WHY EMERGING DONORS GIVE FOREIGN AID AND WHAT THIS IMPLIES FOR THE GLOBAL AID SYSTEM?

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This brief analyses the aid allocation decisions of three important emerging donors – Brazil, China, and India. We find that these donors are not exclusively focused on pursuing economic and political interests, and that they differ quite substantially in what drives their aid allocation. Fears that they cannot be integrated into the existing aid system and are about to establish a rival aid architecture therefore appear to be somewhat overblown.

INTRODUCTION

The increasing importance of donor countries operating outside of the OECD’s Development Assistance Committee (DAC) challenges the existing international aid architecture. These donors may be unwilling to adhere to the rules and procedures of the DAC framework, but may rather follow their own strategies. In particular, non-DAC donors are suspected to provide aid unconditionally without caring about the quality of recipients’ governance. Naim (2007), for example, calls China a “rogue” donor only pursuing its economic and political self-interest. China is also the main driving force behind the New Development Bank recently founded by the BRICS1, which many regard as a potential counterweight to established Western-dominated institutions such as the IMF and the World Bank.

1 BRICS is an acronym that stands for the five emerging economies Brazil, Russia, India, China and South Africa.
Against this background, our research addresses the following questions: Is the allocation of aid from non-DAC donors fundamentally different from that of DAC donors? And how do non-DAC donors differ from each other in their aid allocation decisions? Answers to these questions help identify areas of reform for the global system of development cooperation.

While plenty of systematic evidence on aid allocation exists for the group of DAC donors, evidence is scarce for donors outside of the DAC. Taken together, the few previous studies suggest that the aid allocation by “new” and “old” donors appears to be more similar than one might suspect (Dreher et al. 2013). We shed new light on the issue by making use of more recent and comprehensive aid data for non-DAC donors. In doing so, we focus on the three most active donors among the BRICS, namely Brazil, China, and India.

**EVIDENCE AND ANALYSIS**

We analyze the aid allocation decisions of the three emerging donors based on data that have been collected at the project level. A descriptive analysis of the data shows that China spent a large part of its aid budget on economic infrastructure (see Figure 1), which is in line with the announced focus of the new BRICS bank. This also applies to India, but the projects it supports are mainly related to hydropower in its own neighborhood and cross-border connections with a direct benefit for India. A very different pattern emerges for Brazil: It directed only 5 percent of its foreign aid to infrastructural projects but more than 70 percent to projects related to social infrastructure between 2007 and 2010, rendering its sectoral structure of foreign aid more similar to Scandinavian countries or the United Kingdom than to fellow BRICS.

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

A more sophisticated statistical analysis that takes different donor motives into account reveals for all three countries that political interests play a role in aid allocation decisions (Semrau 2015). India and Brazil channel a large share of their foreign aid to regional partners, which is in accordance with their claim of being regional leaders. To some extent, they also reach out beyond their neighborhood. India seeks for international alliances by putting a focus on less populated countries, while Brazil fosters cooperation with other former Portuguese colonies where it has a comparative advantage through common historical ties and missing language barriers (Semrau and Thiele 2016). China isolates Taiwan-recognizing countries by completely excluding them from its development cooperation but
gives foreign aid to nearly all Taiwan-rejecting developing or emerging countries. Its broad coverage of recipient countries reflects its ambition to be a global power.

China’s foreign aid programs are to a considerable extent driven by access to resources. Between 2000 and 2006 China gave significantly more foreign aid to oil rich countries such as Nigeria and Angola. Between 2006 and 2012, other natural resources than oil became increasingly important as determinants of China’s development cooperation in Africa. For Brazil’s and India’s aid allocation we find no systematic evidence that more foreign aid is channeled to oil and resource rich countries. India however supported large hydropower projects in neighboring countries, and the support was often linked to India receiving future surplus power. Export promotion determines the aid allocation of all three donors, and especially India’s.

While political and economic considerations do play a significant role, it is unjustified to reduce the BRICS’ development cooperation to self-interested behavior. For all three countries considered there is some evidence that they account for recipient need by giving more foreign aid to poorer countries. India and Brazil also give significantly more foreign aid to countries in emergency situations. In contrast to the widely held belief that the emerging donors undermine DAC efforts to reward good governance, our findings suggest that all three donors do not indiscriminately support autocratic or otherwise badly governed countries. If anything, the regression results indicate a preference for recipient countries with less corruption, and for democracies in the case of Brazil and India.

In sum, our empirical analysis suggests that even though all three BRICS exhibit a mix of selfish and altruistic motives when giving foreign aid, they differ quite substantially in what specifically drives their aid allocation.

**POLICY IMPLICATIONS**

Towards joint minimum standards …

Adding new actors to an already fairly complex governance structure with diverging preferences of individual donors will of course further challenge the international aid architecture. Our findings suggest however that - contrary to widely held beliefs - the strategies of the three major BRICS donors (Brazil, China, India) are not exclusively focused on pursuing economic and political interests. Hence, additional efforts by the donors that are members of the OECD’s Development Assistance Committee (DAC) to bring non-DAC donors such as China closer to the mainstream institutional framework - e.g. the DAC itself or the regular high-level meetings of the donor community – in order to agree on joint (minimum) standards in development cooperation may well pay off.

… and a fairer multilateral system

According to our analysis, fears that the non-DAC donors, and the BRICS in particular, are about to establish a rival aid architecture with the BRICS bank as a potential nucleus may be overblown because of these donors’ diverse strategies. The announced focus of the New Development Bank on large infrastructural projects, for example, fits quite well with China’s and to a certain extent also with India’s current foreign aid program, but is completely at odds with Brazil’s. It may well be that the BRICS would be willing to work within the existing multilateral aid system if the international community offered them a fairer representation, e.g. through voting rights in the International Financial Institutions (IMF, World Bank) that matched their economic potential.

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2 It has to be noted that the efforts of the DAC donors themselves to take governance in recipient countries into account have been mixed.
Information provided by the AidData initiative (see Tierney et al., 2011) is used to analyze the aid allocation decisions of the three emerging countries. The current version of this database includes 1,008 projects of Brazil’s technical development cooperation between 2007 and 2010 and 368 projects of India’s development cooperation between 2008 and 2010. We also got access to a non-published dataset of the AidData initiative that includes India’s foreign aid commitments between 2011 and 2013. Project-level data of China’s development cooperation has been collected for Africa based on media reports and other information. The resulting dataset comprises 1,272 projects classified as ODA-like between 2000 and 2012 (Strange et al. 2013).

To determine the aid allocation decision of Brazil, China, and India, a multivariate regression framework is applied. The aid share allocated by these donors to a specific recipient over the period under consideration is used as the dependent variable. We do not exploit the time series dimension of the dependent variable because aid commitments of the three donors exhibit strong volatility from year to year, which cannot be explained by variations in the explanatory variables that are included in the regression. The choice of independent variables follows common practice of the aid allocation literature. Accordingly, they are grouped into three standard categories: recipient needs (poverty; prevalence of disasters), recipient merit (good governance), and donors’ commercial (exports; access to resources) and political self-interests.


PROJECT NAME
NOPOOR – Enhancing Knowledge for Renewed Policies against Poverty

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CONSORTIUM
CDD The Ghana Center for Democratic Development – Accra, Ghana
CDE Centre for Development Economics – Delhi, India
CNRS (India Unit) Centre de Sciences Humaines – New Delhi, India
CREAS Consortium pour la Recherche Economique et Sociale – Dakar, Senegal
GIGA German Institute of Global and Area Studies – Hamburg, Germany
GRADE Grupo de Análisis para el Desarrollo – Lima, Peru
IfW Kiel Institute for the World Economy – Kiel, Germany
IRD Institut de Recherche pour le Développement pour le Développement – Paris, France
ITESM Instituto Tecnológico y de Estudios Superiores de Monterrey – Monterrey, Mexico
LISER Luxemburg Institute of Socio-Economic Research – Esch-sur-Alzette, Luxembourg
OIKODROM - The Vienna Institute for Urban Sustainability – Vienna, Austria
UA-CEE Université d’Antananarivo – Antananarivo, Madagascar
UAM Universidad Autónoma de Madrid – Madrid, Spain
UCHILE Universidad de Chile – Santiago de Chile, Chile
UCT-SALDRU University of Cape Town – Cape Town, South Africa
UFRJ Universidade Federal do Rio de Janeiro – Rio de Janeiro, Brazil
UNAMUR Université de Namur – Namur, Belgium
UOXF-CSAE University of Oxford, Centre for the Study of African Economies – Oxford, United Kingdom
VASS Vietnamese Academy of Social Sciences – Hanoi, Vietnam

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