubling of flows (excluding assistance to North Korea) by 2010.

Of southern contributors, both Saudi Arabia and Venezuela are estimated to provide more than 0.7 per cent of their GNI in development assistance.

2.2 Regional distribution/allocation and motivation

To date, **geographical proximity** has been a major determinant of the direction of most southern bilateral development cooperation flows, albeit with a few exceptions such as China. This regional focus is mainly motivated by language and cultural similarities and opportunities to improve trade. Interestingly, southern countries, like their northern counterparts, tend to focus on the poorer countries.

Political factors are relevant. The “one-China policy” is a case in point. As a consequence of this policy, the number of African countries receiving assistance from Taiwan has now fallen to just three.

Another recent example is Venezuela’s development assistance, which focuses on a number of Caribbean and Latin American countries, such as Bolivia, Cuba and Nicaragua, i.e. countries considered more sympathetic to a vision of a Latin America featuring greater self-reliance. A clear manifestation of this policy is the *Alternativa Bolivariana para las Americas* (ALBA), which focuses on the integration of Latin American countries in a “socially oriented trade bloc.” Another example is the establishment of the *Banco del Sur* as an alternative to western financial institutions.

Southern countries are often criticised for not taking sufficient account of **human rights** when providing assistance to other developing countries. Yet most southern assistance does not go to countries with a poor human rights record. Myanmar aside, many of the leading southern beneficiaries are also among the top ten recipients of aid from OECD/DAC countries.

Promoting their own **trade and investment** interests has also been a powerful motive for many southern countries to provide development assistance. For example, China’s and India’s development assistance and trade and investment policies, including the various concessional loans from their Export-Import (EXIM) banks to such resource-rich African countries as Angola, Nigeria, Sudan, Tanzania and Zambia, have been largely driven by their own need for national energy security and by their own trade and investment interests (see Box 2).

Box 2: The “Angola model”

The “Angola model” is China’s resource-backed provision of concessional loans to African countries, particularly for infrastructure, social and industrial projects. The low-interest loans are secured with commodities as collateral. A typical example is a US\$ 4.5bn concessional loan for infrastructure allocated by the China EXIM Bank to Angola for over 17 years, secured by the delivery of 10,000 barrels of oil a day. The provision of this loan requires that not less than 50 per cent of procurement under the contract, e.g. equipment, materials, technologies and services, come from China.

Arab countries have also subsidised oil exports, and South Korea has provided concessional tied resources to partner countries for its own national trade and investment promotion. It must be remembered, however, that the process of untying aid from OECD/DAC countries did not begin until the 1990s.

2.3 Quality of South-South development cooperation

In general, southern development cooperation policies have the following features:

Policy conditionality: Unlike traditional bilateral donors and major international institutions, whose development assistance usually has conditions attached, relating, for example, to governance and economic policy, bilateral southern contributors impose few, if any, policy conditions.

Southern contributors have hitherto emphasised that development assistance should not interfere in the internal affairs of partner countries.

Yet some southern actors, such as the ROK and Turkey, have meanwhile decided to mainstream their development cooperation agenda by complying with OECD/DAC standards.

Concessional: Southern contributors' project and programme assistance is mainly provided in the form of loans, technical cooperation usually in grant form. According to the data available, southern countries offer highly concessional loans to the poorest countries and, to a lesser extent, to Middle-Income Countries (MICs).

On the other hand, the concessional nature of southern multilateral institutions is generally less generous than that of the major multilateral institutions, such as the African Development Bank (AfDB) and World Bank/IDA. But, on the whole, estimates indicate that southern development assistance is not necessarily any less concessional than northern donor assistance.

Bilateral vs multilateral assistance channels: The proportion of southern development assistance channelled through such multilateral organisations as the World Bank, UN agencies and regional development banks varies. South Africa currently channels more than 75 per cent of its assistance through these organisations, others a much smaller proportion. Interesting changes have been observed in Venezuela. In 2006 it announced that it would switch from the World Bank/IDA and the Inter-American Development Bank (IADB) to such southern-led institutions as the Banco del Sur and the Organization of the Petroleum Exporting Countries (OPEC) Fund as channels for its development assistance.

Sectoral and project priorities: While traditional donors have increased their direct budget support and debt relief and their aid to social sectors, i.e. health and education, in recent years, southern contributors provide more than half of their development cooperation

funds for investment in infrastructure and productive sectors. This is particularly true of China, India, Kuwait, Saudi Arabia and southern multilateral institutions (the Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank (IsDB) and OPEC Fund).

However, about 20 per cent of development assistance from southern contributors has been allocated to the health and education sectors.

In addition, some southern countries provide financial assistance to governments' priority prestige projects, such as sports stadiums, presidential residences and conference facilities.

And lastly, besides participating in international peace-keeping missions, some southern actors provide military assistance, which is also provided by northern donors, but which, according to DAC standards, is not classified as ODA.

Procedural issues: At present, project assistance from southern actors is mostly tied, this being especially true of China, India and Venezuela. However, China and India also allow the use of local contractors, mainly on smaller projects.

There have not yet been any concerted initiatives among southern actors to untie their bilateral assistance flows, whereas OECD/DAC donors have formally adopted a policy of untying aid. It is reported that 94.5 per cent of OECD/DAC bilateral aid to developing countries in 2006 was untied.

However, it should be borne in mind that a large proportion of western assistance is spent in the donor countries.

Some of the usual shortcomings of tied aid do not apply to all southern development assistance. There are numerous examples of southern development assistance being better priced and therefore yielding better value for money. It is estimated that development assistance from China and India, for instance, is often more cost-effective, because project costs are lower, the procedures are less bureaucratic and projects are completed faster.

Triangular development cooperation: Even though triangular development cooperation is the subject of a lively debate, it has yet to become a prominent feature of the global development architecture in general or of South-South development cooperation in particular. Some traditional donors, especially Japan and various UN agencies, are very actively engaged in triangular cooperation.

Important steps for dialogues between traditional OECD/DAC and southern non-DAC providers on more transparent understandings and development cooperation standards have already been initiated by the Heiligendamm Process and could be further strengthened in the United Nations Development Cooperation Forum (DCF).

3. Conclusion and future prospects

The increase in southern non-DAC cooperation creates opportunities as well as challenges or even risks:

The main opportunities stem from the additional financial resources and the chance of a wider choice for the recipient countries. Other opportunities arise from the greater familiarity of many southern actors (including investors and banks) with local technological requirements and specific cultural and political conditions. Compared to their northern counterparts, many southern actors also seem more willing to take risks when investing or implementing projects in partner countries. The available data further show that the development cooperation activities of southern actors require less bureaucratic planning and are often less expensive and thus more cost-efficient.

The various challenges and risks include in particular:

- The growing diversity of providers of development assistance may result in more fragmentation of aid, requiring a stronger aid management system in partner countries.
- Additional financial flows from non-DAC actors may be a way of avoiding reforms that need to be undertaken. A particular concern here would be the availability of major funding in the context of poor governance standards.
- Former Heavily Indebted Poor Countries (HIPC) countries now having additional access to southern resources may be tempted to use their new debt service capacity in ways that will condemn them again to high and unsustainable debt.
- If non-DAC actors do not examine proposed investments carefully, especially when under pressure from their own suppliers, the result may be overambitious or unproductive, unsustainable projects.

Some of China's and India's cooperation activities in Africa can be expected to give rise to specific challenges. Although the Asian drivers' growth rates and the consequent increase in their demand for raw materials have contributed to high economic growth in a number of African countries, the extraction of raw materials is often without any linkages or spillovers for the rest of the economy and may result in the emergence of enclave economies (growth without development).

The challenges currently facing African countries may even become more relevant, when it is remembered that many African manufacturers are also confronted on the international markets with fierce competition from Chinese and Indian light manufactures. Against this background there is a need for dialogues and research on the following issues:

- Transparency and disclosure of data on non-DAC actors' development cooperation.
- Case studies and evaluations of South-South development cooperation projects, including triangular cooperation approaches.
- Analysis of non-DAC development cooperation packages (e.g. the interplay between trade, investment and aid projects) in resource-rich southern countries.



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