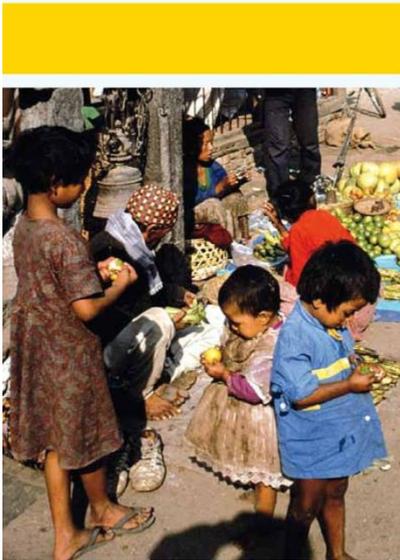


Why Emerging Donors Give Foreign Aid and What This Implies for the Global Aid System

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Motivation

- The increasing importance of donor countries operating outside of the OECD's Development Assistance Committee (DAC) challenges the existing international aid architecture
- These donors may be unwilling to adhere to the rules and procedures of the DAC framework
- In particular, non-DAC donors are suspected to provide aid unconditionally without caring about recipients' need and governance
- Naím (2007), for example, calls China a “rogue” donor only pursuing its economic and political self-interest
- China is also the main driving force behind the recently founded BRICS bank, which many see as a potential counterweight to established Western-dominated institutions such as the IMF and the World Bank



Motivation

- Against this background, our research addresses the following questions: Is the allocation of aid from non-DAC donors fundamentally different from that of DAC donors? And how do non-DAC donors differ from each other in their aid allocation decisions?
- Previous case studies for China and India (Dreher and Fuchs 2016; Fuchs and Vadlamannati 2013) suggest that the aid allocation by “new” and “old” donors appears to be more similar than one might suspect
- We shed new light on the issue by making use of more recent and comprehensive aid data for non-DAC donors
- In doing so, we focus on the three most active donors among the BRICS, namely Brazil, China, and India



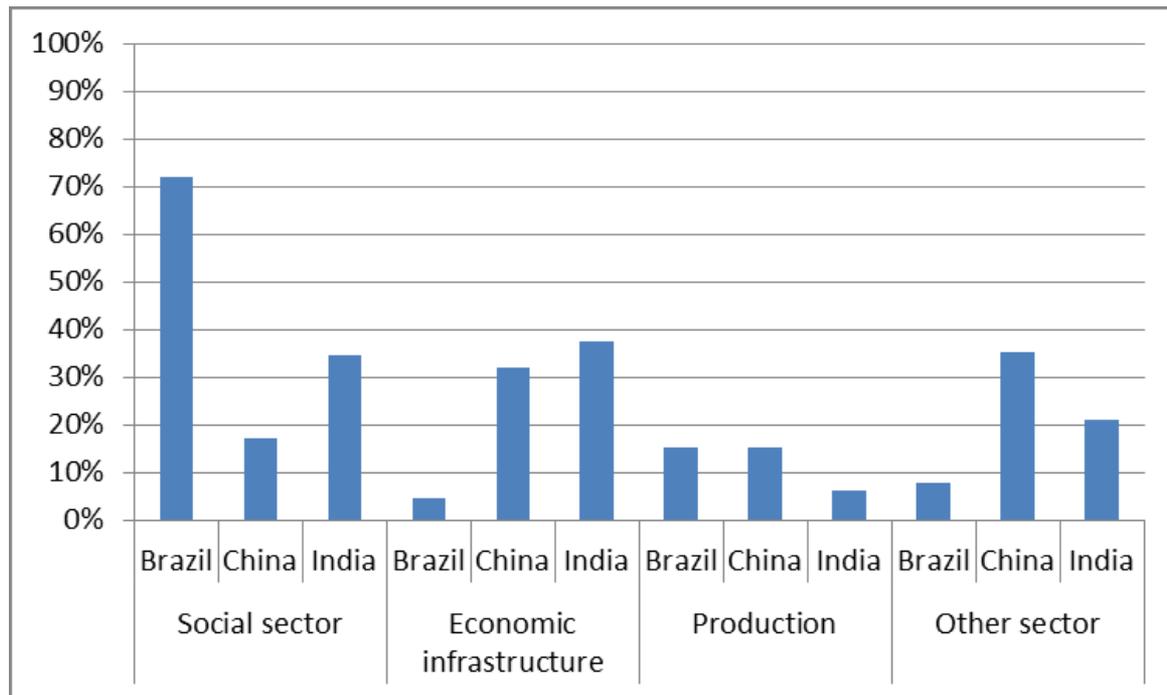
Data

- The dataset we use covers project-level aid data from the AidData initiative
- The current version of this database includes
 - 1,008 projects of Brazil's technical development cooperation between 2007 and 2010
 - 784 projects of India's development cooperation between 2008 and 2013
 - 1,272 Chinese projects in Africa classified as ODA-like between 2000 and 2012



Data

Figure 1: Sector allocation of Brazil’s, China’s and India’s aid commitments



Method

- Multivariate regression analysis for a cross section of recipient countries
- Dependent variable: share of aid commitments a particular recipient received in the period under consideration
- Explanatory variables:
 - *Recipient need* (GDP per capita; natural disaster deaths)
 - *Recipient merit* (control of corruption; level of democracy)
 - *Donor interest* (bilateral exports; oil reserves, etc.)



Political and trade interests matter ...

- India and Brazil channel a large share of their foreign aid to regional partners, which is in accordance with their claim of being regional leaders; China has a much more global reach
- China isolates Taiwan-recognizing countries by completely excluding them from its development cooperation
- China's foreign aid programs are to a considerable extent driven by access to resources
- Export promotion determines the aid allocation of all three donors, and especially India's



... as do recipient need and merit

- For all three countries considered, there is some evidence that they give more foreign aid to poorer recipients
- India and Brazil also give significantly more foreign aid to countries in emergency situations
- In contrast to the widely held belief that the emerging donors undermine DAC efforts to reward good governance, our regression results indicate a preference for recipient countries with less corruption, and for democracies in the case of Brazil and India



Policy implication I: Joint minimum standards

- Our findings suggest that - contrary to widely held beliefs - the strategies of the three major BRICS donors (Brazil, China, India) are not exclusively focused on pursuing economic and political interests.
- Hence, additional efforts by the donors that are members of the OECD's Development Assistance Committee (DAC) to bring non-DAC donors such as China closer to the mainstream institutional framework - e.g. the DAC itself or the regular high-level meetings of the donor community – in order to agree on joint (minimum) standards in development cooperation may well pay off.



Policy implication II: A fairer multilateral system

- According to our analysis, fears that the non-DAC donors, and the BRICS in particular, are about to establish a rival aid architecture with the BRICS bank as a potential nucleus may be overblown because of these donors' diverse strategies
- It may well be that the BRICS would be willing to work within the existing multilateral aid system if the international community offered them a fairer representation, e.g. through voting rights in the International Financial Institutions (IMF, World Bank) that matched their economic potential

