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## RECALIBRATING DEVELOPMENT CO-OPERATION: HOW CAN AFRICAN COUNTRIES BENEFIT FROM EMERGING PARTNERS?

by

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## PREFACE

In April 2011, the OECD Development Assistance Committee (DAC) officially welcomed development co-operation provided by countries outside their membership stressing their crucial role with respect to the achievement of the Millennium Development Goals and their important contribution to economic development. But how exactly does development co-operation provided through these new partnerships impact on African countries' development? The present paper tries to give an answer to this question thereby joining a long-standing research tradition at the OECD Development Centre on emerging economies and their impact on other developing countries. Groundbreaking studies in this field include the 2006 study *The Rise of China and India, What's in it for Africa?* by Goldstein, Pinaud, Reisen and Chen but also the *Perspectives on Global Development Report 2010* on "Shifting Wealth". More recently, the 2011 *African Economic Outlook's* thematic chapter analysed more closely Africa and its emerging partnerships. The present study picks up on one aspect of these partnerships, namely development co-operation.

Questions have been raised as to whether development co-operation can have a beneficial impact for the recipient countries and even whether they could, in fact, harm traditional donors' efforts to increase the developmental outcome of aid. Reiterating the conclusion of the recent DAC statement, the present paper stresses that the way emerging partners provide development co-operation to African countries represents indeed a number of critical opportunities for the latter, notably with respect to infrastructure development and the development of the agricultural hinterland. The fact that traditional and emerging partners' development co-operation is largely complementary is a positive evolution for African governments.

It goes without saying that challenges remain. The authors stress that for African governments to make the most out of the new modes of co-operation and to maximise potential new synergies they have to define a clear strategy, assure maintenance, and enhance bargaining position vis-à-vis the emerging partners.

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July 2011

## RÉSUMÉ

L'augmentation des relations économiques entre l'Afrique et les partenaires émergents rend plus claire la différence de concept qui sous-tend la coopération au développement offerte par les partenaires traditionnels et émergents. Dans la philosophie des partenaires émergents l'aide n'est qu'un élément d'une boîte à outils beaucoup plus large. Ces nouvelles réalités de terrains sont la marque d'un réel changement qualitatif dans l'offre de coopération au développement, aussi bien en termes d'allocation sectorielle des ressources que de modalités d'approvisionnement, ce qui a un impact sur les résultats et sur les défis auxquels les pays bénéficiaires auront à faire face. Ce rapport analyse les sujets d'inquiétudes récurrents (comme par exemple l'absence de conditionnalité politique qui pourrait détruire les efforts des partenaires occidentaux pour promouvoir la bonne gouvernance) et souligne l'émergence de nouveaux défis pour les gouvernements africains à la lumière de ces différentes modalités. Afin de tirer tout l'avantage de ces nouveaux modes de coopération les gouvernements africains devront : définir une stratégie explicite, assurer la maintenance et renforcer leur pouvoir de négociation.

**Classification JEL:** F3; F21; O16; O19; O55; Q3.

**Mots clés:** coopération au développement, partenaires émergents.

## ABSTRACT

With the recent boost of emerging economies in African economic relations, a different philosophy of development co-operation is progressively gaining momentum. Indeed, there are critical differences in the way development co-operation is provided by traditional and emerging partners. For the latter, aid is only one element of a broader economic engagement toolbox. These new realities on the ground mark a qualitative change in the provision of development co-operation both in terms of sectoral allocation and modalities of delivery, which in turn impacts on outcomes as well as the challenges for the recipient countries. We evaluate concerns often raised in this respect (*e.g.* the lack of policy conditionality destroying Western efforts to promote better governance) and stress that a new set of challenges emerges for African governments in the light of these different engagement modalities. The challenges for African governments to make the most of the new modes of co-operation could be summarised as follows: *i)* to define a clear strategy; *ii)* to ensure maintenance; and *iii)* to enhance their bargaining position.

**JEL Classification:** F3; F21; O16; O19; O55; Q3.

**Keywords:** development co-operation, emerging partners.

## I. INTRODUCTION

Offering different modes of development co-operation, the emergence of new actors has complemented traditional partners. These partnerships are not new – some emerging partners having longstanding historical relations with African countries - but rather refer to “emerging” economies that are still in the midst of a process of catching-up with advanced economies and whose economic relations with Africa have been intensifying rapidly over the last decade. In terms of development co-operation, emerging partners offer different potential development benefits to Africa. Whereas traditional donors are more present in social sectors such as education and health, emerging partners tend to focus on infrastructure and agriculture. They also differ in the modalities (modes of disbursement, financing tools etc.) used. One typical aspect of the partnership with emerging partners is that the frontier between trade, investment and aid, or between private and public sector, is blurred. This is true, especially for China but also to some extent for donors such as India and Brazil. As a consequence, concepts such as foreign direct investment (FDI) or official development assistance (ODA) do not reflect the complexity of emerging partners’ engagement in Africa. The term “international development co-operation” covers official aid flows but also other financial or investment tools, and clarifies that there is a change in the nature of the engagement. International development co-operation could be broadly divided into two different philosophies: “international development assistance”, relying on a charity philosophy and “international development investment”, aiming at enhancing the partner’s potential in one’s own self-interest. These two philosophies will be analysed in greater detail in Part II. These two frameworks have to be understood, of course, as two crude, abstract models that are to some extent a caricature of reality and do not exist in a pure form as development co-operation is complex and cannot be reduced to one single dimension. They rather represent the dominant approach towards development co-operation. With the emergence of new partners in Africa, there is a qualitative change in the provision of development co-operation since emerging partners tend to operate more within the international development investment logic. This, in turn, impacts on outcomes as well as the challenges associated with “effective” delivery. The issue at stake is to identify in what way new actors provide new opportunities, for instance with respect to infrastructure development, training, technical assistance, new entrepreneurial diaspora and the development of the rural hinterland. In Part III we will analyse the new opportunities and challenges for African governments with respect to the maximisation of those benefits.

## II. A VINTAGE PHILOSOPHY OF INTERNATIONAL DEVELOPMENT CO-OPERATION AND NEW SYNERGIES

### II.1. Development assistance or development investment?

There are important differences in the way development co-operation is provided by different countries. However, the pertinent cleavage is not to find in DAC vs. non-DAC donors (or “established” vs. “new” donors) but rather in the rationales and modalities that guide the provision of development co-operation.

While there will always be some political and strategic considerations guiding the geographical allocation of development co-operation, on the economic dimension we can distinguish between a “charity” motive and an “economic self-interest” motive. In what follows we will refer to the former as “development assistance”, to the latter as “development investment”. “Charity” co-operation is focused on the notion of “assistance” and “humanitarian need” seeking primarily a reduction in poverty while the “economic self-interest” co-operation model emphasises to a larger extent the partner’s potential seeking to create the necessary conditions for enhanced economic exchanges. This dichotomy certainly oversimplifies reality and obscures important divisions both within and between different donating countries. It is rather representative of a donor’s dominant motivating factor for development co-operation. In practice, of course, development co-operation cannot be reduced to one single dimension.

While the notion of “win-win co-operation” is primarily associated to “emerging donors” from the South such as China, India and Brazil, it actually recycles the Japanese approach to development co-operation of economic self-interest (*kokueki*) in the 1970s and 1980s. Equally, US-American development assistance throughout the cold war period was both a tool of foreign policy and aligned to economic interests, while humanitarian considerations played a subordinate role. Sweden on the other hand repeatedly pledged to separate the humanitarian aspirations of foreign aid from short-term economic benefits for itself (Schraeder *et al.*, 1998). Thus, historically, among traditional donors, the aspects of development assistance and development investment have been found simultaneously. At the same time not all non-DAC donors adhere to the model of mutually beneficial win-win co-operation, Arab donors for instance being considerably closer to the charity logic.

In addition, these rationales change over time. Traditional donors, following the end of the cold war and subsequent to their ongoing harmonisation efforts, moved closer to an assistance logic. The emergence of new partners recalibrates this “gentlemen” consensus making the development investment logic more prominent again.

Each combination of tools and actors corresponded historically to a different set of tools and modalities. Those in turn have an impact on the challenges for recipient governments to



make the most out of aid. We will analysis these effects and the challenges that emerge for African countries in greater detail below, while stressing that the two approaches of development co-operation are largely complementary.

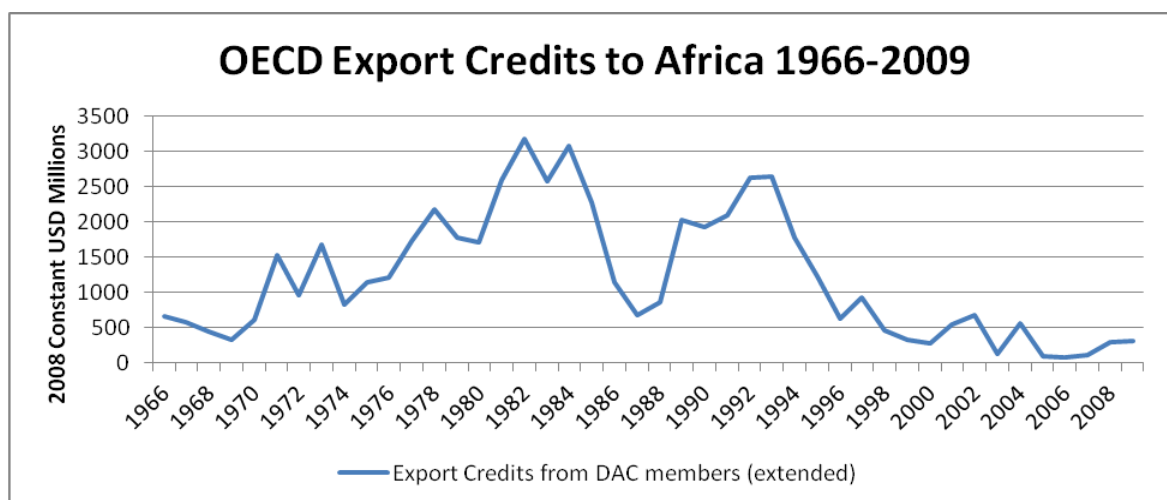
### *II.1.1. Development assistance: the charity consensus*

From the beginning of the 1980s onwards, we observe an important double shift in traditional donors' aid delivery structure (modalities) aiming at improving the developmental outcomes of aid inputs: there was a double process of politically tying and economically untying of aid.

Traditional donors' "ODA" has moved progressively from a logic of economic interest to one of global social redistribution. A clear consensus emerged that poverty reduction should be the paramount aim of aid, recognising that the international community had to substitute to some of the neediest states in the provision of basic public goods through long-term financial transfers. The efficiency of a programme is subsequently evaluated on the sole basis of improvements on targeted basic standards of living and not on the basis of prospects to foster the recipient's economic growth and ability to emancipate from international transfers (Severino *et al.*, 2009). Following increasingly a logic of development assistance, traditional donors' aid is progressively dissociated from commercial flows such as foreign direct investment (FDI) and trade assuming that private companies' primary concern is not necessarily poverty reduction (van der Lugt *et al.*, 2011). Consequently, ODA is now clearly differentiated from other official flows like trade or private sector FDI.

In this context, traditional donors underwent a process of economic untying of aid. The so-called "Helsinki package" of 1991 compelled DAC donors to limit the use of mixed credits and export credit which tie aid to the purchase of goods and inputs from the donor country. These forms of export subsidies were perceived to be at high cost for the recipient countries serving mostly the interests of donors. Economically tied aid increases trade dependency of recipient countries and constitute an important impediment to free trade, which reduces competition thereby increasing prices and reducing the choice of developing countries. Economically untied aid has the advantage of recipients being able to determine on their own the investment projects, the technology that is most appropriate for its long-term development targets and to buy at world market price (Jepma, 1990 and Morrissey, 1993). However, this merits to be nuanced: although OECD donors agreed to reduce their levels of formally tied aid, it appears that in practice most contracts still go to the donor countries' own firms (OECD, 2011b). Still, as Figure 1 shows, the use of export credits for African countries has been significantly reduced by OECD countries since the early 1990s. Over the period 2000-08 on average less than USD 500 million annually have been issued in export credits to Africa by all OECD countries taken together.

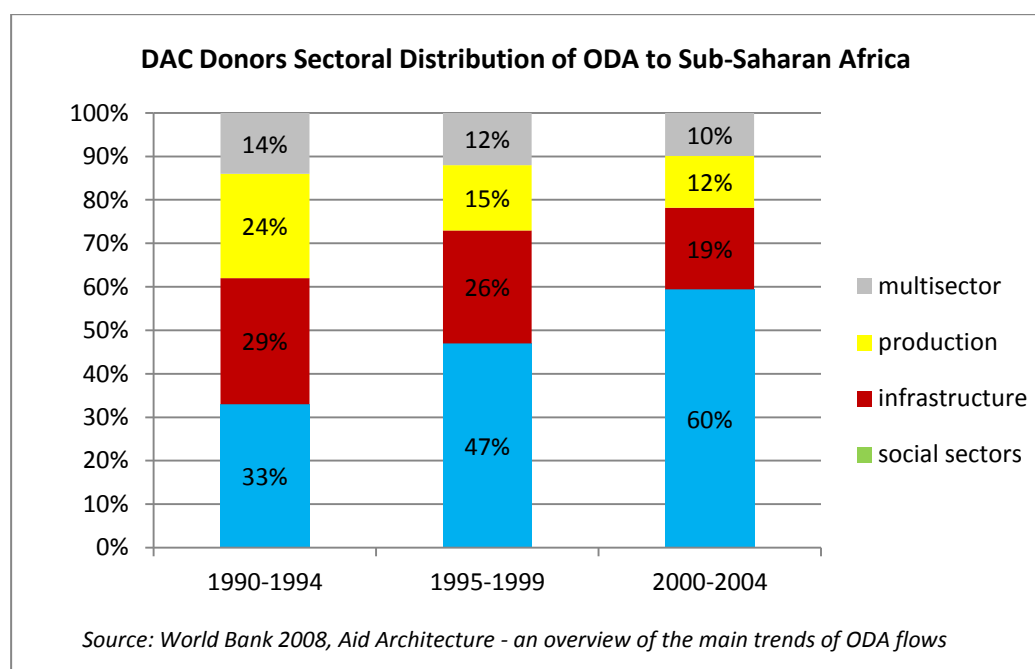
Figure 1: Export credits to Africa 1966 – 2009 issued by OECD countries



Source: OECD data.

Sectorally, we observe that donor activities have increasingly focused on poverty reduction, social sectors such as health and education, and governance. While in 1990, 82% of ODA have been allocated to agriculture, industry, economic infrastructure and the financial sector, both agriculture and industry saw their share of aid halved by 2004. At the same time the shares for health, education and governance more than doubled over the same period receiving about 51% of all aid flows in 2004 (Harrigan, 2007). According to the World Bank 2008, there has been a shift in the allocation of ODA to sub-Saharan Africa from infrastructure and production to social sectors which now account for 60% of all sector allocable ODA (see Figure 2).

Figure 2: Sectoral distribution of ODA to sub-Saharan Africa



The United Kingdom's foreign aid programme stands exemplarily for the above described shift in philosophy. The set-up of the Department for International Development (DFID) in 1997 fully separated British development assistance from the Foreign and Commonwealth Office (FCO) and thus from political and commercial interests. The 1998 Labour Government's White Paper emphasised the re-focus of aid on poverty reduction and policy coherence (White, H., 1998). The 2002 International Development Act finally separated British aid and trade, marking a turning point in the UK's aid programme whose explicit top priority becomes the fight against world poverty as opposed to the key focus being placed upon economic development. There has been a clear focus on untying of aid ensuring that poverty alleviation cannot be linked to the provision of British goods and services (van der Lugt *et al*, 2011).

In addition to this discourse shift, which places aid as an uninterested effort to reduce world poverty, there has been from the early 1980s onwards a radical shift in the way aid is delivered, project aid being replaced by programme aid. Indeed, general budget and sector programme support has risen from 8% of total ODA commitments in 2001 to 20% in 2004 (World Bank, 2008). This shift from project aid to programme aid is a response to the expressed need for continued subsidising of public efforts in recipient countries that projects could not provide. Programme aid, notably in the form of budget support becoming the favoured conduit of multilateral and bilateral aid, donor-recipient relations have been managed through policy based conditionality to counter principal agent type problems emerging in the context of programme aid. To keep control over the "process" that translates aid inputs into developmental outcomes and assure that aid inputs are not misappropriated by rent-seeking behaviour or see aid benefits vanish due to unsustainable economic policies, programme aid has been tied to strict policy conditionality aiming at using aid as leverage to induce sensible policy reforms in recipient countries (Nissanke, 2010). Indeed, the 1998 World Bank Study: *Assessing Aid: What Works, What*

doesn't and Why, settles the debate on the effect of aid on economic growth by establishing that aid works given the policy regime in the recipient country is good enough. (World Bank, 1998)

Figure 3: Aid provision in the development assistance framework

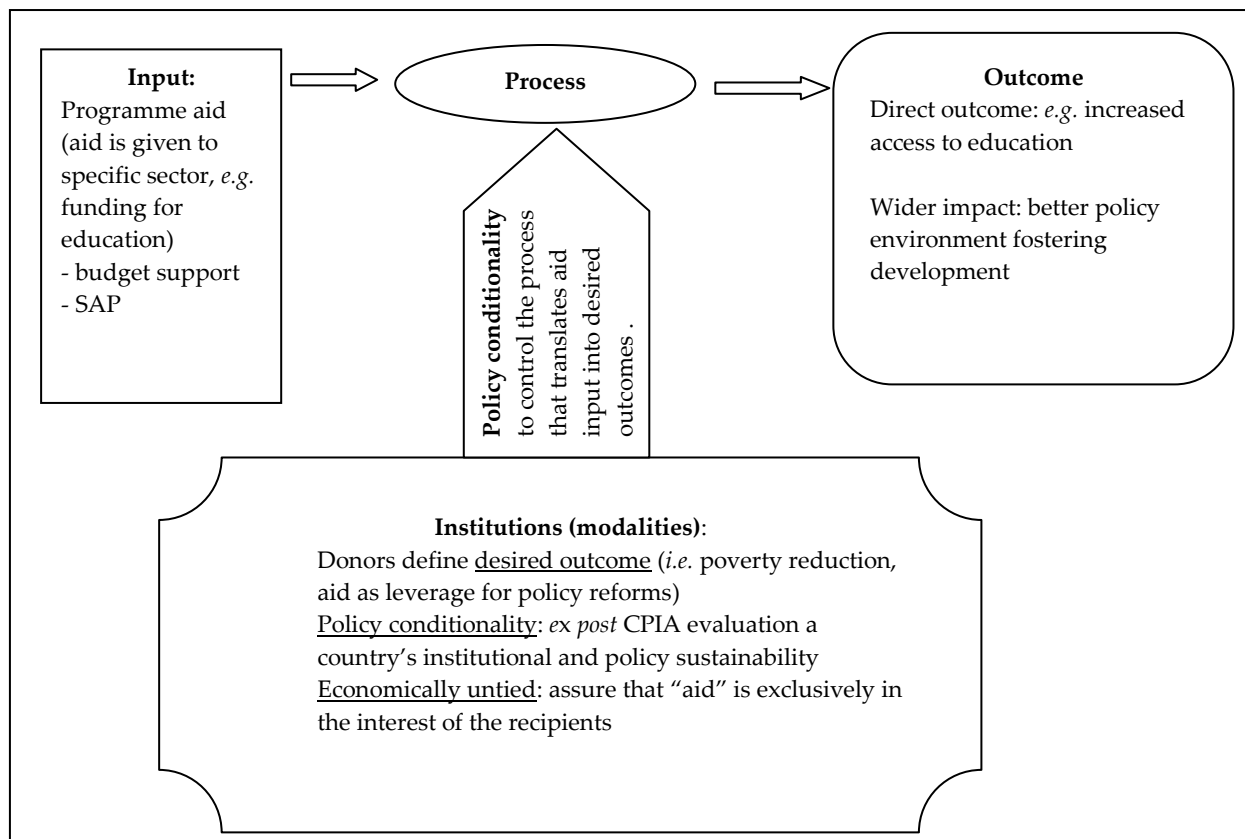


Figure 3 summarises the development assistance framework. The donor first defines the desired impact and outcome, which could be, for instance, an increased literacy rate in a specific country. The input would be the amount of money disbursed to the recipient country for the construction of schools; the output would be the constructed schools and finally the outcome/wider impact would be the rate of literacy, which could be measured taking the rate of children who finish the elementary school. These mechanisms of disbursement explain why conditionality is necessary in any sovereign aid and debt contract: donors have to keep some control over the process that translates their aid inputs into developmental projects in order to make sure that taxpayers' money is not misappropriated but spent appropriately for developmental purposes. Not least of all, this is crucial to keep up public support for development assistance (Mold, 2009).

However, whether this modality to govern donor-recipient relationships and translate aid inputs into the pre-defined aid goals, was entirely successful is a matter of debate and DAC donors are still trying to improve the process of aid allocation. There are two major dilemmas associated with the use of policy conditionality in its current form. Firstly, from the mid-1990s onwards, policy conditionality comes in the shape of *ex post* policy conditionality based on Country Policy and Institutional Assessments (CPIAs) evaluating a set of parameters such as macroeconomic management, structural policies, policies for social inclusion and the quality of

institutions (e.g. property rights, transparency, accountability, fight against corruption). What is problematic in this respect is the monolithic “one size fits all” development model guiding the policy conditionality, which does not recognise other diversified ways to create synergies of interest between public and private actors. Nissanke 2010 argues that this performance-based aid allocation method had important consequences on the incentive structures of recipient governments running counter to the notions of ownership and partnership/dialogue, which are equally promoted as an important dimension for the success in producing desired developmental outcomes through aid<sup>1</sup> (cf. Paris Declaration, OECD 2005). In fact, performance-based evaluation systems in their current form cannot evaluate the role of exogenous shocks that are beyond the government’s control or indeed the effect of alternative institutions/policies. Consequently, policy makers in recipient countries are inclined to change their behaviour in anticipation of policy parameters seen as desirable by donors rather than fixing their own policy objectives as an answer to demands of their interior political constituency (Nissanke, 2010). Indeed, prior to the Fourth High Level Forum to be held in Busan in late 2011, developing countries consulted in the preparation of the conference have listed the end of policy conditionality and the use of country systems among their priorities to improve aid effectiveness.<sup>2</sup> Secondly, especially in Africa, donors face the dilemma that very few countries satisfy the “good policy” standards although the majority of the poorest countries are situated in Africa. Donors face the tough choice of either underfunding the poorest countries or allocating aid to countries with a bad policy environment (Mold, 2009). Harrigan, 2007 shows that *ex post* conditionality did indeed have a negative side-effect on the selectivity in the allocation of aid: while in 1990, the ten largest recipients in Africa received 42% of the continent’s total aid; in 2004 this share had increased to 56% (Harrigan, 2007).

### *1.1.2. Development investment: a vintage approach to development co-operation recycled by China*

The (re)emergence of new partners in African countries’ economic relations makes the development investment logic more prominent again, thereby providing alternative and complementary sources of development finance for African countries. The way emerging partners provide development co-operation to African countries is often portrayed as the mirror image of traditional donors’ aid since they provide economically tied and politically untied development co-operation. Both the modalities of disbursement and the sectoral focus are largely different, development co-operation being typically provided in the form of project aid and targeting sectors like economic infrastructure development and agriculture rather than social sectors. One typical aspect of the development investment philosophy is that the frontier between trade, investment and aid, or between private and public sector, is blurred. Consequently, in the mindset of development investment, “aid” is only one element of a broader engagement toolbox aiming at laying the ground for enhanced bilateral trade and private sector

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1 In the Paris Declaration, one of the three partnership commitments is the respect of the partner’s ownership. The declaration emphasises the importance that partner countries exercise effective leadership over their development policies, strategies and co-ordinate development actions. Donors, in turn, commit to “respect partner country leadership and help strengthen their capacity to exercise it.”

2 [http://www.oecd.org/document/12/0,3746,en\\_2649\\_3236398\\_46057868\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/12/0,3746,en_2649_3236398_46057868_1_1_1_1,00.html).

activity. "Aid" and alternative financing modes that transcend the classical definition of FDI and ODA are used to enhance the partner's potential in one's own self-interest. Export credit subsidies, for instance, are used by the donor with the aim of reducing the risk of market entry for their own companies. Another example is given by the resource-for-infrastructure deals aiming at reducing impediments to bilateral trade and private sector investment by constructing the necessary infrastructure (Potter, 2008; Chanana, 2009; Kiala, 2010).

Japan was actually the first to pursue this approach to development co-operation in its co-operation programmes in Southeast and East Asia in the late 1970s. This approach is recycled by some of Africa's emerging partners, most prominently China (Brautigam 2010b and Nissanke and Soderberg, 2011).

Japanese development co-operation with other Asian countries was characterised by its integrated approach using tied concessional loans supplied together with technical assistance and grant aid with the aim of promoting foreign direct investment from Japanese companies and enhancing trade (King, 2007). Underlining the centrality of economic growth for sustained development, the sectoral focus lay more on the development of economic and social infrastructure via large-scale projects, which could in turn attract further private investment (Potter, 2008). In addition, Japanese development co-operation was characterised by the deployment of a large base of Japanese experts (amounting to some 4 000 in the first 20 years of co-operation) who executed the projects. This is considered an important channel for the transmission of knowledge and expertise (King, 2007).

Overall, this approach proved largely beneficial in Thailand and across Asia, including China, where it is considered a key factor in facilitating the entry of FDI from Japan and other Asian countries (King, 2007). In 1978, for instance, the Japanese government offered China a USD 10 billion export credit line (with concessional element) to finance the export of its modern complete plant/ turn-key projects, which China was paying back by exporting crude oil and coal to Japan. The aim for Japan was to secure an access to raw materials and to provide some possibility of expansion for Japanese firms (Brautigam, 2010b).

While Japan itself did not engage the African continent in the same way as Southeast Asia, which can be explained both by location specific factors and the ongoing harmonisation efforts among DAC-donors (Nissanke and Soderberg, 2011), some elements of Japan's co-operation model applied in Asia enjoy resurgence being pursued by several emerging donors in Africa today (King 2007). The model was recycled and adapted above all by the Chinese: as part of China's "going out" strategy, China uses hybrid forms of development co-operation mixing trade, investment and development assistance to attain reciprocity (Brautigam, 2010b).

Doing so, the Chinese make use of a very different toolbox than traditional donors. First of all, China makes use of **export credits** on a much broader scale than OECD donors. Aiming at supporting national exporters in their competition for overseas sales, Chinese export credits are subsidised and modestly concessional (22-37%) loans to third countries (export buyer's credits) or Chinese firms (export seller's credits) (Brautigam, 2010a). The sum of all export credits by DAC members between 2004 and 2008 averaged USD 4.2 billion, of which less than USD 500 million annually were disbursed to Africa. By contrast, in 2009 China disbursed a total



of USD 29.6 billion of export credits.<sup>3</sup> The share of this going to African countries is unknown. However, Brautigam 2010b stresses that the amount of Chinese export credits to Africa is probably far below what is portrayed in the media. Nigeria, for instance, is often said to have received at least USD 5 billion. All in all, the actual amount probably did not exceed USD 500 million over the period 2000-09 (Brautigam, 2010b). Concrete examples in Nigeria include the 2006 credit over USD 200 million for the construction of Telecommunications Satellite by “China Great Wall Corporation”. Brautigam 2010b estimates preferential export credits provided to Africa at around USD 2 billion during 2007 and 2009.

Secondly, **natural resource-backed lines of credit** constitute another alternative financing mode. These are loans where the ExIm Bank issues lines of credit for the finance of infrastructure projects in recipient countries that are natural resource backed. In some cases, natural resource exports are used as security to pay back the loan; in other cases Chinese companies gain preferential access to a block of natural resources. These loans are usually issued on non-concessional rates. As these credits do not contain a concessional component, they do not fall under what is conventionally understood as “aid” in the sense of ODA.<sup>4</sup> Serving as credits that will eventually enhance investment and trade, they nevertheless constitute an important instrument of development finance (Brautigam, 2010b). So far, the following African countries have been negotiating this type of finance with China: Congo-Brazzaville (2001, Imboulou hydroelectric dam), Nigeria (2002), Angola (2004, 2007), Equatorial Guinea (2006), Ghana (2007, Bui Dam), DRC (2008, mining Joint Venture), Sudan (various years). In the Congolese case, for example, the government negotiated in 2007 a USD 6 billion loan (initially USD 9 billion) which is secured by a newly created Chinese-Congolese mining Joint Venture of which the Chinese hold 68% of the shares. The loan is paid back through the export of minerals. The civil engineering contracts with Chinese firms paid through these funds are used for the construction of large-scale infrastructure projects (*e.g.* 6 000 km roads to connect Kinshasa to the East, 3 000 km railways etc.), hospitals, schools and social housing. Another well-known example is the case of Angola, which received two ExIm Bank credit lines of USD 2 billion (2004) and USD 2.5 billion (2007), which are to be repaid in commodity exports, for the construction of 1 300 km of railways and 300 km of roads in Angola, as well as hospitals, schools, social housing, telecommunications network and investment in agriculture (Brautigam, 2010a).

Finally, there are so-called ‘**mixed credits**’, which represent another form of “package financing” that combines lines of export buyer’s credit (given to the borrowing country), export seller credits (issued to the Chinese company) and concessional loans. They are mostly issued for specific project. Up until 2006, the ExIm Bank signed deals with Congo-Brazzaville, Ethiopia, Equatorial Guinea, Nigeria, Mauritania, Ghana, Namibia and Eritrea (Brautigam, 2010a). Recently, a construction deal for three oil refineries and one petrochemical complex was announced in Nigeria in 2010. Once constructed the Chinese side would hold 80% of the shares. The contract for the first of the three refineries has been signed: for USD 8 billion the refinery is

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3 Conversion from RMB to USD based on the official exchange rate provided by the World Bank’s WDI database.

4 On the no-equivalence of loans and grants in development finance, see Cohen, Jacquet and Reisen (2007).

to be established in the Lagos Special Economic Zone. In 2007 in Ethiopia, a USD 208 million credit was used for the development of cement and hydro-electric industry.

Among the emerging countries, China is probably the most active using hybrid forms of financing tools blurring the distinction between aid and FDI. However, as we will explore below, India and, to some extent, Brazil also make use of this toolbox. For the Chinese case, Brautigam (2010b) estimates that purely concessional loans, zero-interest loans and grant commitments from China to Africa (excluding debt relief) reached USD 1 billion in 2007, USD 1.4 billion in 2008 and USD 2.1 billion in 2009. She also estimates that preferential export credit commitments reached USD 2 billion between 2007 and 2009 while non-concessional finance would reach around USD 5 billion per year. Taken together, all these alternative financial flows add up to an annual average commitment of USD 7.1 billion to Africa over the period 2007-09. This estimate is much higher than the worldwide Chinese ODA-equivalent estimation of USD 1.9 billion for 2009 provided by Zimmermann and Smith (forthcoming). Of course, it is difficult to establish where Chinese development assistance ends and where commercial co-operation begins in the light of these hybrid forms that could all be classified as either ODA or FDI. This is in the end a question of definition. But going beyond this technical question, a more relevant distinction that needs to be made is whether or not these hybrid forms are instruments of development finance.

While over 90% of China's infrastructure projects are still financed by preferential loans from the ExIm Bank, some infrastructure projects such as road projects in Ethiopia and Botswana are now funded by the Ministry of Commerce, which has begun providing investment and trade credit financing (Nissanke and Soderberg, 2011). In addition, there are funds to assist Chinese enterprises and entrepreneurs investing in Africa such as the China-Africa Development Fund (Kiala, 2010).

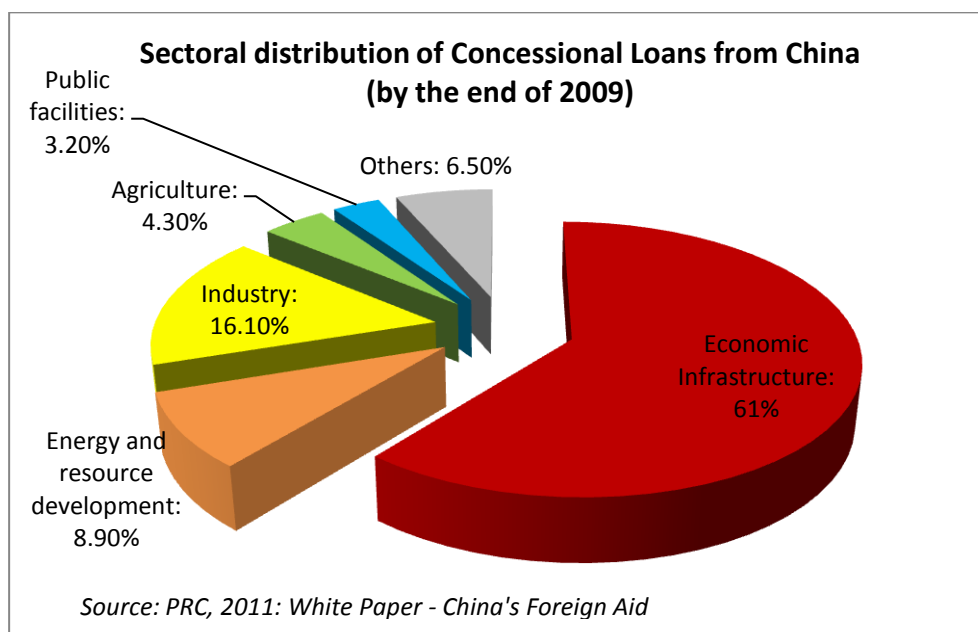
In addition to this different tool box, the Asian mode of development finance relies on different modalities to handle donor-recipient relations. Firstly, emerging partners rely on project aid that is not linked to policy conditionality as in the case of traditional partners (Kiala, 2010). Secondly, projects proposed by emerging partners, especially China are often tied economically to the use of the donor's labour and input procurements. At the same time, the perception that the Chinese only employ their own labour is misleading: in Ghana, for instance, the ExIm Bank financed Bui Dam ensuring that 700 jobs go to Chinese expatriates compared to 3 000 Ghanaians (Mohan and Tan-Mullins, 2009). In Angola, the two ExIm Bank deals in Angola specify that 70% of the civil engineering contracts have to be awarded to Chinese firms and at least 50% of inputs have to be procured by China (Tan-Mullins *et al.*, 2010). It can be noted, however, that the need for tied aid may be gradually receding even from a Chinese perspective given that Chinese construction firms appear to be increasingly competitive in Africa as well as globally, after the initial period of "learning by doing", starting now to win projects under competitive international tender processes (Nissanke and Soderberg, 2011).

Finally, the sectoral focus of the Asian approach to development co-operation is different but largely complementary to traditional donors. Asian mode development co-operation is more focused on infrastructural and other structural bottlenecks. Kragelund (2010) identifies infrastructure and agriculture as sectors that are among the most important targets of Brazil, China and India. China has been rapidly extending its infrastructure finance beyond the natural resource sector to other sectors such as telecommunications and water sanitation projects as well



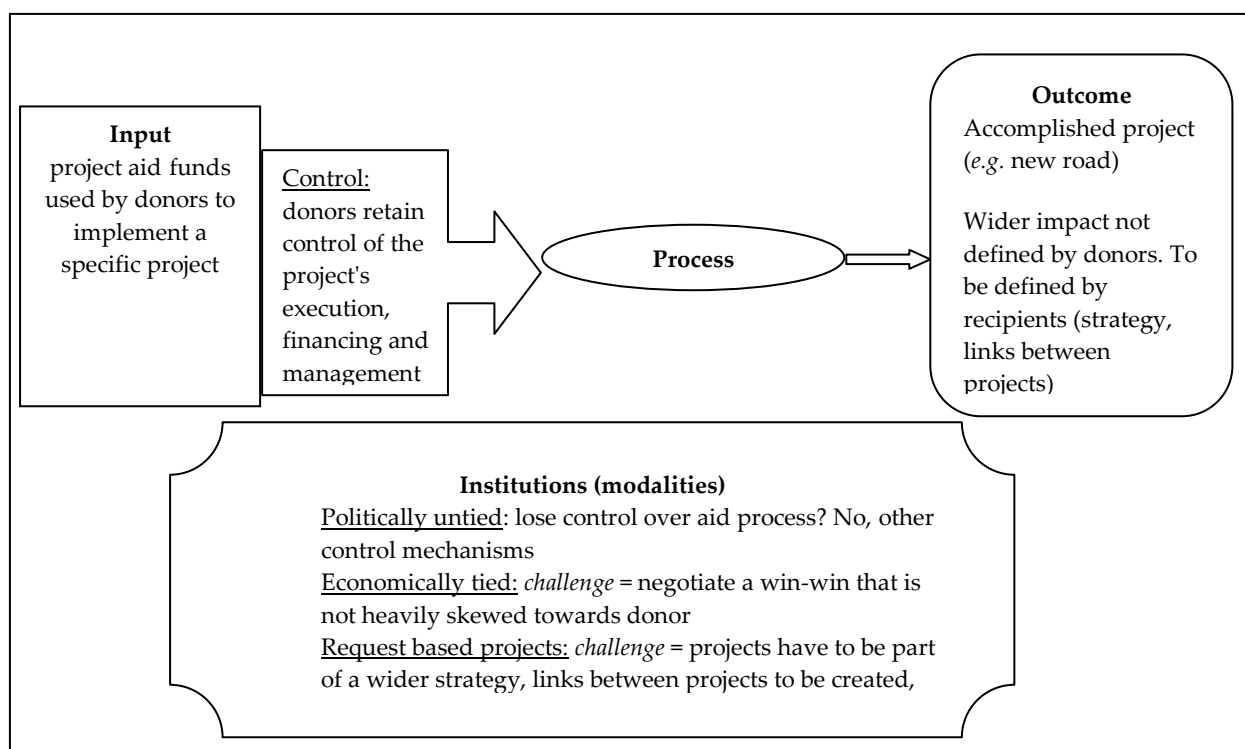
as to soft infrastructure projects by building hospitals and schools. Equally Chinese support for the agricultural sector is rapidly expanding (Nissanke and Soderberg, 2011). The White Paper on China's foreign aid<sup>5</sup> issued by China's Information Office of the State Council on April 2011, specifies that 61% of China's concessional loans<sup>6</sup> are used to help developing countries constructing communications, transportation, and electricity infrastructure whilst 8.9% are used to support the development of energy and resources (oil and minerals) (cf. Figure 4).

Figure 4: Sectoral allocation of concessional loans from China



- 5 “Financial resources provided by China for foreign aid mainly fall into three types: grants (aid gratis), interest-free loans and concessional loans. The first two come from China's state finances, while concessional loans are provided by the Export-Import Bank of China as designated by the Chinese government. By the end of 2009, China had provided a total of 256.29 billion Yuan in aid to foreign countries, including 106.2 billion Yuan in grants, 76.54 billion Yuan in interest-free loans and 73.55 billion Yuan in concessional loans” (People’s Republic of China, 2011).
- 6 Concessional loans are raised by the Exim Bank of China on the market, with a lower interest rate than the benchmark interest of the People’s Bank of China. Thus, the difference is considered as financial subsidies by the government. The annual interest rate of China’s concessional loans varies between 2% and 3%, and the period of repayment is usually 15 to 20 years.

Figure 5: The development investment mode - A loss of control or a different set of challenges?



However, even though the concept of development investment in mutual interest is central in China's development co-operation with third countries, there is a non negligible number of projects that rather follow a development assistance logic. Indeed, China signed debt relief protocols with 35 countries in Africa for a total of Yuan 18.96 billion by the end of 2009. Equally, so-called "complete projects", which refer to projects constructed in recipient countries with grants or interest-free loans provided by China account for 40% of China's foreign aid expenditure. The majority of these projects is in public facilities (Science education and health care, sport facilities, theatre and cinemas etc.) and industry (People's Republic of China, 2011).

## 1.2. Do emerging partners follow a common model?

### 1.2.1. India: coming closer to the Chinese model

As we will see, India's development co-operation with African countries is very close to the concept of development investment, although not developed at the same scale as China (Kragelund 2010).

A closer look at the evolution of the Indian aid-related budget supports this claim. It is divided into three parts: *i*) grants and concessional loans to governments; *ii*) contributions to international organisations; and *iii*) ExIm Bank loans. Of these, we observe that ExIm Bank expenditure is by far the fastest growing part - growing at an annual average of 11.3% per year over the period of 2004-10 as opposed to 3.3% for the groups administrated by the Ministry of External Affairs (*i.e.* grants and loans and contributions to IOs). In absolute numbers, Indian ExIm Bank expenditure increased from INR 2.26 billion (USD 50 million) in 2004 to

INR 4.3 billion (USD 89 million)<sup>7</sup> in 2010 (Chanana, 2009). Interestingly, by far the largest part of Indian ExIm expenditure is allocated to African countries, receiving 61% of Indian ExIm Bank operational loans in 2009 (Chanana, 2009) (cf. Figure 6).

In fact, Agrawal 2007 reckons that Indian development co-operation with Africa represents an interesting contrast to its activities in South Asia. Whereas Indian development co-operation in South Asia relies much on the provision of technical assistance, in Africa India's commercial and political incentives appear to be more closely interwoven. On the one hand, India's global political ambitions require support from the large African constituency. On the other hand, India engagement in Africa is motivated by the competition with China over securing resources and markets, which explains why India comes closer to the Chinese modalities of engagement in Africa (Agrawal 2007).

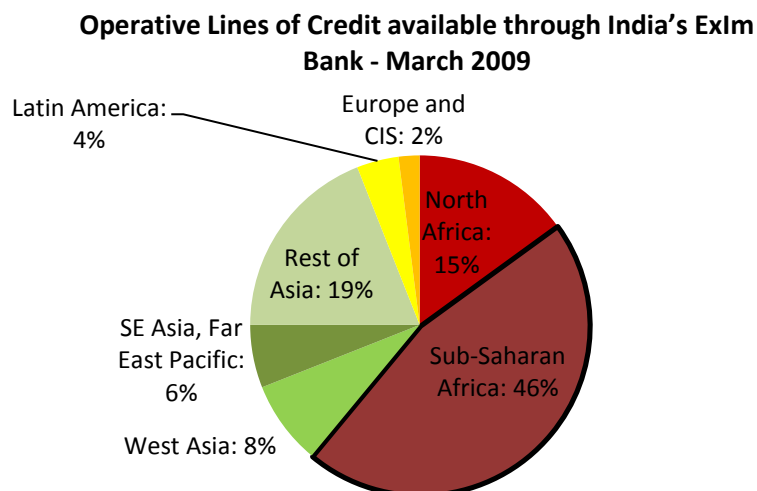
**Table 1: India's foreign aid-related budget, 2004-10 (INR million)**

	2004	2005	2006	2007	2008	2009	2010
Grants and loans	19 619.00	21 620.00	17 290.00	18 133.00	26 999.00	24 083.00	23 834.00
of which grants (%)	70.90	79.10	90.70	9 307.00	65.60	82.30	84.10
Contribution to IOs	2 568.00	3 320.00	3 595.00	3 550.00	12 775.00	5 317.00	5 578.00
Investments in IFIs	101.00	180.00	580.00	137.00	30 900.00	67 627.00	2 948.00
EXIM Bank expenditure	2 266.00	1 717.00	1 600.00	2 350.00	5 098.00	4 394.00	4 300.00
Total estimated budget	24 554.00	26 836.00	23 065.00	24 169.00	75 772.00	101 421.00	36 660.00
in USD million	526.00	574.00	494.00	517.00	1 622.00	2 171.00	785.00

Source: Chanana (2009).

7 Conversions INR to USD made on the basis of the 2004 and 2010 exchange rates provided by the World Bank's World Development Indicator database.

Figure 6: Geographical distribution of India's Exim Bank lines of credit



Source: Chanana (2009).

Examples of Indian aid activities in Africa that come closer to the model of DAC-donors include India's funds provided to NEPAD which received a USD 200 million credit line and bilateral debt relief (by 2008, India had written off debt totalling USD 24 million) (Naidu, 2008).

Alternative financing modalities close to those used by China include for instance the ExIm Bank's "Focus Africa Programme (2002-07)" totalling USD 550 million. This programme aims above all at creating new commercial links between India and African countries by offering export subsidies to Indian companies trading with African nations and tied lines of Credit to African governments and trade promotion organisations (Naidu, 2008). Equally, the so-called TEAM-9 initiative offers credit lines worth USD 500 million to eight West African countries (Burkina Faso, Chad, Equatorial Guinea, Ghana, Guinea Bissau, Côte d'Ivoire, Mali and Senegal) (Agrawal 2007). The aim of the Team-9 credit facility is to promote socio-economic development in these countries via access to Indian technology and has so far targeted agricultural activities and to a lesser extent infrastructure improvements (Kragelund, 2008). Senegal, for instance, received in 2006 a USD 48 million Team-9 credit for irrigation systems, ICT development and a steel manufacturing site. This was combined with a USD 18 million ExIm credit for the purchase of 350 Tata buses. Expanding on this deal, the Joint Venture Senbus was created for the manufacturing of Tata buses by a Senegalese company under franchise (Kragelund, 2008 and Oxford Business Group<sup>8</sup>). In Nigeria, the Joint Venture of ONGC and Mittal committed to build a refinery in Nigeria for USD 6 billion (Foster *et al.*, 2008).

Even though India might use less of these alternative finance tools than China, in terms of sectoral allocation Indian development co-operation nevertheless contrasts largely with traditional donors' preferences for developing social sectors such as health and education. Contrary to the above described traditional donor consensus, Indian aid from the outset relied on

8 [www.oxfordbusinessgroup.com/economic\\_updates/entr%C3%A9es-de-capitaux-priv%C3%A9s#english](http://www.oxfordbusinessgroup.com/economic_updates/entr%C3%A9es-de-capitaux-priv%C3%A9s#english)

technical assistance or the financing of physical Infrastructure (Chanana, 2009). Indian official or state-owned enterprise (SOE) funded infrastructure projects in Africa amounted to an annual average of USD 0.5 billion over the period 2003-07 (Foster *et al.*, 2008). Concrete examples include for instance the Indian funding of the Pan-African E-Network with USD 100 million (Kragelund, 2010).

### *1.2.2. Brazil: adopting officially DAC-like standards*

Brazil seems to come closer to the development assistance mindset, even though simultaneously increasing their ExIm activities. Brazil's interest in Africa seems to be more politically motivated than driven by economic interests (Kragelund, 2010). The Agency of Brazilian Cooperation (ABC) was created in 1987 and had two main purposes: promote South-South co-operation and supervise the aid that traditional donors were giving to Brazil. Because of decreasing levels of aid flows to Brazil, the ABC devoted most its efforts to South-South co-operation from the 1980s onwards. However, Brazil has a different notion on South-South co-operation to China and India. The 1988 constitution dissociates Brazilian aid from trade or economic interest. Conversely, Brazil's engagement in Africa is aligned with foreign affairs and other political ambitions (Schläger, 2007).

Brazil recently launched an accounting system for Brazilian co-operation resources for international development. The IPEA report, *Cooperacao Brasileira Para O Desenvolvimento Internacional*, measures and analyses Brazilian international development co-operation (IDC) from 2005 to 2009. This report defines international development co-operation as: “ (...) the totality of resources invested by the Brazilian federal Government, partially or completely non-refundable, in Government from other countries, the companies or organisations of other countries in the Brazilian territory, or in international organisations in order to contribute to international development, understood as the capacity reinforcement of international organisations and groups or populations of other countries to improve their socioeconomic conditions” (IPEA, 2010).

This definition is very close to the concept of development assistance, as there is a clear emphasis on the fact that the resources must be non-refundable. There are only two main differences compared to the DAC definition of ODA: firstly IPEA takes into account only those resources that are completely non-refundable, which is different from the DAC definition of ODA that defines a concessional element of at least 25%. Secondly, they extend the list of international organisations, including also international organisations from the South such as MERCOSUR.

Africa represents 7.26% of the total humanitarian assistance provided by Brazil between 2005 and 2009, and 25.7% of Brazil's total technical co-operation (IPEA, 2010). The most significant arm of Brazil's development assistance is in agriculture through EMBRAPA, which is widely credited for Brazil's agricultural boom. The EMBRAPA is now deeply active in Africa: “(...) being probably the best established of all Brazilian foreign assistance organisations in Africa.” (White, 2010) EMBRAPA opened its African headquarters in Accra, Ghana, in April 2008, with a clear intention to expand existing operations having already established technical agreements with more than 20 African countries (White, 2010).

However, we also observe a scaling up in BNDES<sup>9</sup> efforts to encourage trade and domestic growth via the provision of loans to developing countries. In 2009, BNDES' financing lines for exports reached USD 8.3 billion, an increase of 26% compared to 2008, mainly promoting capital goods, along with engineering and construction services. In Africa, BNDES is financing projects in a wide array of countries, and especially in Angola where Memorandums of Understandings have been signed between Brazil and Angola to establish a total credit line of USD 1.75 billion. In 2009, disbursements reached USD 766 million. The portfolio comprises financing for exports of many Brazilian goods and services destined to projects in water supply and sanitation, professional capacity building, power generation and distribution, infrastructure and the construction of an airport (BNDES, 2009). Another sign of this increasing ExIm activity is the creation of ExIm Brazil as a subsidiary of BNDES in May 2010 with exclusive dedication to the foreign trade sector ([www.bndes.gov.br](http://www.bndes.gov.br)).

### **I.2.3. Arab donors: very different political motivation and a charity approach**

Arab donors, including Saudi Arabia, Kuwait and the United Arab Emirates, have a long-standing history of development co-operation especially within the MENA region gaining momentum after the petroleum booms of the 1970s. Traditionally, Arab donors are closely co-ordinating their actions: in 1975 they created the "Co-ordination Group" helping to harmonise development co-operation policies, to co-finance certain projects and to share best practices in project management (Zimmermann and Smith, forthcoming).

Arab development co-operation remains largely concentrated on MENA countries. There is a clear focus on Muslim/Arab countries. The example of UAE shows that 61% of the funds go to the Middle East and 9% to North Africa. Only 5% are allocated to sub-Saharan African countries (Smith 2011). Yemen, the occupied Palestinian territory, Afghanistan and Pakistan are the UAE's most important recipients; Tanzania, Egypt and Morocco the most important African recipients. Already these patterns of regional disbursement emphasise that Arab donors are closer to the model of development assistance since they appear to be less driven by the attempt to boost domestic trade and investment activity but more the inclination to help the worst-off countries in the region. Development assistance provided by Arab countries is partly based on the notion of Zakat and has thus a clear charity rationale. In the UAE *Foreign Aid Report 2009*, there is a distinction between three types of assistance: humanitarian, development and charity. Charity refers to assistance provided for cultural or religious purposes (for instance building

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9 There are two institutions responsible for Brazil's export credit: the Banco Nacional de Desenvolvimento Econômico e Social (National Bank of Economic and Social Development – BNDES) and the Seguradora Brasileira de Crédito à Exportação (Brazilian Export Credit Insurer – SBCE). BNDES is state-owned and specialised in long-term credits and guarantees while SBCE is mostly privately owned (with a 25% share of the Brazilian government) and offers medium and long-term policies such as supplier's credit, buyer's credit, pre-credit risk (manufacturing) (insurance if the exporter has begun production and/or development of the goods or services, but is then informed by his client that the agreement is cancelled), credit risk (post-shipment) (insurance in the case the buyer will not pay his debts following the shipment of the goods). These policies are guaranteed by the Brazilian Federal Government, through use of the FGE - *Fundo de Garantia à Exportação* (Export Guarantee Fund).



mosques or sending food during the month of Ramadan etc.). Humanitarian and charity assistance represent 18% and 2% respectively of the UAE's total development assistance. In Africa, the main sectors of development assistance are social infrastructure and services, transport and storage, water supply and sanitation and construction (UAE, 2010).

In addition, UAE and Kuwait are adopting DAC-definitions of ODA and started recently to report their gross ODA disbursement to the DAC. UAE, for instance, reported an annual aid disbursement of USD 1 038.2 million. This could be interpreted as an effort to present the UAE as important international donor and make UAE more accessible for the use of comparative studies.

It should be noted, however, that Arab donors differ significantly from traditional donors by the fact that they provide aid in the form of project rather than programme aid.

#### *1.2.4. Western donors coming closer to the Asian model?*

There is some sporadic evidence that traditional DAC donors committed to the development assistance model might also undergo some reconsideration process. Lundsgaarde (2011) observes for instance a shift in donor preferences/priorities from social development to immediately productive sectors, agriculture and trade in France, the UK and Germany, who underlines at the same time Africa's potential for the western private sector. However, this is not yet translated in a coherent policy combining trade and development. (Lundsgaarde, 2011) Equally, in its 2011 Africa strategy the World Bank lays renewed emphasis on the region's private sector, job creation and competitiveness. Agriculture and rural development as well as infrastructure are featuring more prominently in traditional donors' portfolios than in the last decade (World Bank, 2011).

The DAC Statement on "Welcoming New Partnerships in International Development Co-operation" of April 2011 acknowledges the essential role of emerging partners in global progress towards the Millennium Development Goals (MDGs). It welcomes "this growing contribution to international development, both through official co-operation and through growing economic co-operation, trade and investment" (OECD, 2011a).

The relevant cleavage can no longer be perceived in terms of DAC vs. non-DAC or "established" vs. "new" donors: the real difference lies in the way development co-operation is conceptualised. The relevant cleavage is "Asian" vs. "Western" or development assistance vs. development investment. What can African governments do to maximise benefits from this new approach to development co-operation?

#### **1.3. What's in it for Africa?**

As outlined above, both the sectoral focus of aid allocation and the delivery modalities differ between providers of Western and Asian mode development co-operation. This involves a series of new opportunities for African countries.

The **sectoral focus** of Asian and western mode development partners is very complementary. The sectoral focus established with the Monterrey Consensus is, of course, very important and has been chosen for good reasons. It goes without saying that sectors such as infrastructure, agriculture and industry, continue to receive large amounts of funding, representing 30%, 11% and 4% respectively of DAC-donors total aid budget in 2004 (Harrigan,

2007). The opportunity for African countries lies in the fact that Asian mode development co-operation providers offer an important complement to this by their special focus on these sectors and their expertise in these sectors.

Estimations of the Africa Infrastructure Country Diagnostic, for instance, yield that approximately USD 93 billion are needed over the next ten years to achieve national development targets. This infrastructure gap is partly addressed by China providing a projected USD 11 billion in finance for infrastructure compared to USD 13.7 billion by the G-8 countries in 2008 (Schiere, 2010). Indian official or state-owned enterprise funded infrastructure projects in Africa are estimated by Foster *et al.*, 2008 to amount to a total of USD 2.6 billion over the period 2003-07, which gives an annual average of USD 0.5 billion (Foster *et al.*, 2008). China's technology and relative low cost of manpower represents a competitive advantage for the construction of infrastructure projects in transportation, communication, power supply, etc. Examples of infrastructure projects conducted in Africa include the Tanzania-Zambia Railway, the Belet Uen-Burao Highway in Somalia, Nouakchott's Friendship Port in Mauritania, the Lagdo Hydropower Station in Cameroon, railway improvement in Botswana and the Gotera Interchange in Ethiopia (People's Republic of China, 2011).

Equally, agricultural development plays an important role in Africa with respect to poverty reduction and economic growth creating various linkages to the rest of the economy (Dorward *et al.*, 2004). Estimations yield that 85% of Africa's poor live in rural areas and depend largely on agriculture for their livelihoods, which is thus another structural bottleneck to African development (FAO, 2008). Around 75% to 80% of the farming population are smallholder farmers having relatively marginal connections to market and facing important irrigation problems. Brazil and China, in particular, show great potential to contribute meaningfully to agricultural development in Africa. Brazil, for instance, has itself successfully enhanced the productivity of its small-scale agricultural sector and managed to become one of the world market leaders for the production of bio-fuels. Thus, family farming agriculture, small-scale irrigation and rainwater harvesting is one of Brazil's core areas of policy expertise, the 2003 "Zero Hunger" programme being one of Brazil's success stories. Given the similar challenges and the similar climate and soil conditions, Brazil has large experience and capacity to offer Africa in terms of technology. (FAO, 2008) In this respect, this expansion of agricultural co-operation between Brazil and Africa is very important. A second channel through which Brazil can contribute to African agricultural development is co-operation in developing a competitive bio-fuel industry in which Brazil is among the world leaders (Ejigu, 2008). Brazilian multinational corporations (MNCs) have expressed their interest in investing in Africa which is strongly encouraged by the Brazilian government (White, 2010). China's agricultural aid includes building farms and agro-technology demonstration centres, supplying agricultural machinery, constructing farmland irrigation and water-conservancy projects, sending agro-technicians and experts, and training agricultural personnel in the recipient countries (People's Republic of China, 2011).

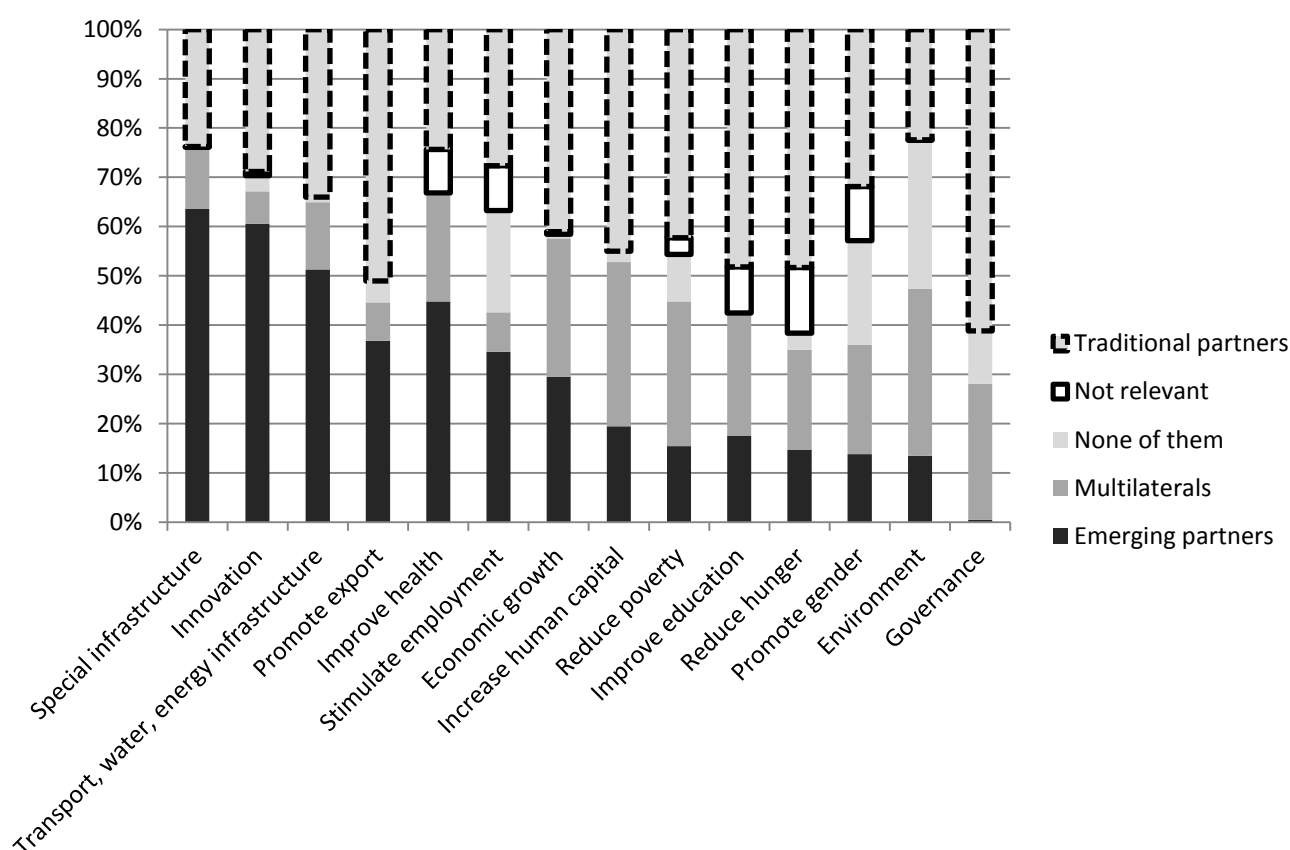
Finally, industrial aid was an important part of China's foreign aid since its early stage and has played an active role in promoting production and economic development, creating jobs, developing markets and increasing tax revenues in the recipient countries. China's industrial production projects in Africa cover a various array of activities such as the production of light,



textile, electronic, machinery, metallurgy, chemicals, construction materials, and energy industries (People’s Republic of China, 2011).

Experts surveyed by the 2011 AEO stakeholder survey emphasise the beneficial sectoral complementarity between traditional and emerging partners. While traditional partners are perceived to be most effective in improving, for instance, education or governance and increasing access to human capital, the emerging partners’ potential clearly lies in the development of infrastructure, transport and innovation but also health (AfDB *et al.*, 2011).

Figure 7: Perceived comparative advantage emerging partners vs. traditional partners



Source: AEO 2011 stakeholder survey (AfDB *et al.*, 2011). The chart plots answers to the following question: Who amongst the following partners are typically most effective at meeting the development objectives of the country?

In terms of **modalities**, Asian mode development co-operation firstly combines a long time horizon with profit orientation. This allows for a period of loss-financing and the undertaking of projects that private actors would otherwise be reluctant to finance (static vs. dynamic efficiency) offering African countries potentially a way to move up the value chain. China’s and India’s engagement in the sector of natural resources provides an interesting example. Both are not only in the extraction of resources but simultaneously committed to the development of new value-adding processing industries, such as refineries or petro-chemical complexes and the exploration of new fields. In Nigeria, for instance, ONGC Mittal committed itself to building an oil refinery worth USD 6 billion in exchange for extraction concessions. India

has also been using ExIm activity to support the development of power plants in countries where it is extracting natural resources (Foster *et al.*, 2008). The alternative finance modalities thus provide an opportunity for export sophistication and self-sufficiency for resource-rich African countries. At the same time, via their investments in the exploration of new fields, China and India do not only satisfy their demand for resources (thereby driving up spot market prices), but also produce a 'global public good' by extending fuel and food supply. Another example for the potential benefits of Asian mode development co-operation combining long-term time horizons with profit orientation is given by the large-scale nature of the infrastructure projects undertaken. Large-scale infrastructure projects such as the 6 000 km of roads linking Kinshasa to the east of the country, or the 3 000 km of railways financed through the USD 6 billion credit line to the Democratic Republic of Congo (DRC), (Marysse and Geenen, 2009) clearly need public finance.

Secondly, the deployment of a large base of experts and on site workers executing the projects proved to be an important channel for the transmission of knowledge and expertise from Japan to other Asian countries. In the first 20 years of its development co-operation, Japan deployed more than 4 000 Japanese experts in its technical assistance projects (King, 2007). Equally, the use of aid as a vehicle to enhance private-sector investment has important side effects with respect to knowledge and skill transfer. Brautigam (2003) stresses the importance of Japanese business networks for the diffusion of manufacturing and industrialisation in countries such as Chinese Taipei; Korea; Hong-Kong, China; and Singapore. When their own investment networks spread, these so-called "flying geese" became new leaders in the process of industrialisation of Indonesia, Malaysia, Thailand and coastal China (Brautigam, 2003). The important entrepreneurial diaspora of Indian and Chinese migrant workers in Africa represents a similar opportunity for African countries (Mohan and Tan-Mullins, 2009).

It goes without saying that these opportunities do not imply that one or the other mode of development co-operation is superior. The Asian mode of development co-operation is equally associated to specific challenges, which will be further explored in the sections to follow.

### III. FROM OLD AND NEW CHALLENGES FOR AFRICAN GOVERNMENTS

#### II.1. Some challenges overcome, new challenges emerging

There are critical differences in the way development co-operation is provided. The “Asian mode” works differently and thus contributes differently to economic growth and socio-economic development. As we outlined in the previous section, the complementarity between different groups of donors creates a great potential for synergies for African countries. Thus, rather than spreading fears about the effects of non-DAC donors not adhering to the established consensus (like the use of “good policy” conditionality and economic untying of aid), we should analyse more profoundly which African countries can make the most out of the new synergies.

##### II.1.1. A lack of conditionality but other modes of control

Firstly, since the Asian mode of development co-operation comes without political conditionality, a widespread concern raised by western governments, NGOs and IFIs is that the lack of conditionality and “imprudent lending” behaviour might actually harm good governance in African countries and, by extension, the effectiveness of aid (Collier, 2007). Such concerns may be warranted, but would seem overdone as the “Asian mode” of development co-operation is focused on project aid rather than programme aid. Therefore funds do not go through the recipient governments but are channelled directly to the firms contracted on projects, which can be seen as a different institution that equally counters problems related to bad governance or misappropriation of funds. Moreover, some of the new modalities, such as resource-for-infrastructure deals, compel resource-rich African countries to re-invest at least part of their resource revenues into wider national development thereby also countering problems related to the political resource curse.

In practice, we find no evidence of deteriorating governance scores in African countries (Nunnenkamp *et al.*, 2010 and Berthélémy, 2009). Equally, a closer look at the evolution of the Kaufmann, Kraay and Mastruzzi’s governance indicators and the Mo Ibrahim index does not allow for the conclusion that Asian mode donors have contributed to a deterioration of governance indicators in Africa. When comparing the 2002 and 2009 scores of the Kaufmann, Kraay and Mastruzzi’s governance indicators on *i*) corruption and *ii*) regulatory quality for all 16 sub-Saharan African countries defined by the IMF (2007) as hydrocarbon- or mineral-rich,<sup>10</sup> we

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10 Resource-rich sub-Saharan African countries include, according to the list established by the IMF (2007) *Guide on Resource Revenue Transparency* the following mineral- and hydrocarbon-rich countries in sub-Saharan Africa: Angola, Botswana, Cameroon, Congo-Brazzaville, Democratic Republic of Congo,

find that Mauritania is the only country that scores a significant negative change on both indicators – but Mauritania is a country that so far has not been given much attention by Asian mode donors (cf. Muzenda, 2009, *Index of Chinese engagement in Africa*). Furthermore, in Nigeria, where both India and China are particularly active, the change in regulatory quality is positive at a 5% confidence level. In all other countries, neither a positive nor negative change has been observed. Further, the Ibrahim Index, measuring the delivery of public goods and services to citizens, lists Angola and the DR Congo among the five countries with the biggest positive change in their score between 2001/02 and 2008/09.<sup>11</sup> The strong increase for Angola and DR Congo are particularly noticeable, as both countries concluded huge resource-for-infrastructure deals with China.

Project aid, being often financed either through export seller credits<sup>12</sup> (given to Chinese firms to promote services in partner countries) or export buyer credits (given to a third country for the purchase of Chinese products and services), also provides a strong incentive with respect to the project's sustainability. In the first case, the Chinese side has a strong incentive to complete the project successfully because the risk is shouldered by a Chinese private firm. In the second case, the ExIm Bank, in expectation of a long-run profit, has a strong incentive to carefully choose the project in terms of its long-term sustainability. Christensen (2010) points out that the standard debt sustainability framework is indeed too restrictive to analyse the Chinese lending, since it does not take into account the growth prospects of their projects, which in turn impacts on the country's ability to repay its debt.

In addition, we observe in practice that the absence of policy and debt sustainability conditionality is indeed not equivalent to a lack of control on how projects are advancing: evidence suggests that Chinese officials especially are very demanding when it comes to the use and implementation of their credit lines (Aguilar and Goldstein, 2009).

### *II.1.2. A risk of aid fragmentation?*

Secondly, a concern often raised is that the increased engagement of non-DAC donors could lead to a further fragmentation of aid efforts. In particular, there is the risk of overburdening the recipient governments with reporting requirements, donor visits and other administrative overheads. However, Chinese development co-operation, in particular, offers relatively large-scale projects (e.g. huge infrastructure projects). In addition, China has built on its own history of infrastructure project management to focus its aid and prides itself on short project-implementation and planning periods (Paulo and Reisen, 2010). Thus, to a certain extent, there is less necessity for co-ordination and less danger of fragmentation of aid efforts in the context of development co-operation provided by emerging partners. In this context, the main

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Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Mauritania, Namibia, Nigeria, Sierra Leone, South Africa, Sudan and Zambia.

11 The largest increase is reported for Angola and Liberia (+ 15.9 points), Sierra Leone (+ 8.9 points), Burundi (+ 8.1 points), Congo-Brazzaville (+ 6.7 points) and DR Congo, Zambia (+ 5.5 points).

12 The Export Seller's Credit refers to loans provided to an exporter to finance its export of manufactured or purchased mechanical and electronic products, complete sets of equipment, and high- and new-tech products as well as the provision of labour services.

challenge for African governments, rather than being obsessed with the co-ordination of aid efforts, is to develop a sustainable maintenance structure of the large infrastructure built in their countries by Asian mode donors. It should be noted, however, that the question of management capacity building on the side of the emerging donors remains an issue to be addressed in the future. The example of China, for instance, shows that the central government's capacity to monitor the operations and activities of numerous heterogeneous actors is gradually decreasing. While SOEs have dominated in large infrastructure projects, we observe an increasing number of Chinese private companies establishing their businesses in manufacturing and service sectors (Nissanke and Soderberg, 2011).

### *II.1.3. More power comes with more responsibilities*

Finally, the selection of aid-funded projects is request-based, the borrowing country usually submitting the loan request to China's ExIm Bank dependent on their preference, priority and circumstances (Kobayashi 2008). However, given this increased ownership over aid projects, the challenge for African governments in this respect becomes to clearly define their own national priorities thereby assuring that various kinds of infrastructures are not built randomly but follow a plan (*e.g.* strategically linking rural and urban economy, developing certain industries in certain regions, etc.).

Generally, development co-operation provided by emerging partners is said to be focused on the creation synergies (*e.g.* the provision of natural resources obtained in exchange for the construction of large scale infrastructure projects). However, since the projects are mostly tied to several economic conditions (*e.g.* 70% of construction and civil engineering to be awarded to Chinese companies), African governments face a trade-off: on the one hand, these economic ties may act as an impediment for projects to generate wider spillover effects on local economies, create job opportunities locally and allow wider knowledge and skills transfer (Nissanke and Soderberg, 2011). On the other hand, migrant workers also represent a channel for technology transfer and training of local workers (Mohan and Tan-Mullins, 2009). The challenge for African governments is to skilfully trade-off between these two parameters and negotiate a win-win situation where both sides win a more or less equal share (hence ensuring that Asian mode projects actually generate wider spill-over effects on local economy, creating job opportunities locally as well as a knowledge and skill transfer).

## **II.2. The challenges ahead**

### *II.2.1. Define a strategy for how this type of Asian mode project assistance notably is to be used in the context of wider national development*

Project aid in immediately productive sectors or sectors that address bottlenecks to economic growth has, as outlined above, benefitted Southeast Asian countries considerably. African countries did have similar opportunities experiencing equally a period of infrastructure project finance by the traditional donor community before their shift to programme aid in the early 1980s. One challenge associated to project aid (and that African countries have been less able to address than Asian countries in the 1970s) is that projects have to be executed as part of a broader development strategy and have to be mutually connected (Shimomura, 2011). The development finance modalities provided to African countries today via the resurrection of the

Asian mode to development co-operation provide opportunities but the challenges have to be addressed this time more appropriately. In other words, project aid alone, even in sectors that are critical for long-term growth such as physical infrastructure, is no guarantee for success.

For instance, the simple fact of having a road linking different provinces will not automatically generate economic growth unless it is part of a broader strategy to foster certain industries (coherent industrial policy) or create Lewis-model like rural-urban linkages (coherent agricultural policy). Equally, it appears to be crucial to create links between different infrastructure projects to make full use of their potential network effects.

Shimomura (2011) notes that, contrary to Southeast Asian countries, African countries have been less able to evolve from a single project to infrastructure networks with notable macroeconomic impacts. Success stories of Southeast Asia show that projects have been mutually connected infrastructure projects under a series of master plans thereby effectively contributing to the improvement of socio-economic conditions.<sup>13</sup> None of the sub-Saharan Africa cases show the evolution from single project to infrastructure networks with notable macroeconomic impacts. Consider the example of the Lower Moshi Agriculture Development Project of Tanzania (supported through Japanese technical and financial assistance): while the result was remarkable, the macro-impact of the final project was limited because many other components of the Kilimanjaro Regional Integrated Development Plan were not implemented, thereby isolating the Moshi Agriculture project (Shimomura, 2011).

When engaging non-traditional development partners, the above example underlines the urgent necessity of developing coherent plans on how individual projects should serve on a macro-level the national development.

In some countries, we observe that projects are already executed as part of a broader plan. Planning to attain food security in 2012, Angola, for instance, identified the development of the agricultural sector as a prime target for future co-operation with China. While planning to use China's experience of involving the subsistence farmers in the formal sector, Angola has been using part of Chinese ExIm credit lines for the import of agricultural tools and machinery (Kiala, 2010). In this respect, the recent pledge of USD 1 billion for agricultural development offers much potential especially since it is part of a development strategy of the Angolan government.

### *II.2.2. Assure maintenance of the large-scale infrastructure projects*

Moreover, one of the failures of project aid in Africa in the 1960s and 1970s as performed by traditional donors was that the maintenance of these projects was not properly ensured (Nissanke and Soderberg, 2011). This is *i*) a question of finance; and *ii*) a question of capacity building in African administrations (how is infrastructure maintained? at what cost? what planning effort is required?). First and foremost it is essential to provide for the maintenance costs of the large infrastructure projects financed or constructed recently by emerging donors.

However, the responsibility does not lie only on the shoulders of African governments. A long-term commitment on the part of the partners is equally important. Shimomura emphasises

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13 For example, Brantas River Basin Development Project; Eastern Seaboard Development Plan of Thailand (which worked as an export hub and technology intensive industrial cluster contributing to the national economy through foreign exchange acquisition).



the importance of a longstanding bilateral relationship between the recipient and donor(s), which is crucial for the process “from individual project to infrastructure networks”. While the international trend of shifting away from project aid has positive as well as negative aspects, there is concern about nurturing the evolution of functional infrastructure networks under the dominance of programme aid. Exercising too much harmonisation pressure could thus have negative repercussions (Shimomura, 2011).

### *II.2.3. Enhancing their own bargaining position*

Finally, the challenge is negotiating a “mutual benefit” co-operation that is not heavily skewed in favour of the emerging partner. The example of East Asia shows that governments have been able to demand technology transfer in exchange for Japanese development investment. Korea, for instance, promoted technology transfer from Japan through the procurement of turnkey plants and capital goods. Simultaneously, while restricting FDI, Korea relied a lot on the acquisition of foreign patent licences, which allowed the country to undertake a process of rapid industrialisation with foreign technology. When Korean firms started to compete with Japanese firms over the same markets, Japanese firms limited this practice. Mitsubishi for example, which provided the core technology to Hyundai Motors, suddenly refused to renew the contract in the mid-1980s when the Korean automakers successfully penetrated the North American market with its Excel model (Kim, 1997). Equally, the Chinese government required many firms to transfer technology, train workers, and even set up local research centres as a precondition for access to its market (Pack and Saggi, 1997).

In order to generate wider spill-over effects on the local economy, African governments have to find similar mechanisms to enhance the technology, knowledge and skill-transfer from Asian mode development partners in exchange for access to their markets.

Whether this is easily achievable is a different question. For instance, given that more than 40 000 workers are executing the resource for infrastructure deals in Angola, which created considerable disquiet on the ground, the Angolan government requested to take on more local workers on the Chinese projects. This was a contentious issue that eventually resulted in some stoppages of Chinese construction in 2007-08 (Nissanke and Soderberg, 2011). On the other hand, the Angolan government was able to negotiate that the quantity to be extracted in exchange for the Angola mode deals were to be determined according to daily international oil spot prices. At the same time there seem to be local constraints like skill mismatches that hinder further progress in the bargaining process: De Comarmond 2011 cites Chinese officials operating in Angola as having difficulties already to keep up the 30% local labour content requirement: “Chinese companies can’t employ 30% Angolans. It’s impossible, it’s not realistic. In our contracts we have a very short time-frame and a high requirement for quality. The majority of Angolans can’t satisfy that demand” (Ambassador Zhang Bolun, cited in De Comarmond, 2011). Mohan and Tan-Mullins 2009 stress the fact that even Angolan firms are very keen to import Chinese labour given their skill-level and cost effectiveness (Mohan and Tan-Mullins, 2009).

One option, in particular for resource-rich African countries, is to leverage the enhanced bargaining position gained through rising commodity prices in order to negotiate specific forms of technology transfer and increase local labour content of the projects.

## CONCLUSIONS

While the consensus mode of development co-operation emphasises the importance of economic untying of aid and strict policy conditionality to use aid as a leverage to induce sensible policy reform, the Asian mode of development co-operation that is progressively gaining momentum follows the opposite approach, attaching no political strings but tying aid to labour and material inputs from the donors. In addition, Asian mode development co-operation providers usually rely on project rather than programme aid and target different sectors. “Aid”, in this context, is in fact perceived more as one of several tools aiming at laying the ground for enhanced bilateral trade and private-sector activity, enabling governments to reduce the risk of market entry for companies and to provide the necessary infrastructure to reduce operational costs.

However, not all non-DAC donors follow this philosophy. While China is clearly the pioneer, India follows to some extent, employing similar finance modalities although on a smaller scale. Brazil appears to be moving closer to the established DAC-consensus but makes use of alternative finance modalities such as export credits and targets different sectors. Arab donors seem to be closest to the charity model.

Being largely complementary to the actions of established donors, this new philosophy is associated to a range of new opportunities for African countries, notably with respect to filling the infrastructure gap, the development of the rural hinterland, finance modalities that combine the longer-term horizon of public actors with the profit-oriented private sector and the possible spill-over effects from the new entrepreneurial diaspora.

The associated challenges for African governments change in the light of these differences. For example, the absence of policy conditionality is not a problem in itself, since other control mechanisms assure that funds are not misappropriated and Western conditionality continues to be used to ensure sensible policy reforms. Although attenuated by the large scale of the projects undertaken, the possibility of fragmentation of aid efforts remains an issue in the context of project aid. It requires a clear strategy on the part of African governments on how to link the various projects and leverage them in the context of wider national development. Projects have to be part of a concrete agricultural or industrial strategy otherwise they risk having only a micro-impact while the macro-impact vanishes. Equally, the maintenance of the projects has to be planned and provided for, which begins by ensuring a long-term commitment on the part of the donors. Finally, the challenge is to create a win-win situation where both parties win more or less equal shares. One option for African countries is to use the enhanced bargaining position gained through rising commodity prices in order to negotiate specific forms of technology transfer and increase local labour content of the projects.



Emerging partners bring with them a whole range of new opportunities, financial tools and modalities. However, many of these instruments are complex and should be analysed carefully in order to assess their real economic effect. Increased transparency in financial transactions between African countries and their partners is crucial to analyse their impact on growth and debt sustainability, especially for the most fragile African states, and would also strengthen the credibility of the emerging partners as key actors of development co-operation.

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