Will "Emerging Donors" Change the Face of International Cooperation?
Richard Manning, OECD DAC Chair

Summary

What should we make of current concerns that access to growing funds from emerging donors may undercut standards to which traditional donors aspire and encourage unsustainable policies in some developing countries?

In fact, DAC members' share of international aid has in the last decade or so been high in comparison with the past, and most so-called "emerging" donors have had a long history of cooperation with developing countries. If DAC members expand aid as announced, the DAC share is likely to decline only slowly.

DAC donors have built up over time some approaches and norms which, although often still work in progress, do have value for sustainable development. They should be maintained and developed.

Nevertheless, Low Income countries seem likely to follow the Middle Income countries in having a wider range of financing options if aid becomes a less scarce commodity, and small countries in particular are already finding that non-DAC bilateral aid can be significant. (Trade and investment links are however likely to remain much more significant overall.) Whether the results are good or bad depends on how they use this increased choice. Three key risks are that:

- they prejudice their debt situation by borrowing on inappropriate terms
- they use low-conditionality aid to postpone necessary adjustment
- they waste resources on unproductive investments.

Against this background, there is every reason for DAC members to rebuild and develop constructive dialogue with other bilateral donors. This should be done in a spirit of lesson learning reflecting the shared commitment of all to the Millennium Development Goals, and the importance of policy coherence. The Russian initiative to hold a meeting with other donors as part of its G-8 Presidency is very timely, and next year's ECOSOC development cooperation forum could play a useful role in building consensus around principles of aid effectiveness. We should welcome the more multi-polar world that is emerging. But good results will require sound judgement by developing countries and recognition by all donors that sustainable development and poverty reduction should be the core purpose of aid.

Introduction

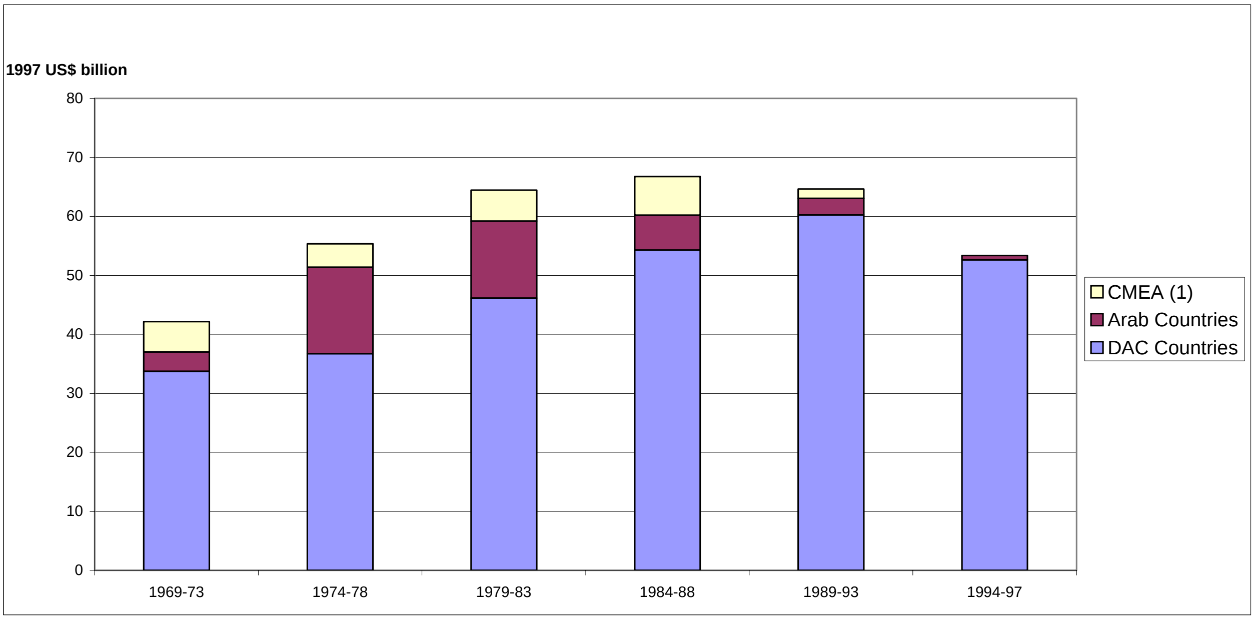
1.1 The purpose of this talk is to assess whether the familiar landscape of the provision of official aid is changing radically as new, emerging, or indeed re-emerging donors become more significant sources of finance for poor countries. In particular, what should we make of suggestions that aid from such donors might undercut the position of donors who insist on higher requirements for, let us say, good governance, environmental appraisal or poverty-linkage?

1.2 Let's start by asking ourselves two questions: is there really a new situation of emerging donors with large amounts of aid, and are there in fact meaningful standards to which the bulk of traditional donors adhere?

Emerging Donors: what's new?

2.1 On the first point, it is true that the 1990's and the early years of this century did see aid from the 22 member countries of the OECD Development Assistance Committee (DAC) reach routinely some 95% of all international aid. However I would argue that these were exceptional times, and that a greater degree of DAC/non-DAC competition or at least coexistence has in fact been the norm. Admittedly, if you go right back to 1960, the original membership of the Development Assistance Group, the predecessor of the DAC, did cover most of the significant aid donors of the day. (For the record, the list comprised Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, the United States and the Commission of the European Economic Community, joined almost immediately by first Japan and then the Netherlands.) But even by then, the Russians had famously replaced the US and the World Bank as sponsors of the Aswan Dam, and indeed India and other Asian Commonwealth countries had been providing technical assistance under the Colombo Plan since 1950. In 1961, Kuwait established the first of the Middle East funds: one can understand the dislike of most of the well-established and professional Middle Eastern donor agencies of being referred to as "emerging donors". I shall therefore use the more accurate, if pedantic phrase "non-DAC donors" in this talk.

Chart I: **Net ODA by major donor group, 1969-97**
(Constant USD, five-year averages)



1. Council for Mutual Economic Assistance: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and the USSR.

2.2 As Chart 1 shows, for most of the period of the Cold War, the countries of the CMEA (the former Soviet Union and its Warsaw Pact allies) accounted for nearly 10% of aid. In addition, China undertook some significant and high-profile interventions, most notably the Tan-Zam railway, which was probably the biggest construction project undertaken anywhere in Africa in the 1960s and 1970's, and where at a time when DAC donors almost never covered any local costs China took a much more generous attitude – even if raising the local currency largely by sales of Chinese consumer goods. China and India have long been major donors to some neighbouring countries, notably Nepal. A measure of their respective weight as loan providers is that China' costs for HIPC debt relief are of the same order of magnitude as those of Kuwait, whereas India's are roughly a tenth of the amount.

2.3 The mid-1970s saw DAC aid plummet as a share of total aid, as the Middle Eastern donors swiftly built up their programmes in the wake of the first oil shock of 1974. This was the era of the setting up of the International Fund for Agricultural Development on a tripartite funding model, with the Middle Eastern donors having a stake similar to that of DAC members. The Arab and OPEC Funds became very significant sources of finance. The DAC had annual consultations with them as a group. In 1978, the OPEC countries accounted for 30% of all aid worldwide. But this proved the high water mark, and though there was some renewed increase after the 1979 oil shock and again around the time of the first Gulf War, the OPEC and Middle Eastern donors became less significant sources of aid, even though for some of them, the share of aid in their economies routinely exceeded the 0.7% target.

2.4 The collapse of the Soviet Union and the constrained position of the OPEC countries until the last three years or so meant that DAC donors, from about 1993 on, once more accounted for perhaps 95% of all international aid for almost a decade – for the first part of which, their own aid was also itself declining in real terms. This meant that developing countries which could not access the capital markets or readily attract foreign investment were, in historical terms, unusually dependent on DAC members for very scarce concessional aid– either bilaterally or on multilateral agencies which essentially themselves depended on DAC finance.

2.5 What are the signs for the future? Will DAC members continue to be vastly the predominant source of aid finance, or will others now start assuming a much larger share than hitherto?

2.6 Let us look at four main groups.

2.7 The first is the group of OECD members who are not members of the DAC – countries like Turkey, Korea, Mexico and several European countries. Almost all these counties have ambitious plans to scale up their aid. Some are already significant players. Korea reported $423 million of ODA on DAC definitions for 2004 and Turkey $339 million –figures already larger than two existing DAC members in absolute terms. Indeed Korea's would be larger still if it were not for the fact that it does not claim credit for its assistance to North Korea. In terms of country effort, Iceland reported flows of 0.18% of GNI in 2004 –also higher than two DAC members – and both the Czech Republic and Turkey 0.11%. The non-DAC OECD members of the EU (the Czech Republic, Hungary, Poland and Slovakia, all of course with a history as donors under the CMEA, some on a major scale) have commitments under the EU decisions last May to make their best endeavours to reach 0.17% of GNI by 2010 and 0.33% by 2015. Korea has announced that it is aiming to reach a programme of $1 billion by 2010, and, along with Poland and Turkey, has informed us that it plans to join the DAC in the same timescale. All in all, one might expect the non-DAC OECD countries combined at least to double their current ODA of a little over $1 billion by 2010.

2.8 The second group, that of the new EU member states not members of the OECD, is similarly to make best endeavours to reach 0.17% of GNI by 2010 and 0.33% by 2015. The absolute amounts from this group will be small given the size of their economies.

2.9 One can expect that for both these groups, DAC "standards" will be a key point of reference. Indeed the need to apply existing DAC Recommendations – notably on untying of financial aid and investment-related technical cooperation to Least Developed Countries – is one reason why some time will be needed before non-DAC OECD countries fully join the DAC. Both groups are keenly interested in what the donor behaviour encouraged in the Paris Declaration of last year may mean for them and in particular for how they can maintain a degree of "visibility" for their growing aid efforts in a world of greater harmonisation.

2.10 The third group, to which I have already alluded, is that of the Middle East and OPEC countries and funds. These donors form a rather cohesive group, from whom DAC members could indeed learn in terms of harmonisation. It is routine for these agencies to consult each other on projects and use one another's documentation. Another positive feature is that they provide almost all aid on an untied basis. They have however been conservative in two respects, firstly by limiting themselves very largely to project finance, and secondly by providing most of this finance in loan (or Islamic banking) form. In a world where DAC donors – and more recently soft funds like IDA - have been increasingly providing grant financing, often on a more programmatic basis, poor and indebted countries have often preferred finance from these cheaper and more flexible sources, despite higher conditionality.

2.11 Once again, the oil market has delivered the Middle East and OPEC countries and funds greatly enhanced possibilities. DAC figures, which are somewhat incomplete, suggest that their contributions in the recent past have been in the range of $2-3 billion a year, mainly from Saudi Arabia, or no more than 4% of total ODA, far below the proportion regarded as normal for most of the 1980s. There seems every reason to suppose that this will increase, but that the rate of increase will be constrained by the factors mentioned above. And just as many of the countries in the first two groups are likely to prioritise the Balkans and the Former Soviet Union (including Central Asia), so the Middle Eastern Funds are likely to continue to prioritise the Muslim world and Africa.

2.12 The fourth group is the most disparate, and the subject of the greatest current interest: the non-OECD donors which provide aid but fall outside the second and third groups I have identified. Two of these report their aid against DAC norms. For Israel, this shows that, leaving on one side first year costs of refugees arriving in Israel, the programme is in most years of the order of $10-20 million. For Chinese Taipei, the figure for 2004 is $421 million, of the same order of magnitude therefore as Korea.

2.13 Regrettably, we do not have comparable figures for other non-OECD countries. However, let me give you a brief tour. In the Western Hemisphere, Venezuela has long had a role as an OPEC member, both bilaterally and through multilateral channels, including the OPEC Fund. It has been an important source of funding in some Caribbean and Latin American countries, and appears to be embarking on a broader range of cooperation with selected countries, based on clear political objectives. Chile has developed the capacity to deliver a bilateral programme, and has been prominent in discussions on innovative sources of finance. Brazil of course plays a major role both bilaterally and multilaterally, including within the Lusophone Commonwealth, and has also been prominent in discussions of innovative finance. South Africa has only a modest bilateral programme, but its economic weight in its region gives it considerable influence in the development of its neighbours over a wide area. Russia continues to be a prime source of assistance to some countries of the Commonwealth of Independent States, and is considering a more formal structure for delivering aid. It clearly has the financial capacity to play a growing role. In Asia, countries like Malaysia and Thailand have shown particular interest in relations with the DAC (indeed Malaysia last year asked to join, something that we were not able to respond to positively at this stage with so many OECD countries not yet members), and are beginning to develop bilateral programmes going beyond Colombo Plan training and technical assistance. I should note that Japan has encouraged them and other Asian countries to provide expertise to Africa with Japanese finance, a creative piece of "triangular cooperation".

2.14 The two "heavyweights" which are much discussed at present are India and China. Both have long been donors, as recorded above, and – on a much larger scale – aid recipients. It is worth pausing for a moment to look at how aid to these countries has evolved.

Table 1: A Tale of Two Countries
(disbursements of ODA to China and India, USD million)

	2000	2001	2002	2003	2004	2005
Net Multilateral ODA						
China	460	346	231	162	39	N/A
India	847	824	680	555	667	N/A
of which, IDA (by IDA Fiscal Year) (Gross Disbursements)						
China	420	345	260	153	105	66
India	949	1,031	1,218	805	994	1,051
(Principal Repayments)						
China	57	78	100	127	166	206
India	336	385	427	483	539	594
Net DAC Bilateral ODA						
China	1,256	1,086	1,212	1,140	1,585	N/A
India	650	904	785	384	21	N/A

2.15 Multilateral aid to these two countries has developed as one might expect, falling to near zero in net terms to China as she repays IDA credits after graduation and staying around $0.6 billion or so a year to still-poor India (it is interesting to note, however that in 2003 and 2004 Bangladesh received more multilateral aid in net terms than India). The bilateral picture however is quite surprising. Net flows to China from DAC members increased in 2004 to nearly $1.6 billion, the largest since 1999, while net flows to India shrank to the extraordinary figure of just $21 million. This curious picture is likely to reverse as Japan – by far the largest donor to China - ceases soft loans to China from 2008, and as the effects of India's decision to pay off aid loans to most DAC members work out of the system. But India's highly selective attitude to bilateral aid will probably mean that its bilateral ODA receipts will continue to be modest even in comparison with those of China, despite its much broader poverty.

2.16 Looked at as donors, both countries seem likely to develop larger and more ambitious programmes which – as has been the case for many other donors – take account of broader political and economic interests. In both cases, aid in the strict sense is, and seems likely to remain, much less significant for the developing world than the impact of their policies on trade and of their investment, not least by State-owned companies. As an important forthcoming study from the OECD Development Centre on the impact of China and India on

Africa makes clear, the effect of the two giants' demand for commodities and their ability to export cheap labour-intensive manufactures has major implications for the whole development paradigm in Africa.

2.17 China's commitments at the Millennium Review Summit show the variety of channels envisaged for China's contribution to the development process. They include:

- Zero tariff treatment to certain products from all the 39 least-developed countries (LDCs) which have diplomatic relations with China, covering most of the China-bound exports from these countries.
- Expansion of aid to the Heavily Indebted Poor Countries (HIPCs) and LDCs and a commitment to write off or forgive in other ways, within the next two years, all the overdue parts as of the end of 2004 of the interest-free and low-interest governmental loans owed by HIPCs having diplomatic relations with China.
- Within the next three years, provision of $10 billion in concessional loans and preferential export buyer's credit to developing countries to improve their infrastructure and promote cooperation between enterprises on both sides.
- Also in the next three years, increased assistance in the form of anti-malaria drugs and other medicines, helping set up and improve medical facilities and training medical staff.
- Training 30,000 personnel of various professions for developing countries within the next three years so as to help relevant countries to speed up their human resources development.

2.18 In the case of Africa, a more recent Chinese policy statement sets out the general principles and objectives of its policy as:

- Sincerity, friendship and equality
- Mutual benefit, reciprocity and common prosperity
- Mutual support and close coordination
- Learning from each other and seeking common development.

As types of cooperation to these ends, the policy statement lists three main headings, economic; education, science, culture, health and social aspects; and peace and security. This classification covers everything from tourism through disaster relief to military cooperation. Activities that the DAC would score as official development assistance would be only a modest part of this wide-ranging policy concept. It is similarly not at all clear what proportion of the headline $10 billion pledge at the Millennium Review Summit would count as genuinely concessional in character. It is worth noting that it is the Chinese Ministry of Foreign Commerce (MOFCOM) which is the lead agency on provision of bilateral aid, just as it is in handling China's receipt of bilateral aid.

2.19 India's own plans similarly combine a variety of instruments, going well beyond its traditionally strong role in training and technical assistance and highly concessional aid to its neighbours. Its proposed Indian Development Initiative, not yet approved by Cabinet, puts emphasis on a new lending instrument, under which India would borrow on the international capital markets and then on-lend on concessional terms to less credit-worthy countries in sub-Saharan Africa and elsewhere. At least 85% of the value of such loans would be tied to Indian procurement, and India plans to scale up to annual provision of perhaps $300-400 million to Africa, roughly ten times the level of 2004/05. In addition, India has offered $200 million for regional programmes under NePAD and $500 million in Exim Bank lines of credit to West African countries under its Techno-Economic Approach for Africa-Indian Movement, or “TEAM-9”. The latter funds, presumably non-concessional, would help finance setting up of various projects by Indian companies in the countries concerned.

2.20 The mix between concessional and non-concessional funding, and the difficulty of relating announcements of commitments to actual prospective disbursements, makes it difficult to reach a clear view of the likely scale of aid from these countries in the near term. But, to put the various statements into perspective, DAC members have committed themselves to increases which the Secretariat estimate would lead to a 60% increase in DAC aid from 2004 to 2010, reaching a level in the latter year of nearly $130 billion at 2004 prices and exchange rates. Even allowing for the fact that in the short term one-off debt relief will be an important element of the increase, an expansion on this scale would mean that DAC aid will be the dominant source of concessional official finance for a good time to come. So the issue is less the fact that non-DAC donors look to be scaling up significantly from a low base than the fact that **aid seems likely to be a somewhat less scarce commodity over the next five years than it was at least in the 1990s.**

Are “Standards” at Risk?

3.1 Secondly, should we be concerned that non-DAC donors may not apply DAC “standards”? What, indeed, are these standards? Are we not in danger of appearing patronising even to use such a term?

3.2 Certainly, the DAC itself is a diverse group. Contrary to the view of some developing countries and civil society advocates, we are a long way from a group of would-be monopolists of wisdom, procedures or indeed standards. Such consensus as we have achieved has been slowly and often painfully built up by years of experience and discussion.

3.3 There are however some things we do firmly agree on, which are relevant to the issue of non-DAC donors. First we agree that official development assistance (ODA) has to meet three tests: it must be undertaken by the official sector, must have the promotion of economic development and welfare as the main objective, and must be at concessional terms. This broad definition is backed up by many detailed provisions of what may count as ODA. We would like to see all countries reporting on a comparable basis: it is particularly important to be clear when funds are concessional or not. In this connection, I have made no secret of my view that the numerical test which we currently apply to the latter, a grant element of 25% at a 10% discount rate, is badly out of date as a measure of concessionality in a world of low interest rates. It is high time that our membership faced up to this, and that we agreed on a test that would provide real assurance that all funds claimed as ODA properly meet the test of concessionality. To quote the World Bank: “The major drawback of the DAC methodology is that the fixed 10 percent discount rate used implies that even commercial loans could be deemed concessional given today’s low interest environment”. If this issue is not addressed, we shall put ourselves in a very weak position in discouraging low-concessionality “aid” from non-DAC donors.

3.4 Secondly, the DAC has agreed to significant Recommendations in two key areas: terms and tying. On the former a Recommendation of 1978 specifies a norm of at least 86% for the grant element of ODA (the present DAC average is in fact over 97%, a figure which reflects a real increase in the share of grants, as well as the effects of declining interest rates). On the latter, in recognition of the well-known problems which tied aid can involve including additional costs, administrative burdens and the risk of biasing aid towards inappropriate technology, the DAC agreed in 2001 to untie financial aid and investment-related technical cooperation to least developed countries. Both these Recommendations are important indicators of what the DAC has considered to be the marks of good development practice.

Recipient countries also give them much weight. Some non-DAC donors readily meet such benchmarks – for example, as already noted, the Middle Eastern Funds are very largely untied. It is understandable that non-DAC donors with large industrial sectors are less open in this respect: after all it took DAC members 40 years to agree to untie collectively what is only a proportion of their bilateral aid. Nevertheless, the reasons why tied aid is often problematic can apply to tied aid from any source, and it is somewhat ironic that India, which now refuses to accept tied bilateral aid from others, is setting itself such a high proportion of tying in its new loan programme.

3.5 Thirdly, the DAC has promulgated over the years much guidance on good practice. This is based on the large amount of experience of what does and does not work in practice. It is not binding, even on our own Members, but has over time permeated thinking in most DAC agencies to varying degrees. A particularly clear statement of key elements was set out ten years ago in the DAC's publication "Shaping the Twenty-First Century", which not only foreshadowed the Millennium Development Goals, but also set out the basis of a true partnership approach between donors and developing countries. We would encourage non-DAC donors not only to consider this good practice, but to contribute to it with their own thinking and experience, including the experience that most of them have had as recipients of aid. Multilateral agencies have also developed important standards in matters such as environmental appraisal, resettlement and macroeconomic policy which constitute a reference framework for many DAC members.

3.6 And fourthly, along with multilateral agencies and a growing group of developing countries, we pulled together in the Paris Declaration last year a set of commitments on aid effectiveness which represents our most ambitious attempt to date to shift the behaviour of our own agencies in the direction indicated in "Shaping the Twenty-First Century". There is strong support from developing countries for this agenda, which stresses the importance of **ownership** by partner countries, **alignment** by donors of their aid to support local priorities and local delivery channels when these meet adequate standards, **harmonisation** and simplification of donor procedures, a stronger focus on achieving real **results** by both developing countries and donors, and greater **mutual accountability** for those results. Turning these commitments into reality, even for the DAC itself, is no light task. But we would very much encourage non-DAC donors, many of whom were represented at the High Level Forum that agreed the Declaration, to associate themselves with them. It was interesting, a few months later, to talk to one such which strongly supported the Declaration as a recipient, but had not really considered how it might apply to its own modest aid programme, and to another which was having to handle criticism from its own legislature that it should not have gone along with the Declaration without first seeking legislative agreement.

3.7 I think we should conclude that the Paris Declaration, with its targets for 2010, is work in progress for all parties. DAC members have a great deal to do themselves in areas such as predictability, use of local systems, coordinated capacity building, joint analytical work, and so on. Developing countries, who equally have much to do in strengthening their systems, developing inclusive approaches to ownership and managing for results, should be encouraging all donors, and not just DAC members and the multilaterals, to apply the principles agreed in Paris in the circumstances of each recipient. We should be working to expand the commonly agreed areas of good practice, and the emergence of other players should not inhibit this.

A World with More Options

4.1 I have argued above that we are seeing not so much a sudden or unprecedented fall in the DAC share of aid, but rather the consequences of the much increased range of options that many developing countries now have to finance their development.

4.2 This has been evident for years in the case of the stronger Middle Income Countries, mainly as a result of increased access to private capital. Indeed, not only is the contribution of official development assistance to most of these countries now very small indeed in relation to their economies (the fact that Thailand and India dealt with the cost of the Tsunami without recourse to any bilateral aid is just one illustration of this), but the International Financial Institutions themselves are now only marginal players except at times of crisis.

Table 2: Net Disbursements of Own-Resource Lending from the Multilateral Development Banks
(USD, constant 2003, Two-year Average)

	1983-84	1993-94	2003-04
World Bank	+ 10.7	- 0.3	- 4.1
African Development Bank	+ 0.3	+ 1.1	- 0.5
Asian Development Bank	+ 1.1	+ 1.4	- 3.0
Inter-American Development Bank	+ 2.5	+ 2.4	- 0.1
EBRD	N/A	+ 0.1	+ 0.5

4.3 As Table 2 shows, the World Bank and the three major long-established Regional Development Banks have moved over the last decade to a position where not only do they no longer require capital increases but where they are routinely spending less than they are receiving – again with the exception of times of major crisis. Even their gross lending, 80% of which goes to 20 large MICs, accounts for no more than 1% of the total capital flows to these countries. With risk premiums for such borrowers having fallen from around 800 basis points in 1999 to perhaps 350 basis points today, the benefit/cost ratio of going through all the procedures which the Multilateral Development Banks have put in place over the years could be at a tipping point for many of the more market-worthy Middle Income Countries. It seems likely that unless the MDBs make it easier for their borrowers to do business with them, which is easier said than done, the borrowers will continue to go elsewhere, leaving the MDBs increasingly over-capitalised for their day-to-day business (but still a useful source of funds in times of crisis). Of course, it is a matter for some satisfaction that more countries are able to access the capital markets, and there remains in any event a significant role still to be played by MDBs and bilateral donors for the less creditworthy MICs and indeed for the fragile states amongst them.

4.4 The more interesting question may be whether for Low Income Countries the options are not also widening.

4.5 First, most DAC members are planning significant aid increases, not least in sub-Saharan Africa. DAC simulations show that, even discounting non-DAC donors, if there are across-the-board aid increases of the magnitude indicated, and if (as seems likely) China’s receipts fall and India’s are capped, then many African countries will be experiencing historically high levels of aid dependence by 2010. Indeed, for several, aid/GNI ratios would be well in excess of what the academic literature suggests is productive. The DAC and the World Bank are currently conducting an exercise to assess what DAC members and the multilaterals are in fact planning over the next few years, in order to see if, against this background, a sensible and productive allocation of aid funds can be encouraged.

4.6 But in this situation, even relatively modest increments of aid from non-DAC donors are likely to give developing countries significant freedom of manoeuvre in relation to an established donor community that is looking to spend its money productively. This is likely to be particularly the case for small economies where indeed non-DAC donors can plausibly bankroll the economy over the medium term. A modest but perhaps telling example came to my attention on a recent visit to the Pacific. There, the Republic of Nauru recently recognised Chinese Taipei and has received considerable undisclosed assistance from them. Some of this, such as wharf construction, can be assessed as being of long-term development value for Nauru. However, there are examples of Taiwanese aid that can be construed as "short-termist" (such as funding for fuel shipments and financing of lease payments for aircraft), which may undermine progress on the difficult but necessary reforms to move Nauru from crisis management and aid dependency to longer-term viability.

4.7 And, on top of this greater access to aid, a large number of so-called Heavily-Indebted Poor Countries are no longer heavily indebted at all. On average, African HIPC graduates have debt service to export ratios of around 6%. Many countries now considered highly successful have financed much higher levels of debt. For example, when I was serving in Bangkok in the late 1970s, Thailand's debt service to exports ratio was usually at or near 20%, which was regarded as – and indeed turned out to be – quite sustainable in an economy growing at 6% a year. Now we cannot readily apply ratios that were sustainable in a large middle-income country such as Thailand to small and very poor economies. But the fact is that ex-HIPC countries do, in many cases for the first time since the 1982 debt crisis, have some new freedom of action. The temptation to allow – once again –contractor finance and ill-considered capital projects to take precedence over financial prudence looks to be a significant challenge for such countries. Debt sustainability remains a real issue.

Three Risks

5.1 So here are three things that could go badly wrong in Low Income Countries, particularly but not only the smaller ones, and where non-DAC donors could have force for good or ill:

- first, ex-HIPC developing countries may be tempted to use their new debt-service capacity in ways that will once again condemn them to high and unsustainable debt, whether by accessing private funds, or export credit and low-concessionality loans, including from non-DAC donors
- second, if non-DAC donors provide recurrent or unearmarked finance to a country whose other donors may be waiting for improved policies before committing large sums, necessary reform may be unduly postponed. A particular concern would be that poor standards of governance and accountability could be entrenched by the availability of such funding, just as they can by the availability of large funding from natural resource exploitation
- thirdly, if non-DAC donors do not appraise proposed investments with care, particularly in the face of pressures from their own companies and suppliers (and I speak with some experience of such pressures), we could face a new round of overambitious or unproductive capital projects which cannot be maintained.

5.2 I stress that all these are things which could go wrong. They do not have to. So what do we do to improve the chances of a positive outcome?

Some Ways we Can Move Forward

6.1 The first thing is a question of attitude on our part. We should welcome, not discourage, a greater role by donors outside the DAC. It is entirely logical that we move from a world dominated by North-South flows to a much more multi-polar approach where the web of cooperation links countries of every sort. The DAC should not aspire to be a donors' cartel. Greater choice for developing countries is in principle good.

6.2 We should build our links to these other donors – or in some cases rebuild links that have atrophied. The DAC has started to do this. Last February, we and UNDP organised an initial meeting in Paris with most of the non-DAC donors. This was the first DAC meeting with non-DAC donors since a "Forum for Dialogue between Senior Officials of DAC Members and Countries with Development Cooperation Programmes", which was hosted by Mexico in 1997. The meeting went well, and we followed up by a longer meeting in September – a so-called "Structured Briefing" which enabled a more in-depth consultation with non-DAC donors. We plan a further event in the coming autumn, which we want to be more of a dialogue around issues of common concern. We aim to work particularly closely with our OECD colleagues not yet members of DAC, but all the other groups identified above are also important, and we will factor this into our outreach activities.

6.3 This needs to be matched by greater contact in-country. I was pleased to find representatives from both the People's Republic of China and Chinese Taipei represented at a recent workshop which I attended in Fiji on harmonisation in the Pacific. The recent Conference in London on Afghanistan was remarkable for the range of non-DAC bilateral donors represented. And in Addis Ababa last month I was told that India had applied to join the local Development Assistance Group, where DAC members and the main multilaterals discuss matters of common interest. I suspect that there is a lot more to be done in this direction.

6.4 In all these contacts it is important that we respect where other donors are coming from, and do not preach at them. For example, new members of the EU have taken on obligations on aid that they struggle to win support for domestically: although they should learn from the mistakes made by more established EU donors, their concerns about retaining visibility need to be listened to. Middle Income donors often start, as many DAC members did, with bilateral programmes that are linked to exports. This is understandable, but there should be scope to explore whether they accept the potential problems of untying, particularly for the least developed countries, and how we can maintain to the maximum extent the efforts of developing countries to meet international procurement standards. All donors have valid experience which all can learn from. However, on one point we can and should be firm. All countries have agreed to work towards the Millennium Development Goals, which imply a strong focus on sustainable development, poverty reduction and improved conditions of life for the poor, and we should encourage all donors to make this a key objective of their programmes. I was glad to see, in this connection, that Thailand has already produced a report on how it is contributing to the Eighth Millennium Development Goal, which calls for a partnership for development and deals with such issues as aid flows and trade access. China, too, has regularly supported the Millennium Development Goals as a framework of value for China itself, and globally.

6.5 We should also consider how far the evident interest of many non-DAC donors in triangular cooperation can be put to good use without falling into the trap of supply-led approaches. This is a potentially valuable opportunity for more understanding and lesson learning on both sides.

6.6 In addition, we should encourage a more prominent role by non-DAC donors in multilateral finance. As an example, the non-DAC share of donor contributions to the latest IDA Replenishment was extraordinarily low. It was particularly notable that OPEC countries, which had accounted for nearly 8% of IDA in the mid-1970s, provided less than half a percent, far below their share of total aid. Non-DAC OECD countries provided 1.25%, most of it from Korea. Other emerging donors provided a similar total, more than half of it from Brazil, followed by Russia and Singapore. (Countries like India and China are not yet donors to IDA, but, as Table 1 showed, China is repaying over $200 million a year and India approaching $600 million a year: between them they account for around 40% of all IDA reflows from past lending.) A stronger role for non-DAC donors in the whole multilateral system – which must be matched by a stronger voice - is highly desirable.

6.7 Just as for OECD countries, we should also encourage countries whose policies impact on poor developing countries to give greater weight to the coherence of all their policies. Failing states in the developing world are in no-one's long term interest. If the effects of either OECD or Middle-Income countries' protectionist or mercantilist instincts, or the way in which they address their needs for raw materials, are inconsistent with building successful governance and successful economies in these poor countries, then such governments should consider very carefully the effects of their overall policies. Developing countries, on average, still impose higher levels of protection against other developing countries than do developed countries. Aid does not make up for bad policy in donor countries at any level of development.

6.8 Finally a word on another important tool to mobilize international finance: export credits. Over the last 25 years the OECD has been promoting the sensible use of export credits but also and more recently of aid credits; I am talking about the *Arrangement on Officially Supported Export Credits.* This text and the practice followed at the OECD aims at directing tied aid flows to poorer developing countries for commercially non-viable projects such as hospitals and schools; it also encourages renewable energies and water projects through specific rules. In addition, OECD Members have agreed to try and ensure that official export credits to the HIPCs are not provided for unproductive purposes. Of course these "soft law" disciplines and related self-restraint policies apply to OECD Members only and do not bind other donors. This is increasingly problematic as other countries become serious competitors in the provision of export credits, using terms and conditions which anecdotally may not comply with the OECD rules. The export credit community represented in the OECD is addressing this issue and is seeking to bring such providers into the fold. This may not be a quick process but the objective should remain to maintain a level playing field among donors without unravelling the level of "qualitative" standards applied to export credits and aid via the OECD-based rules. As I noted above, this is particularly important for countries with weak economies but historically low debt-service ratios, not least in Africa.

6.9 There are some important opportunities for dialogue with non-DAC donors that should be seized. First, the Russian G8 Presidency has decided to hold a special meeting with donors in and outside the DAC to consider matters of common concern. This meeting, which will take place in Moscow on 6-7 April, is an excellent initiative, and I am particularly pleased that that Russians have associated the DAC with it from the start.

6.10 Second, the UN General Assembly last year mandated ECOSOC to hold, on a biennial basis, a high level forum on Development Cooperation. The first is likely to take place in the summer of 2007, which will enable it to be carefully prepared. This should be a valuable venue to develop a better accounting that would give all donors credit on a comparable basis (based on DAC guidelines) for their development assistance activities. It could also be a good way to spread the kind of good practice set out in the Paris Declaration to a wider audience, even though many non-DAC donors were already represented in Paris.

Conclusion

7.1 So let us finally return to the question with which I began: will the emergence of new donors change the landscape of the international development effort and may it undercut some of the important approaches put in place over the years to improve the quality of aid? I hope I have shown that the term "new" or "emerging" donors may be convenient shorthand, but that (as with that other shorthand term "fragile states") shorthand is of limited use. We should recognise that most donors outside the DAC have a history as donors and many of them a good deal of experience. We should pay attention not just to their aid policies in the narrow sense but to the overall impact that they have on poor countries. I hope that I have shown that the view that we are approaching a radical decline in DAC share of aid is likely to be mistaken, while recognising that in a world of rising aid, developing countries will have the benefit of more choices. And I hope that I have also shown that there are in practice standards of donor behaviour among DAC members and the multilaterals which we can and should maintain. At the same time, I have recognised that in at least three respects there are grounds for concern about the – otherwise welcome - prospect of additional aid flows from beyond the DAC, and emphasised the importance of better dialogue among all providers of international cooperation

7.2 The increases in aid from both DAC and other donors will make it all the more important for developing countries to manage their total use of donor resources effectively. They will find this easier the more all donors accept sustainable development and reduction of poverty as measured by the Millennium Development Goals as central objectives of development aid, but also of their wider policies that impact on poor developing countries. In that way, we could see a new development community that is not just more multipolar but also a real multiplier.

Richard Manning,

OECD/DAC 2006