



# How do traditional donors respond when beneficiary countries set up their own aid agencies?

*Case Studies of India, Brazil and South Africa*

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## DECLARATION

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## ABSTRACT

Emerging donors, such as India, Brazil and South Africa, have provided assistance to other developing countries for many decades. However, the creation of dedicated aid agencies in emerging donor countries is a relatively new feature. The establishment of these aid agencies is often motivated by the objective of better coordinating and managing the increasing volume and scope of their development assistance activities.

Since many of these emerging donors are also recipients of Official Development Assistance (ODA) from traditional donors, this institutionalization and professionalization of their development assistance raises some difficult questions. How do traditional donors perceive this new development in beneficiary countries and how do they respond to it in terms of aid allocations and co-operation arrangements? Do traditional donors still perceive beneficiary countries that are in a position to provide development assistance to other countries as being eligible to receive aid? These are the fundamental questions that this research study aims to answer.

This research study is based on the hypothesis that the creation of dedicated aid agencies in beneficiary countries prompts traditional donors to either freeze, reduce or terminate ODA and rethink their development cooperation strategies. It argues that traditional donors perceive beneficiary countries with dedicated aid agencies as no longer in need of foreign assistance. In order to test this hypothesis and identify changes in the flow of aid, the research study compares official aid flow data for five selected traditional donors (France, Germany, the UK, the US and EU Institutions) to three emerging donor countries (India, Brazil and South Africa) before and after the establishment of dedicated aid agencies.

The research further investigates whether other factors, such as beneficiary countries' socio-economic performance and compliance with DAC norms and standards, play a role in traditional donors' aid allocation decisions. Alongside the quantitative analysis, the research uses semi-structured elite interviews with representatives of the five traditional donors as well as development cooperation experts to solicit qualitative responses.

The findings of the quantitative and qualitative analysis suggest that the establishment of dedicated aid agencies in emerging donor countries does not have a negative impact on traditional donors' aid allocations. Other factors, such as the economic status of beneficiary countries, domestic debates and the strategic interests of traditional donors, seem to play a much more important role in this regard. In fact, traditional donors welcome the creation of such aid agencies and actively support beneficiary countries in this endeavour. Traditional donors expect that such aid agencies will promote transparency and accountability and increase the effectiveness of aid.

The findings of this research study aim to assist emerging donors in managing the establishment of dedicated aid agencies in a more informed way by bringing in the views, concerns and expectations of traditional donors.

*for Philipp and Lena*

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## ABBREVIATIONS

AAA	Accra Agenda for Aid Effectiveness
ABC	Agência Brasileira de Cooperação (Brazil)
ABCD	Agência Brasileira de Cooperação e Desenvolvimento (Brazil)
APDev	African Platform for Development Effectiveness
ANC	African National Congress
ARF	African Renaissance Fund
AU	African Union
BMZ	Bundesministerium fuer wirtschaftliche Zusammenarbeit (Germany)
BRICS	Brazil, Russia, India, China, South Africa
CNAT	Comissão Nacional de Assistência Técnica (Brazil)
DAC	Development Assistance Committee (of the OECD)
DFA	Department of Foreign Affairs
DFID	Department for International Development (UK)
DIRCO	Department for International Relations and Cooperation (South Africa)
DPA	Development Partnership Administration (India)
EU	European Union
G8	Group of the 8 major economies
G20	Group of 20 major economies
G77	Group of 77 (now 133) developing countries
GDP	GrossDomesticProduct
GEP	Globale Entwicklungspartner (Germany)
GIZ	Gesellschaft fuer Internationale Zusammenarbeit (Germany)
GNI	Gross National Income
GPEDC	Global Partnership for Effective Development Cooperation
GPG	Global Public Goods

HDI	Human Development Index
HICs	High-Income Countries
HIPC	Heavily Indebted Poor Country
IAPD	Indian Agency for Partnership Development
IBSA	India,Brazil, South AfricaDialogue Forum
IMF	International Monetary Fund
ITEC	Indian Technical and Economic Cooperation
KfW	Kreditanstalt fuer Wiederaufbau (Germany)
LoC	Lines of Credit
LDCs	Least Developed Countries
LMICs	Lower Middle Income Countries
MEA	Ministry of External Affairs (India)
MDGs	Millennium Development Goals
MICs	Middle Income Countries
NAM	Non-Aligned Movement
NDDs	Non-DAC Donors
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NPM	New Public Management
NSC	North-South Cooperation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OFF	Other Official Flows
SADC	Southern African Development Community
SADPA	South African Development Partnership Agency
SAP	Structural Adjustment Programme
SSC	South-South Cooperation

UN	United Nations
UNDP	UN Development Programme
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation
WWII	World War Two

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# 1 GENERAL INTRODUCTION

## 1.1 Introduction

The emergence or re-emergence of donor countries such as India, Brazil and South Africa marks a major shift in the international aid architecture. Previous recipients of aid have become providers of development assistance<sup>1</sup> to other countries themselves. This dual, and in a way paradoxical identity as simultaneous recipient and provider of aid confronts traditional donors<sup>2</sup> (especially in the Northern hemisphere) with the question of whether development assistance to these emerging donor countries is still justifiable. This is particularly important given the problematic financial situation of some traditional donor countries and their European neighbours since the global financial crisis in 2008. Dang et al. (2009:3) note: "in times of economic slowdown, donor-country policymakers are likely to be pressed to redirect aid funds to domestic needs such as unemployment benefits and emergency infrastructure programs. There may be political pressure to reduce aid budgets, or at a minimum to postpone or eliminate planned increases in aid."

Emerging donor countries are often home to a high percentage of poor people, and consequently do not publish information that might reveal the scope of their engagement. Publicizing aid spending figures can provoke criticism from their own citizens as well as opposition parties. Another undesired consequence might be that traditional donors no longer perceive the emerging donor countries as being in need of development assistance and consequently reduce their aid allocations. Atwood (2012) points out that emerging donors avoid referring to themselves as "donors" in order to distinguish their development co-operation approach from that of traditional donors. In the past, most emerging donor countries managed their development co-operation activities in a decentralized manner and with the assistance of a plethora of departments and ministries, making it difficult to get a clear picture of how much the country spends on aid in total (Walz & Ramachandran, 2010:18-19). However, a new trend towards the establishment of one single aid agency has been observed in emerging countries such as India, Mexico and South Africa (Oxfamblog, 11.09.2013). Experts suggest that the motivation for this decision is the desire to better coordinate and manage increasing aid volumes, actively promote political and economic interests and use development co-operation more strategically as a foreign policy tool (ibid).

It can be argued that the graduation process of a recipient country to a fully-fledged emerging donor has officially been concluded at the point in time when a country sets up its own aid agency. With several emerging donor countries either opening or announcing plans to establish their own aid agencies, the question arises how traditional donors feel about this new trend and how they respond to it. In order to answer this question this study focuses on India, Brazil and South Africa as emerging donor countries that have either already set up dedicated aid agencies (Brazil: 1987; India: 2012) or are currently (as in the case of South Africa) in the process

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<sup>1</sup> In this research paper the terms "development assistance" and "development co-operation" will be used interchangeably in order to avoid excessive repetition.

<sup>2</sup> The term "traditional donor" commonly refers to members of the DAC/OECD. The terms "traditional donor" and "DAC donor" are used concurrently in this study.

thereof. The research will explore the traditional donor perspectives of France, Germany, the UK, the US and EU Institutions, all of which have been among the largest donors to the three countries analysed in this research for many years.<sup>3</sup> The research outcomes can potentially assist newcomers such as South Africa in managing their graduation to a fully-fledged donor country in a more informed way that takes the concerns, expectations and sentiments of traditional donors into account.

## 1.2 Background and Problem Statement

Why should emerging donors still receive aid from traditional donors when they are providing aid to other countries at the same time? This is a question that taxpayers in traditional donor countries raise and want an answer for from their elected governments, especially in times of fiscal austerity. The question becomes even more pressing when emerging donors provide assistance with few conditions to countries with authoritarian regimes or poor human rights records. Traditional donors might feel that their aid spending is indirectly funnelled to support such "rogue" regimes by freeing up recipient government resources, which can then be allocated at the receiving nation's discretion. South Africa's on-going financial support to its neighbouring country Zimbabwe is a good example in this regard and might in the long term negatively affect its relationship with traditional development partners (The Business Day, 15.04.2013 and 26.09.2013).

Another factor that dampens traditional donors' willingness to continue foreign aid to such partners is the lack of transparency and accountability. While the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) regulates and guides the donor activities of their member countries, emerging donors and Non-DAC Donors (NDDs) are not integrated into this institutional framework and are hence not bound to the DAC's basic standards and principles, such as the ones on aid effectiveness or reporting requirements for example. Manning (2006:371) argues that the lack of transparency makes a coordinated and coherent development approach difficult and poses the risk that emerging donors will waste valuable resources on unproductive investments.

While the populations of traditional donor countries are generally supportive of providing aid to developing countries, a survey by Eurobarometer (European Union, 2012:5) found that 55 percent of Europeans believe that rapidly growing economies should not continue to receive aid, even if part of their population still lives in poverty. Research by Paxton & Knack (2008:20) indicates that higher levels of financial insecurity and dissatisfaction with one's financial situation in donor countries are associated with weaker voter support for foreign aid. Governments of traditional donor countries may therefore need new arguments to justify their continuing financial assistance to emerging donor countries.

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<sup>3</sup> For a detailed overview of the top ten donors of Gross ODA for India, Brazil and South Africa visit <http://www.oecd.org/dac/stats/> (accessed 14.08.2015).

But the financial burden and the emerging donors' lack of compliance with DAC guidelines might not be the only reasons why traditional donors reassess their development strategies. The unfolding changes in the development landscape are much more fundamental. Emerging donors seem to challenge the normative status quo of the development paradigm, which they perceive as “Western” and “postcolonial”, by introducing a new understanding of development co-operation that is informed by their own experiences as developing countries and recipients of aid (Mawdsley, 2012:76-77; Six, 2009:1103). In contrast to traditional donors, emerging donors do not shy away from tying economic and political self-interests to development assistance to other countries. Based on mutual benefits and interests, they advocate a new kind of horizontal partnership model. They argue that their status as emerging countries with high economic growth rates but also high levels of domestic poverty provides them with first-hand development experience that is more applicable to the needs of other developing countries. Other guiding principles for emerging donors’ activities and South-South co-operation (SSC)<sup>4</sup> in general, agreed to at the first Africa-Asia Conference in Bandung in 1955, include non-interference in another country’s domestic affairs as well as respect for its sovereignty and political independence (Chahoud, 2008:2).

This research aims to make a contribution to the debate by firstly examining how the establishment of dedicated aid agencies impacts on traditional donors’ development co-operation in terms of aid allocations. Secondly, the research explores how traditional donors perceive the graduation process of beneficiary countries to fully-fledged donors and how this influences their future development co-operation strategies. Finally, the paper seeks to explain the rationale behind traditional donors' decisions in this regard. The differences or commonalities between traditional and emerging donors in terms of motives, norms and standards are of special interest in this context.

### **1.3 Research Motivation**

With the planned establishment of the South African Development Partnership Agency (SADPA) in 2013, which has not been completed by the end of 2015, the South African government aims to streamline and better coordinate its increasing activities as an emerging donor and development partner (DIRCO, 2011). While South Africa has been providing aid to other countries for many years, the establishment of a centralized aid agency is a distinct moment in the history of development co-operation in South Africa, and hence might be perceived as the beginning of a new era. In response, the UK's international development secretary Justine Greening announced in April 2013 that after two decades of development co-operation, the UK would terminate direct aid to South Africa by 2015. This aid is currently worth £19 million (The Guardian, 30.04.2013).

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<sup>4</sup>South-South co-operation refers to the sharing of knowledge and resources between typically middle-income countries with the aim of identifying effective practices. “South-South” co-operation has revealed itself to be a major dynamic behind this changing development co-operation architecture (OECD), <http://www.oecd.org/dac/effectiveness/taskteamonsouth-southco-operation.htm>, (accessed 20.08.2015).

Greening explained Britain's decision as follows: "South Africa is now in a position to fund its own development. It is right that our relationship changes to one of mutual co-operation and trade, one that is focused on delivering benefits for the people of Britain and South Africa as well as for Africa as a whole" (Mail & Guardian, 30.04.2013).<sup>5</sup> In the previous year, the UK announced its intention to end aid to India (the biggest beneficiary of UK direct aid) by 2015 (The Guardian, 9.11.2012).

It is important to note that India's government announced its plan to establish a dedicated aid agency in 2011 (The Guardian, 26.07.2011) and established the Development Partnership Administration (DPA) in January 2012 (MEA Website). This poses the question whether the decision by the UK government was related (and potentially a direct consequence) of the South African government's announcement to establish a dedicated aid agency. Could the UK's decision to end aid to India and South Africa be an indication of a general reassessment of development co-operation with emerging donors and consequently mark the beginning of a radical paradigm shift? What were the reasons behind the UK's decision to end aid to these two emerging donor countries, both of which have strong historical and cultural links to the UK, and will other traditional donors such as France, Germany, the US and EU Institutions soon follow suit?

## **1.4 Research Aim and Objectives**

This study aims to explore how traditional donors perceive the graduation of beneficiary countries to fully-fledged donors with their own dedicated aid agencies and how they respond to that in terms of aid allocations. By considering traditional donor countries' perspectives, it may be possible for emerging donors, especially relative "newcomers" such as South Africa, to manage their graduation process in a more informed way. This may enable them to identify challenges, opportunities and future prospects for development co-operation with traditional donors.

The objectives of the study are as follows:

- to generate evidence on how the establishment of dedicated aid agencies in emerging donor countries impacts on their relationship with traditional donors, in particular in terms of aid volume;
- to provide insight on how traditional donors may perceive the graduation of former recipients to fully-fledged donors and what consequences this has for their development co-operation strategies;
- to form a better understanding of the differences between traditional and emerging donors in terms of their motives, norms and standards, and finally

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<sup>5</sup>Greening's statement echoed an earlier statement by former UN secretary Kofi Annan who argued that the new middle-income countries (MICs) such as China, Brazil and India are no longer in need of foreign direct aid since their economies are strong enough to look after their own development needs (Daily Mail, 2012).

- to generate new insights that may assist emerging donors to better manage their graduation process and forge new constructive partnerships with traditional donors.

## 1.5 Research Questions

### Descriptive Questions:

- Did foreign aid from traditional donors (France, Germany, the UK, the US and EU Institutions) to India, Brazil and South Africa (IBSA) stagnate, decrease or stop completely after they established/announced plans to establish dedicated aid agencies?
- Have aid allocations by traditional donors shifted to other countries after the IBSA countries announced or set up their own aid agencies?
- How does the socio-economic performance of the IBSA countries relate to traditional donors' aid allocations to these three countries?

### Explanatory Questions:

- How do traditional donors perceive the emergence of new donors in the South? What are their concerns and expectations?
- Why may traditional donors decide to freeze, decrease or end their aid allocations and change co-operation arrangements after beneficiary countries establish own aid agencies?
- Does emerging donors' compliance with DAC guidelines influence traditional donors' decisions in terms of aid allocations and co-operation arrangements? What other factors might have an influence?

## 1.6 Hypotheses

### **Hypothesis 1 (H1): Change in incoming aid volumes**

H1: Traditional donors freeze, reduce or end ODA to India, Brazil and South Africa after they establish or announce plans to establish dedicated aid agencies.

Traditional donors perceive the establishment of dedicated aid agencies in former beneficiary countries as a sign that these countries have reached a level of socio-economic maturity that no longer requires foreign development assistance.

## **Hypothesis 2 (H2): Shifts in aid allocation patterns**

H2: Traditional donors shift their aid allocations to other countries after India, Brazil and South Africa either establish or announce plans to establish their own aid agencies.

After beneficiary countries establish their own aid agencies, traditional donors shift their aid allocations to other countries that they perceive as more in need of assistance.

## **Hypothesis 3 (H3): Trends in socio-economic performance**

H3: Socio-economic improvements in beneficiary countries such as India, Brazil and South Africa prompt traditional donors either to freeze, reduce or end aid allocations to these countries.

A stagnation, reduction or termination of aid allocations from traditional donors to Brazil, India and South Africa may be positively related to an improvement of their socio-economic performance. Traditional donors view such improvements as a sign that their development assistance is no longer required since the emerging donor country has reached a particular level of socio-economic maturity that enables it to look after its own development needs.

## **Hypothesis 4 (H4): Compliance with DAC norms and standards**

H4: Emerging donors' compliance with DAC norms and standards is a prerequisite for traditional donors to support and cooperate with them.

Emerging donors' compliance with DAC norms and standards may be positively related to foreign aid allocations as well as to opportunities in terms of development co-operation with traditional donors.

## **1.7 Research Design**

The study seeks to analyse trends in development co-operation by examining aid flows from the traditional donors France, Germany, the UK, the US and EU Institutions to the three emerging donor countries India, Brazil and South Africa for the time period of 1994-2013. Special attention will be given to the respective points in time when the countries embarked on setting up their own aid agencies. Aid flow data before and after the establishment of dedicated aid agencies will be compared in order to identify any changes in the flow of aid.

### 1.7.1 Rationale for the selection of countries

The research will focus on aid flows from the DAC/OECD members France, Germany, the UK, the US and EU Institutions to India, Brazil and South Africa. The five traditional donors were chosen as case studies because they maintain long-term development relationships with all of the IBSA countries and are amongst the largest donors. India, Brazil and South Africa have been chosen as country case studies for emerging donors due to their commonalities in terms of democratic credentials, their status as developing nations and their capacity of acting on a regional and global scale. These and other commonalities such as their status as middle income countries and their common need to address poverty and social inequality within their borders led in 2003 to the establishment of the India-Brazil-South Africa (IBSA) Dialogue Forum (IBSA Homepage).

All three countries play an important strategic role in their respective regions due to their membership in constellations such as IBSA, BRICS and the G20. As economic powerhouses they are categorized as Global Development Partners (Globale Entwicklungspartner "GEP") by the German Federal Ministry for Economic Co-operation and Development (BMZ).<sup>6</sup> All of the three countries are non-DAC members but maintain a working relationship with the DAC. They play an important role in the expansion of South-South co-operation and are therefore of increasing interest as potential triangular co-operation partners<sup>7</sup> for traditional donors (OECD a). In May 2007, OECD countries agreed to offer a programme of "enhanced engagement" to its five key partners Brazil, China, India, Indonesia and South Africa, which was interpreted at the time as a step towards full membership (OECD b). China is not included in this study due its autocratic regime, demographics, economic footprint and geopolitical influence, all of which are markedly different from the corresponding features of the other three emerging donors.

It is important to point out that commonalities between some of the emerging donors and traditional DAC donors do exist and that emerging donors do not constitute a homogeneous group (Sato et al., 2010:1; Walz & Ramachandran, 2010:9). In fact, emerging donors differ significantly in terms of size, demographics, political regime type, economic strength, geopolitical influence, philosophies and approaches. These variations make generalizations about the relationship between emerging and traditional donors as well as their common future in terms of development co-operation questionable, if not impossible. In order to form a better understanding of the challenges, opportunities and future prospects for development co-

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<sup>6</sup> For further information on the concept of "Global Development Partners" see the BMZ-Strategy Paper 6/2011 [http://www.bmz.de/de/mediathek/publikationen/reihen/strategiepapiere/Strategiepapier305\\_06\\_2011.pdf](http://www.bmz.de/de/mediathek/publikationen/reihen/strategiepapiere/Strategiepapier305_06_2011.pdf).

<sup>7</sup> According to the OECD Website (<http://www.oecd.org/dac/dac-global-relations/triangular-cooperation.htm>), there is no internationally agreed definition of "triangular co-operation," which may also be referred to as "trilateral co-operation" or "trilateral assistance" or "tripartite co-operation" or "tripartite agreement." "Triangular co-operation can bring together the best of different actors - providers of development co-operation, partners in South-South co-operation and international organisations - to share knowledge and implement projects that support the common goal of reducing poverty and promoting development.

operation between the two groups, a more sophisticated approach that looks at individual countries will be applied in this study.

### **1.7.2 Rationale for the selection of time period**

The selection of an adequate time period for testing the four hypotheses proves to be the most challenging task in this research. After considering to use different time periods for the country case studies in order to compare their incoming aid flows before and after the establishment of their respective aid agencies, the author decides to use a single time period for all three IBSA countries, starting with the year 1994 and ending with the year 2013.

While the decision to use 2013 as the final year for the data analysis is motivated by the fact that this was the latest available aid flow data provided by the OECD at the point in time when the research project began, the rationale for selecting the year 1994 as a starting point requires further explanation.

The year 1994 is the year in which the first democratic elections in South Africa took place. Those elections opened the way for traditional donors to enter bilateral agreements with the newly elected ANC government. Since India, Brazil and South Africa were selected as country case studies in this research due to their similarities in terms of democratic regime types as well as socio-economic features, it is considered important to choose a time period in which all of these countries have made the transition to fully-fledged democracies.

A second argument in favour of starting with data from the early 1990s refers to the collapse of the Soviet Union in the late 1980s, which marked the end of the Cold War and at the same time can be seen as the beginning of a new development co-operation era, which was no longer aligned to two ideological power blocs. It can be argued that in the 1980s the dynamics of the Cold War still had a major influence on traditional donors' aid allocations and hence could potentially distort the findings. However, taken into account that ODA commitments by donor countries usually form part of bilateral agreements which often include a time span of several years, it can be assumed that the fall of the Berlin Wall in 1989 did not have an immediate effect on traditional donors' aid allocations to democratic beneficiary countries, such as Brazil or India.

It is a valid query why in the case of Brazil, which became a democracy in 1985 and established an aid agency in 1987, the time period for the data analysis is not extended to the year 1985. While this option has been considered, it is felt that the time span of two years between Brazil's democratic transition and the establishment of the country's aid agency in 1987 is too short to come to any reliable conclusion in terms of changes in incoming aid flow patterns before and after the establishment of such an agency.

In conclusion, the decision to use one single time period for all three countries is based on the assumption that the outcomes of the data analysis for the IBSA countries can only be compared if the data sets originate from the same time period since this will guarantee that

the international political and economic environment is the same not only for all three beneficiaries but also for all of the five donor countries.

While the choice of a single time period might be contestable because it does not accommodate the time period and hence the aid flow data for Brazil prior the establishment of its aid agency in 1987, it nevertheless allows for the testing of the hypotheses H1 and H2. Since the two hypotheses expect traditional donors to freeze, decrease or end ODA to India, Brazil and South Africa or shift their aid allocations to other countries after the beneficiary countries establish or announce to establish dedicated aid agencies, an increase of foreign aid to Brazil post 1994 would not support hypotheses H1 and H2.

### **1.7.3 Quantitative and qualitative analysis**

The paper examines whether quantitative changes in terms of aid volumes as well as qualitative changes in terms of co-operation modalities between the five traditional and the three emerging donors have occurred. The respective points in time when dedicated aid agencies were established are of special interest in this context.

The paper first assesses the quantitative aspect in terms of aid volumes by tracking Official Development Assistance (ODA) by the five traditional donors to the three IBSA countries from 1994 - 2014. Aid flows before and after the establishment of dedicated aid agencies will be compared in order to examine whether changes of aid allocation patterns have occurred. The total outgoing ODA amounts (US\$) of the respective traditional donor countries will then be compared against the shares (%) of foreign aid that India, Brazil and South Africa have received from them over time. A calculation of the share of ODA is important in order to check whether overall budget cuts in traditional donor countries are responsible for the stagnation or decrease of ODA amounts to the recipient countries and whether the traditional donors have indeed shifted their aid allocations to other countries.

The paper further seeks to establish whether emerging donors' socio-economic performance as inferred by variables such as GDP growth, GDP per capita, life expectancy and infant mortality rates may play a role in traditional donors' decision to freeze, reduce or terminate ODA to these countries.

Secondly, the paper aims to explore why changes in terms of aid flows, development co-operation arrangements and focus areas may occur after emerging donors establish dedicated aid agencies. For example, is the emerging donors' compliance with DAC norms and standards a prerequisite for traditional donors to continue their development support? Semi-structured elite interviews with development co-operation experts and representatives of the five traditional donors will assist in revealing how traditional donors perceive the graduation of beneficiary countries to fully-fledged donors. The interviews will further contribute to a better understanding of what factors influence traditional donors' decisions in terms of aid allocations and development co-operation strategies.

The findings are not only relevant for the countries included in the study but also for other middle-income countries that might consider or are already on their way to becoming fully-fledged donors. These countries might benefit from the experiences of emerging donor countries that have already undergone such a transition process. Consequently, the outcomes of the study will assist these countries in forming a better understanding of the reasons that might prompt traditional donors to change their development assistance strategies in terms of volumes and modalities. These new insights will help emerging and traditional donors to develop their relationship in a more informed way and to identify opportunities for new kinds of co-operation arrangements and finally to develop a common vision for development co-operation that takes the interests and concerns of both partners into account.

## **1.8 Literature Review**

There has been increasing scholarly interest in the phenomenon of emerging donors, such as China, Brazil and India due to the fact that they are also emerging economies with increasing regional and global political influence. While some academics and development experts highlight the potential risks and challenges of emerging donors' activities for the international development co-operation system as well as for the adherence to internationally agreed norms and standards (Manning, 2006; Kragelund, 2008; Woods, 2008), others direct their interest towards the potential benefits, such as opportunities for new forms of development co-operation with traditional donors (Grimm, 2009; Cabral & Weinstock, 2010a; Zimmermann & Smith, 2011).

Significant attention has been paid to China's engagement on the African continent. While some researchers point out the negative long-term consequences of Chinese aid in Africa, which, they argue, exploits natural resources, destroys local markets and jobs, supports authoritarian regimes, contributes to the postponement of necessary reforms and is motivated by political and economic self-interests (Naim, 2007; Zafar, 2007), others come to a more balanced conclusion in terms of China's positive role as a development partner that assists African countries in building much needed infrastructure and supplies affordable goods and services for poor consumers (Braeutigam, 2009; Kragelund, 2010b).

The interest in China as an emerging donor seems to overshadow the interest for other smaller emerging donors by far due to China's much higher financial contribution, its autocratic regime type and its bigger economic and geo-political influence. However, it is especially the relatively smaller emerging donors with democratic regimes, such as India, Brazil and South Africa that provide traditional donors with new opportunities for triangular co-operation arrangements.

In this context, it is noteworthy that most research on emerging donors focuses on the following three aspects:

1. What impact emerging donors have on recipient countries in terms of poverty reduction, economic growth, environmental sustainability and political and governance structures

(Braeutigam, 2009; Sotero, 2009; Mawdsley, 2010; Kragelund, 2008; Kragelund, 2010a,b; Kondoh et al., 2010).

2. What impact they have on the current development paradigm with its commonly agreed norms, practices and standards (Manning, 2006; Naim, 2007; Woods, 2008; Six, 2009; Sato et al., 2010; Zimmermann & Smith, 2011; Mawdsley, 2014), and lastly
3. How their activities as development partners relate to their foreign policy objectives, geopolitical interests and economic strategy (Schlaeger, 2007; Braeutigam, 2009; Chartuvedi, et al., 2012; Grimm, 2010; Kragelund, 2010b; Besharati, 2013a; O'Riordan et al., 2015).

While these aspects are important and explain the impact of emerging donors on the international aid architecture as well as on beneficiary countries, they do not sufficiently address the perspective of traditional donors. The question that needs to be asked is how do traditional donors perceive the graduation of recipient countries to fully-fledged emerging donors and how do they respond to the changes and challenges associated with it?

This leads us to another stream of development aid literature that deals with the question: "What motivates donor countries to give aid, how much do they give and to which countries?" (Beenstock, 1980; Alesina & Dollar, 2000; Boschini & Olofsgård, 2002; Berthélemy & Tilchit, 2004; Fleck & Kilby, 2006; Dollar & Levin, 2006; Younas, 2008). Scholarly research suggests that the direction and volumes of foreign aid from traditional donors to receiving countries are influenced by political, economic and strategic self-interests as well as by poverty levels, economic performance, governance indicators and historical/cultural ties to the recipient country. O'Riordan et al. (2015:10) point out that traditional donors contemplate each of the various criteria when making aid allocation decisions yet, depending on the donor, each criterion carries different weight.

McKinley & Little (1977) introduced econometrics in the debate on the factors influencing aid allocations and structured the discussion around two determinants: the "donor's interest" and the "recipient's need." The following literature can be divided along these two determinants. According to Beenstock (1980) macroeconomic variables such as unemployment, the budget level and real GDP levels are important in determining the aid budget of a donor country. Alesina & Dollar (2000) found that the colonial past and political alliances are major determinants of foreign aid, and that countries that democratize receive more aid than others. The US in particular responds strongly to democracy indices (Dollar & Levin, 2006). Boschini & Olofsgård (2002), who wanted to find out why the total level of development aid dropped significantly after the end of the Cold War, came to the conclusion that donor countries give more aid in times of increased security risks since political loyalty from aid recipients then becomes more important.

Based on an analysis of successive US governments and their respective decisions in regard to development aid allocations, Fleck & Kilby (2006) argued that a change in the composition of the US congress has an influence on the allocation of development aid since political parties have different priorities in terms of security, commercial and strategic interests. Younas (2008) found empirical evidence that more aid is allocated to developing countries that have a greater

tendency to import goods in which donor nations have a comparative advantage in production. He further notes that donors give more money to countries that endure physical miseries (such as infant mortality) and good human rights conditions, but are less focussed on reducing economic hardship (as in the case of low income per capita). Research conducted by Berthélemy & Tichit (2004) is important in this context since their research shows that both determinants, the donor's interests as well as the recipient's needs, influence assistance policies in terms of aid allocations but to a different degree at different times for different donors.

## **1.9 Limitations**

This research focuses mainly on bilateral development co-operation and does not take into account the activities of other important non-governmental actors, such as Foundations, Philanthropic Organisations or Social Corporate Responsibility Initiatives. Other constraints that might limit the verifiability of the research outcomes refer to the small sample size (only three emerging and five traditional donor countries are included in the study), the limited timeframe (1994-2013), as well as the testing for other external factors that may have an influence on traditional donors decisions to change their development assistance in terms of volume and co-operation strategies.

It needs to be stressed that changes in terms of aid allocations or co-operation strategies might only come into effect many years after emerging donors have established their own aid agencies. Traditional donors do not reduce or end aid to a beneficiary country from one day to another since they often have funding commitments that stretch over an extended period of time, resulting in delayed execution of decisions that have been made some time ago. It might therefore be too early to expect any significant changes in terms of aid flows in the cases of India and South Africa. While these constraints are acknowledged, the interviews conducted with elite survey respondents are nevertheless expected to contribute new insight into how the establishment of dedicated aid agencies in emerging donor countries impacts on traditional donors' perceptions, aid allocations and development co-operation strategies.

## **1.10 Structure of the Study**

Chapter Two:

The main focus of this chapter is to give a historical account of how international development assistance has evolved since the end of WWII and the theories and external factors that have had an influence on international development assistance. Milestones in terms of international agreements, such as the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action and the Millennium Development Goals will also be discussed. Changes in the relationship between so-called "developed" and "developing" countries are of special interest in this context.

### Chapter Three:

The third chapter will focus on the emerging donor countries India, Brazil and South Africa. Their history as recipients and providers of aid will be examined. Institutional arrangements of development assistance, co-operation partners, focus areas and kinds of development assistance are elaborated on. In order to form a better understanding of these countries' graduation process from recipients of aid to providers of aid, their economic growth trajectories will be taken into account.

### Chapter Four:

This chapter will start with the analysis of official DAC aid flow data by describing the trends of aid flow from the five traditional donor countries to India, Brazil and South Africa over the time period of 1994-2013. Aid flows before and after the establishment of dedicated aid agencies will be compared. The socio-economic performance of the three countries will be compared with their aid allocations from the five traditional donor countries. Elite interviews will provide insights into how traditional donors perceive the establishment of dedicated aid agencies in beneficiary countries and how they respond to it.

### Chapter Five:

The findings of the research study are summarized and discussed in this chapter. The new insights presented will assist emerging donors who intend to establish dedicated aid agencies in making informed decisions by taking traditional donors' views, concerns and expectations into consideration.

## **2 HISTORICAL BACKGROUND**

The relationship between traditional and emerging donors today is shaped by their common history as providers and recipients of aid. While the institutions, norms and standards organised under the umbrella of the DAC that make up our current aid architecture are still very much influenced by the traditional donor community, things are clearly changing. The economic rise of developing countries in the East and South has revolutionized the aid sector, providing emerging countries with new opportunities to assist other countries to meet their development needs. Poor countries are no longer restricted to turning to traditional donors for assistance and now have more options from which to choose. Consequently, this broader variety of potential development co-operation partners has an effect on the relationship between traditional donors and their beneficiary countries, some of which are simultaneously emerging donors.

In order to form a better understanding of the changing dynamics in terms of the relationship between traditional donors in the North and beneficiary countries in the South, it is important to give a historical account of how international development assistance has evolved since the end of WWII. The second chapter will therefore focus on the institutions, theories and factors that shaped international development assistance over the past six decades. A review of the history of international development co-operation will help to explain the rationale behind the way traditional donors operate today and under which circumstances they might decide to end or reduce their assistance to recipient countries.

### **2.1 Development Assistance after WWII**

The institutionalized character of international development assistance is a distinct feature of the 20<sup>th</sup> century and started to evolve after WWII as a response to the disastrous effects of the war on European countries and their economies. After WWII, two competing ideologies, capitalism and communism, created a bipolar world order with only a few residual countries that did not want to align themselves with either of the two centres of power. The dynamics of the Cold War not only shaped world politics for decades to come, but also had a profound influence on the institutions, norms and standards of international development assistance (Rist, 2008; Helle, Rakner & Rønning, 2011; Chin & Quadir, 2013).

The wave of independence across the Asian and African continent that gained momentum in the 1950s weakened the political and economic influence of the former colonial powers. The fear that former colonies would adopt communism as their ideological blueprint and hence would be politically as well as economically lost for the capitalist West, provided developing countries with substantial bargaining power. The Cold War and increased security concerns subsequently became one of the main drivers of international development assistance and the establishment of its institutional framework (Dichter, 2003:55).

The so-called 'Bretton Woods institutions', which include multilateral organizations such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which later became part of the World Bank (WB), were created to

address critical issues of the international financial system and to assist in rebuilding war-affected economies (Wood, 1986:22). Today, both organisations, the IMF and the WB, are the primary organizations in the provision of development finance (Fee, 2012:25).

In 1947 the European Recovery Program by the US, commonly referred to as the "Marshall Plan", came into effect. The Marshall Plan is of special interest because it is the first systematic attempt by a foreign nation to restore the economic and political fabric of post-war Europe, which was seen at the time as a necessary precondition for sustainable peace and political stability (Fee, 2012:27). The rapid growth and speedy recovery of European economies caused by the Marshall Plan became a success story that development agents thought could be replicated in other contexts as well (Wood, 1986:1). Europe's reconstruction process was in a sense a testing ground for the newly established Bretton Woods institutions, which shifted their focus in the 1950s towards the underdeveloped, so-called 'Third' World.

By 1961, when the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) was established, the European countries had regained their economic strength and political stability and thus were able to start their own development assistance programs shaped by their own post-war experience.<sup>8</sup>

The motives of DAC members, mainly countries in the North, to provide development assistance to poor countries in the South were diverse. They included altruistic motives and a kind of moral obligation, especially in the case of former colonial powers, as well as economic, political and geo-strategic interests. Their relationship with recipient countries was hierarchical in nature and based on the unquestioned conviction that they had something to offer, either in the form of finance, knowledge or skills of which the recipient country was in need (Six, 2009:1106). Often the recipient countries' own perspectives and need assessments were not sufficiently taken into account, hence resulting in the failure of many well-intended and costly development projects.

Despite their differences, DAC members realized that they had to find a common definition of what constitutes Official Development Aid (ODA)<sup>9</sup> in order to be able to record and compare their aid flows.<sup>10</sup>

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<sup>8</sup>see also Fuehrer, Helmut (1994). "The Story of Official Development Assistance", OECD/GD (94) 67.

<sup>9</sup>In 1969 the DAC adopted the concept that Official Development Aid (ODA) "...are those flows to countries and territories on the DAC list of ODA recipients and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (OECD:2008).

<sup>10</sup>Official flows between governments that do not meet the criteria of ODA, such as grants, loans or credits for military equipment or services are known as "Other Official Flows" (OOF) and are not formally recognized by the DAC as foreign aid (OECD, 2001).

### **2.1.1 The history of South-South co-operation**

Several countries in Africa, Asia, Latin America and the Middle East did not want to be aligned with either the West or the Soviet Union and drawn into a conflict that they felt did not serve their interests. Under the umbrella of the Non-Aligned Movement (NAM), developing countries joined forces in the early 1950s with the aim of bringing their own perspectives and narratives into the political debate. Walz & Ramachandran (2010:3) point out that "the motivation for co-operation and technical assistance was not a moral obligation. Rather, it was founded upon a desire for mutual co-operation and development."

At a conference of African and Asian states in Bandung, Indonesia in 1955, developing countries shared their views of a just, multi-polar and peaceful world order. Central to the final conference declaration is the strong focus on South-South co-operation (SSC) in terms of trade, culture and knowledge transfer (ibid). Another important issue that the declaration emphasizes is the right of developing nations to self-determination and representation in important global forums such as the UN Security Council. Lastly the declaration advocates for a transformation of the world economy towards a fairer and more equal share for developing countries. The Bandung Conference can be seen as an important step towards a changing relationship between the developed and developing world. Not only did the conference provide a platform for developing countries to discuss issues of common concerns and interests, it also helped them to find common ground, speak with one voice and hence become politically relevant (Walz & Ramachandran, 2010:16). The ten principles of the Bandung conference still serve as a guideline for SSC today.

### **Text Box 1: The ten Bandung conference principles<sup>11</sup>:**

1. Respect for fundamental human rights and for the purposes and principles of the Charter of the United Nations;
2. Respect for the sovereignty and integrity of nations;
3. Recognition of the equality of all races and equality of all nations;
4. Abstention from intervention or interference in the internal affairs of another country;
5. Respect for the right of each nation to defend itself singly or collectively, in conformity with the UN Charter;
6. a) Abstention from the use of arrangements of collective defence to serve the particular interests of any of the big powers. b) Abstention by any country from exerting pressures on other countries;
7. Refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country;
8. Settlement of all international disputes by peaceful means, such as negotiation, conciliation, arbitration or judicial settlement as well as other peaceful means of the parties' own choice, in conformity with the UN Charter of the United Nations;
9. Promotion of mutual interests and co-operation;
10. Respect for justice and international obligations.

## **2.2 Development Assistance in the 1950s to the 1970s**

The history of international development assistance reflects to some extent the dominant development paradigm at the time, shaped by Western ideas, values and perspectives. Over the past six decades development paradigms have changed more or less regularly due to new theories and practices. Braeutigam (2009:11) notes: "From an early occupation with infrastructure and industry, to, later, integrated rural development programs and (briefly) basic human needs, we shifted to structural adjustment, the governance and democracy, Grameen Bank-inspired microfinance, conditional cash transfers, and so on." In the 1960s, there was a strong move amongst developed countries to institutionalize their development assistance and establish their own aid agencies.<sup>12</sup>

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<sup>11</sup>Source: Final Communique of the Asian-African Conference of Bandung (24 April 1955), [http://franke.uchicago.edu/Final\\_Communique\\_Bandung\\_1955.pdf](http://franke.uchicago.edu/Final_Communique_Bandung_1955.pdf) (accessed 10.04.2015).

<sup>12</sup>The following aid agencies were established in the 1960s: USAid (1961), the UK Department of Technical Assistance (1961) (which was the forerunner of the Department for International Development), the German Federal Ministry for Economic Cooperation and Development (1961), the Danish International Development Agency (1962), the Swedish International Development Agency (1965) and the Canadian Development Agency (1968), to name just a few.

### 2.2.1 A 'development first' approach

From the 1950s until the 1970s development was associated first and foremost with economic growth and raising the rate of investment to GDP of a developing country (Easterly, 2007:328). The general assumption at the time was that development would automatically occur if the supply of capital and the efficiency of resource allocations increased (Stieglitz 2002:164). Development was thought to be synonymous with an increase in a country's GDP.

W.W. Rostow's (1956) theory on economic take-off and self-sustained growth had a profound influence on the development assistance approach at the time. Based on his analysis of how modern industrialized countries evolved from poor, backward, agrarian-based states, he concluded that economic growth is the key to the sustainable development and progress of countries. In his influential article "*Some Social Requisites of Democracy: Economic Development and Political Legitimacy*," Seymour Martin Lipset (1959) added to the debate by arguing that economic development, an overarching term for a range of interrelated economic factors such as industrialization, urbanization, wealth and education, is critical for the emergence and consolidation of democratic political institutions. Lipset's "modernization theory", which describes economic development as a precondition for democratization was in line with earlier works by the psychologist Abraham H. Maslow (1943), whose hierarchy of needs theory concludes that material needs come before the desire for freedom and self-governance.

Western development agents argued that market forces alone would not be able to help underdeveloped countries to catch up economically. Government interventions and a strong role of the state were thought to be necessary to bring developing countries back on track economically. In this regard Dichter (2003:59) notes: "if the fifties concentrated on infrastructure, the sixties combined economic infrastructure (factories, ports, and so on) with social infrastructure such as schools and universities, raising knowledge transfer to a more formal and prominent level". A widespread, albeit not uncontested assumption at the time was that underdeveloped countries would automatically pursue a democratic path once they had reached a particular level of GDP.<sup>13</sup>

The increasing influence of the political left in the late 1960s and early 1970s promoted a critical debate in Western donor countries about the role, aims and objectives of development assistance to poor countries. The common approach of aid agencies at the time of transferring Western ideas, values and knowledge, became increasingly questioned. Due to the fact that the development assistance landscape expanded rapidly in this time period with new actors, such as private foundations and non-governmental organisations (NGOs) entering the stage, competition grew and forced state-led development agencies to review their strategies and approaches.

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<sup>13</sup> For an in-depth discussion of the correlation between economic growth and democratisation see Huntington, Samuel, P. (1984), "Will more countries become democratic?", *Political Science Quarterly* Vol. 99(2), pp.193-218, [http://www.jstor.org.ezproxy.uct.ac.za/stable/2150402?seq=8#page\\_scan\\_tab\\_contents](http://www.jstor.org.ezproxy.uct.ac.za/stable/2150402?seq=8#page_scan_tab_contents), (accessed 20.08.2015).

Due to the availability of more and better development data in the 1970s, it became evident that a growth in GDP did not necessarily equal progress and development. Despite the fact that developing countries' economies had good growth rates, the gap between rich and poor widened. While GDP growth and GDP per capita remained relevant measures of progress and development, other indicators were adopted that focussed on basic human needs and the quality of life of poor people in development countries with respect to food, water, health, education and legal rights.<sup>14</sup>

## **2.3 Development Assistance in the 1980s and 1990s**

With the beginning of the era of globalization in the early 1980s, the internationalization of markets and capital became an external force that most countries could not escape. In fact, developing countries were strongly encouraged and in some cases pressurized to participate in the global economy by international organizations such as the IMF and the WB (Rodrik, 2011:5). Globalization at that time was perceived as a rising tide that could provide developing countries with the historic opportunity to catch up economically.

The scarce resources within DAC donors that were a result of global recessions in the 1980s and early 1990s led to a stronger emphasis on the outcomes and effectiveness of aid. Inspired by the New Public Management (NPM) approach, which was based on a private-sector model and gained growing popularity amongst cash-strapped governments around the globe in the 1980s, "doing more with less" became the new mantra of the traditional donor community (Chin & Quadir, 2013:497). Subsequently, the calls for aid effectiveness, a result-oriented development approach, monitoring and evaluation as well as harmonization of donor activities were later addressed in the Rome and Paris Declaration on Harmonization and Aid Effectiveness in 2003 and 2005 respectively.

### **2.3.1 A 'market-led' development approach**

The success stories of the East Asian Tigers, which combined export orientation with macroeconomic stability, inspired the WB and the IMF in the 1980s to advocate Structural Adjustment Programmes (SAPs) for developing countries (Easterly, 2007:328). Under the SAPs, developing countries that took out loans with the WB or the IMF had to fulfil specific requirements in terms of their macro-economic policies.

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<sup>14</sup>UNDP (HUMAN DEVELOPMENT REPORT 2 (1992)) defines human development "... as the process of enlarging the range of people's choices--increasing their opportunities for education, health care, income and employment, and covering the full range of human choices from a sound physical environment to economic and political freedoms." Based on this concept, UNDP presents the human development index (HDI) in its annual Human Development Report which combines indicators for life expectancy, educational attainment and income in a weighted arithmetic mean. More and more, the HDI has become a representative indicator for development which is in competition with the traditional GNP.

The opening up of markets, removal of trade barriers and the privatization of state-owned enterprises were in line with the “Washington Consensus,” a kind of standard rescue package for crisis wracked developing countries outlined by the English economist John Williamson in 1989. However, for many developing countries the SAPs did not bring the expected benefits but in fact impacted negatively on their domestic markets, which were not geared towards competing with products and services from more developed countries.

Low-income countries (LICs) that had taken loans to finance SAPs did not experience the expected growth in their economies but instead accumulated further debt. Easterly (2003:362) argues that the SAPs of the 1980s in fact reversed the development successes of the 1960s and 1970s and failed the poor, especially women and children. During the 1980s, a decade often referred to as the “lost decade” due to the lack of progress and development, for many recipient countries dependency on aid became a permanent feature (UN, 2010:4).

The reconstruction of former communist countries in Eastern Europe was high on the political agenda at the end of the 1980s and used up much of the resources that DAC donors would otherwise have allocated to developing countries in the South (Kragelund, 2010b:2). The early 1990s saw traditional donors focussing on the promotion of good governance, civil society, democracy, human rights and the rule of law (OECD, 1997: 1).

The negative consequences of globalization for developing countries, evidenced by the growing gap between the world’s rich and poor, became increasingly tangible during the course of the 1990s. As a response to popular criticism “Poverty Alleviation” became the new focus of development assistance (Chin & Quadir, 2012:496).

## **2.4 Development Assistance in the 21<sup>st</sup> Century**

There was an unprecedented amount of international meetings, agreements and goals set in the first decade of the new millennium. This dynamic was further fuelled by the terror attacks of 11<sup>th</sup> September 2001, which contributed to the realization within the international donor community that in a globalized world the fate of developed and developing countries is interconnected and both parties have a shared responsibility to make their partnership work.

### **2.4.1 A 'comprehensive' development approach**

The realization that economic indices are not sufficient measures for development led to a more comprehensive development approach amongst international donors. The endorsement of the UN Millennium Declaration in 2000 by 189 countries as well as the adoption of the Millennium Development Goals (MDG's) reflects this new understanding of development. Stieglitz (2002:173) points out that GDP is not a sufficient measure to determine development in terms of 'social' development. He understands the function of social development to be “improving the lives of poor people, reducing inequality, increasing participation in resource allocation

processes, improving transparency & accountability, promoting social cohesion, building social capital, promoting inclusive and sustainable economic growth, etc." He points out that social development in fact promotes economic development.

In accordance with this new understanding, signatories of the UN Millennium Declaration pledged to ensure that globalization becomes more inclusive and equitable. They promised to halve extreme poverty by 2015, reduce child mortality by two-thirds and curb diseases such as HIV/AIDS and Malaria (UN Website).

They further adopted eight time-bound<sup>15</sup> and measurable MDGs. The MDGs also included other aspects of development that were of global concern, such as environmental degradation, climate change and HIV/AIDS.

The declaration further emphasised the shared responsibility of donor and recipient countries of achieving the MDGs and in that sense advocated a new kind of partnership.

**Text Box 2: The eight Millennium Development Goals (MDG's)<sup>16</sup>:**

1. eradicate extreme poverty and hunger;
2. achieve universal primary education;
3. promote gender equality and empower women;
4. reduce child mortality;
5. improve maternal health;
6. combat HIV/AIDS, malaria and other diseases;
7. ensure environmental sustainability;
8. develop a global partnership for development.

In March 2002 the UN Financing for Development Conference was held in Monterrey, Mexico. The conference aimed to garner financial and political support for the MDGs. The participating heads of state, representatives from multilaterals such as the IMF, the WB and the WTO as well as representatives from the business and civil society sector agreed that adequate funding would be required in order to address the development challenges ahead (OECD, 2006: 32). Besharati (2013b:15) points out that domestic resource mobilisation was established as the main financier of development.

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<sup>15</sup>Most of the eight MDGs (see Text Box 2) have a deadline of 2015, using 1990 as the baseline against which progress is measured.

<sup>16</sup> Source: UN (2000). United Nations Millennium Declaration, 18.09.2000, [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=A/RES/55/2](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/55/2) (accessed 20.02.2015)

At Monterrey, donor countries reaffirmed their pledge to reach 0.7 percent of their GNP in development assistance, compared to a developed world average of 0.25 percent. This commitment was nothing new since it had already been made at the 1970 UN General Assembly (Grimm et. al., 2009:5). However, what the Monterrey Consensus achieved was to transform ODA from an unpredictable gesture of charity into a predictable and binding commitment of the donor community.

At the beginning of the 21<sup>st</sup> century traditional donors pledged to reform the aid architecture in order to improve the system in terms of five fundamental principles, namely “ownership, alignment, harmonization, results and mutual accountability” (Walz & Ramachandran, 2010:8; OECD, 2005). At the High Level Fora on Harmonization and Aid Effectiveness in Rome (2003), Paris (2005), Accra (2008) and Busan (2011) partaking nations, (including DAC and non-DAC members) agreed on principles that would shape the foreign aid approach for the upcoming years.<sup>17</sup>

The Paris Declaration on Aid Effectiveness aimed to improve the quality of aid and its impact on development. It gave a series of specific implementation measures and established a monitoring system to assess progress and ensure that donors and recipients hold each other accountable for their commitments.<sup>18</sup> While most non-DAC actors in the South accept the Paris Declaration and its principles in their role as recipients of aid, they do not perceive them as binding principles for their role as emerging donors providing development assistance to other developing countries (Chahoud, 2008:1; Grimm et al., 2009:8).

In 2005 the DAC set out to co-operate with emerging donors by organising a Policy Dialogue for Aid Effectiveness and a "Structured Briefing on DAC activities (OECD 2006b: 37). The DAC also approved a new, simplified list of ODA recipients that included all low and middle-income countries except those that are members of the G8 or the EU (ibid, 2006b:35). In this way, the DAC reassured emerging donor countries of their recipient status and hence paved the way for better coordination and closer co-operation.

The Accra Agenda for Action (AAA) of 2008 hinged on three main themes: ownership, inclusive partnerships and delivering results. Participants from developed and developing countries agreed that developing countries are in charge of their own development and need to take ownership of it. The AAA also called for “further development of triangular co-operation” since it is perceived as a way to improve aid effectiveness by bringing in the expertise and financial resources of three partners, namely a DAC donor, a provider of SSC and a beneficiary country (Fordelone, 2009:4).

At the 2011 Fourth High Level Forum on Aid Effectiveness in Busan, Korea, participating nations endorsed a statement that called for the creation of a "global partnership for effective

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<sup>17</sup> It is important to note that the respective conferences were hosted by the DAC/OECD and for that reason were perceived by some critics as not providing an independent platform for such a debate.

<sup>18</sup> According to the World Bank's definition, "Aid Effectiveness is the impact that aid has in reducing poverty and inequality, increasing growth, building capacity, and accelerating achievement of the MDGs set by the international community. Indicators cover aid received as well as progress in reducing poverty and improving education, health and other measures of human welfare" (The World Bank, 2015).

development co-operation" (Atwood, 2012:2). For many observers, the forum in Busan represented a turning point in the history of development co-operation and shifted the discussion from "aid" to "development" (ibid) as well as from "recipients and donors" to "partners" (Mawdsley et al., 2014:4; Kharas, 2011:7).

## **2.5 Shifts in the International Aid Architecture**

For many years, but even more so after the global financial meltdown of 2008, emerging countries have increasingly voiced their discontent with the established aid architecture in general and the Bretton Woods institutions in particular. They feel that their voting power in institutions such as the IMF and the WB does not adequately reflect their growing economic and political influence and hence does not take their interests into account sufficiently. They further criticise the blind faith of the IMF in financial markets and capital flows, which ultimately resulted in the financial crisis (Akyuez, 2010:9).

While a reform process of the Bretton Woods institutions has been initiated, emerging countries have started to establish their own institutional platforms. Since 2001 the BRICS-Forum, comprised of Brazil, Russia, India, China and South Africa, serves as a regular platform to discuss issues of common concern and interests. In 2003, the IBSA Dialogue Forum, comprised of India, Brazil and South Africa, was established followed by the establishment of the IBSA Trust Fund one year later, towards which each country has committed to contribute US\$1 million per year to provide project level development assistance grants to countries of the South (IBSA Homepage).

At the 5<sup>th</sup> BRICS Summit in Durban in 2013, the BRICS leaders announced the establishment of a New Development Bank, commonly referred to as the "BRICS Bank."<sup>19</sup> There are still large unmet funding needs in developing and emerging countries, especially in terms of infrastructure and more sustainable forms of development, where a deficit of investment of up to US\$ 1 trillion annually has been identified beyond what is currently likely to be financed (Bhattacharya, Romani and Stern, 2012; Bhattacharya and Romani, 2013 as cited in Griffith-Jones, 2014:1). The failure or inability of traditional donors to fulfil their financial commitments and meet the funding needs of developing countries has provided emerging donors with the opportunity and perhaps the necessity to fill this void (Chin & Quadir, 2012:497).

The transition of former recipients of aid into providers of aid poses a new challenge for traditional donor countries since these emerging donors no longer follow the rules and principles under which they have received aid from the DAC donors for many years. While the estimated contribution of emerging donors beyond the DAC in terms of ODA makes up only 13 percent (OECD, 2015), it would be short sighted to underestimate their future growth

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<sup>19</sup> The Bank has the mandate to mobilize resources for infrastructure and sustainable development projects in the BRICS countries and other emerging economies as well as developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development (BRICS Website, 2013).

potential and influence on the international aid architecture. While the DAC is still providing the lion share of ODA to developing countries worldwide, the establishment of new platforms and institutions by emerging countries can be seen as advocating for an alternative development assistance funding model that provides developing countries with more options. This provides developing countries with more bargaining power, making it less likely that they will accept traditional donors' demands for political or economic reform that they feel encroaches on their national sovereignty (Helle, Rakner & Rønning, 2011).

## 2.6 Summary

The history of development assistance reveals that many of today's traditional donor countries themselves were at some point recipients of development aid. This means that the experience of being the provider as well as the recipient of aid does not only exist within the emerging donor community but also within the group of traditional donors. Often these experiences as recipients influence the way development assistance is carried out once the country has graduated to a donor and reaches out to other countries in need of assistance.

The way development assistance is carried out is also a reflection of both the interests of the donor as well as the needs of the recipient, although it is often difficult to determine which of the two has more influence on donors' development strategies and aid allocations. The reasons for reaching out to other countries and assisting them to overcome poverty, pandemics, natural disasters or the devastating effects of political conflict are manifold and are shared by traditional and emerging donors alike, albeit with different emphasis. Historical and moral obligations, political and economic self-interest, security concerns or pure compassion for the less fortunate are just a few motives for development co-operation that may play a role.

While there seems to be more similarities between traditional and emerging donors than one would anticipate, there are nevertheless distinct differences between the “donor philosophies” both groups like to emphasize. While traditional donors officially subscribe to DAC norms and standards, emerging donors have adopted the principles of South-South co-operation as their guideline.

While the diversification of potential development co-operation partners may in future promote a competitive environment and lead to enhanced aid effectiveness, critics warn that it could also lead to a more confusing, less transparent and less effective development co-operation landscape. However, due to their growing economic and political influence, emerging donors and their different development assistance approaches can no longer be ignored.

In recent years the DAC has striven to bring emerging donors on board and explore ways to cooperate with them. The realization that the fate of developed and developing countries in a globalized world is interconnected, as well as global challenges such as climate change and pandemics have promoted the political will on both sides to engage and form partnerships.

Despite this progress, it is important to note that emerging donors have little aspiration of being integrated into the DAC's developed aid architecture. Instead, emerging donors tend to establish their own Southern financial architecture for development. It will be interesting to see whether the future relationship between traditional and emerging donors and their respective aid models will be one of coexistence, competition or co-operation. The third chapter will focus on three emerging donors India, Brazil and South Africa, in order to explore commonalities and differences amongst this group.

### 3 COUNTRY PROFILES

The third chapter will examine the history of India, Brazil and South Africa as recipients and providers of aid. It will provide an overview of the respective country profiles and economic growth trajectories in order to form a better understanding of the countries' graduation process. Finally, the chapter will analyse the countries' institutional arrangements, motives, norms and standards as well as preferred forms of development assistance.

#### 3.1 The 'Southern Model' of Giving Aid

Walz & Ramachandran (2010:9) distinguish between the following three models of giving aid: The DAC-model, the Arab model and the Southern model.<sup>20</sup> The Southern model, to which most NDDs in the South, such as India, Brazil and South Africa subscribe, is based on the following principles: mutual respect for sovereignty and territorial integrity; non-interference in each other's internal affairs and equality and mutual benefits. These principles are derived from the guidelines first introduced by developing countries in the 1950s and early 1960s at the Bandung Conference (1955). The Non-Aligned Movement (1961), as well as China's 'Five Principles of Peaceful Coexistence' (1954), are still relevant today and inform the way South-South co-operation (SSC) between emerging donors and other developing countries of the South is conducted (Walz & Ramachandran, 2010:21).

However, as will be discussed later in this chapter, while India, Brazil and South Africa follow the Southern model and share basic principles, they nevertheless show significant differences between each other in terms of aid modalities, motives, focus areas and institutional arrangements.

In line with the principles of 'equality' and 'mutual benefit,' it is important to note that most Non-DAC Donors (NDDs) do not call themselves "donors" but instead prefer the term "development partners." This is a clear move to distinguish themselves from the practices of the DAC donors, which they perceive as being based on a hierarchical relationship between a rich donor in the North and a poor recipient in the South. Instead, NDDs advocate for a horizontal relationship that is built on a common development experience and geared towards mutual benefits. They emphasize that their assistance approach is demand-driven and based on the recipients' needs.<sup>21</sup> Based on the principle of 'non-interference in each other's internal affairs', SSC includes very few (if any) conditions in terms of macro-economic policy or

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<sup>20</sup>see Zimmermann & Smith (2011) for a more detailed discussion of the classification of donors and their respective models of giving aid.

<sup>21</sup> The literature on emerging powers suggests that neighbouring countries do not necessarily share this projected image of India, Brazil and South Africa as equal partners but instead perceive them as regional hegemony due to their political and economic power in the region (see Alden & Vieira 2005, Landsberg & Monyae 2006; Chidaushe, 2010).

governance compared with aid from traditional donors and major international institutions such as the IMF and the World Bank.

The impressive economic performance that emerging countries such as India, Brazil and to a lesser degree South Africa have demonstrated over the past two decades, has provided them with the financial resources to successfully tackle some of their own domestic challenges, such as poverty, education and health. It has also provided them with the financial resources to expand their activities in the field of development assistance to other developing countries. However, as countries with democratically elected governments, political decision-makers in IBSA countries are cautious not to appear too generous when providing aid to other countries since this impression might earn them criticism amongst their electorates, who despite all progress are comprised of a significant amount of poor people. As countries with democratic political systems they are under growing domestic and international pressure to improve their increasing development assistance activities in terms of transparency, accountability and efficiency. This might be one of the reasons these respective countries create dedicated aid agencies.

Development assistance is clearly used by all of the IBSA countries as an instrument of 'soft power' to promote their foreign and economic policy objectives. However, a genuine sense of solidarity with other developing countries should not be discarded as an overarching motive. In order to understand the modalities, motives and institutional arrangements of NDDs, it is important to take their country profiles and economic trajectories into consideration.

### **3.2 Socio-Economic Trajectories of India, Brazil and South Africa**

India has a population size of 1,252 billion in 2013 (The World Bank), and is the second most populated country in the world after China. Consequently, it is the giant amongst the IBSA countries. In comparison, Brazil has a population of 200 billion, while South Africa's population is 53 million people (ibid). All three countries have a young working age population and enjoy a demographic advantage compared to most developed countries in the North.

The three countries are classified as middle-income countries (MICs).<sup>22</sup> Figure 1 shows that Brazil regressed from an upper-middle income country to a lower-middle-income country in 1999 but has regained upper-middle income status in 2005. South Africa, on the other hand, only made the transition from a lower- to an upper-middle income country in 2004.

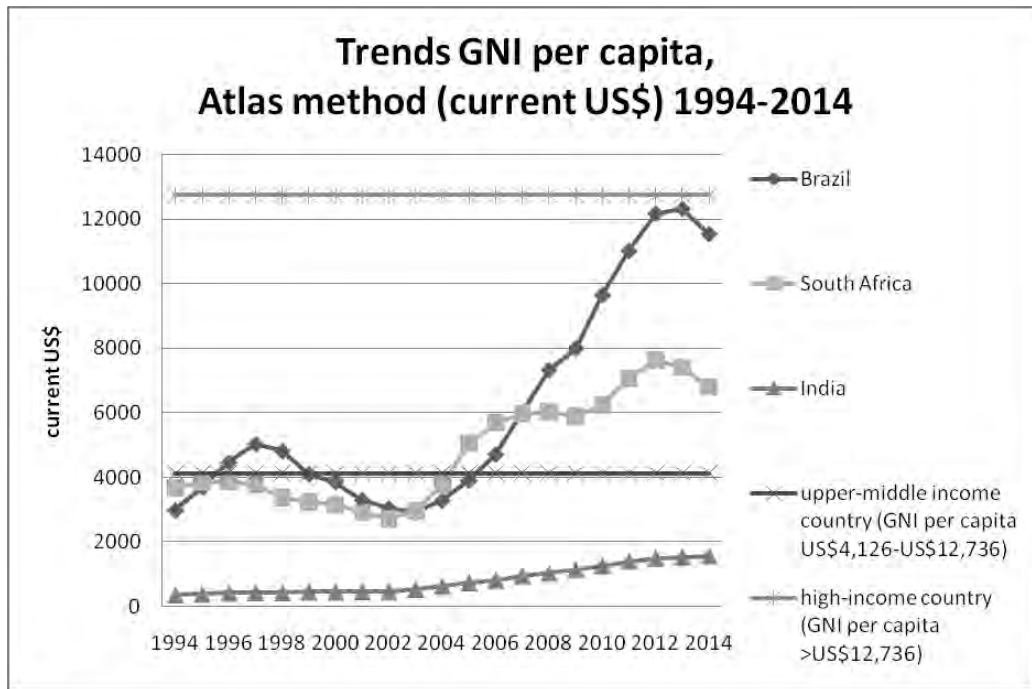
Brazil has made better progress than South Africa since 2005 in increasing GNI per capita, reaching US\$11,385 in 2014, while South Africa's GNI per capita stood at US\$6,478. In contrast to India and South Africa, in 2012 and 2013 Brazil was close to becoming a high-

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<sup>22</sup>While India belongs to the subcategory lower-middle income country, which comprises countries with a GNI per capita between US\$1,046 and US\$4,125, Brazil and South Africa belong to the group of upper-middle income countries with a GNI per capita between \$4,126 and \$12,736 (The World Bank).

income country (>US\$12,736) as Figure 1 shows. The consequence of this shift would be that Brazil would no longer be eligible to receive ODA<sup>23</sup>.

**Figure 1: Trends GNI per capita, Atlas method (current US\$), 1994-2014**



Data Source: World Development Indicators  
 Created: 11.11.2015  
 Author's own illustration

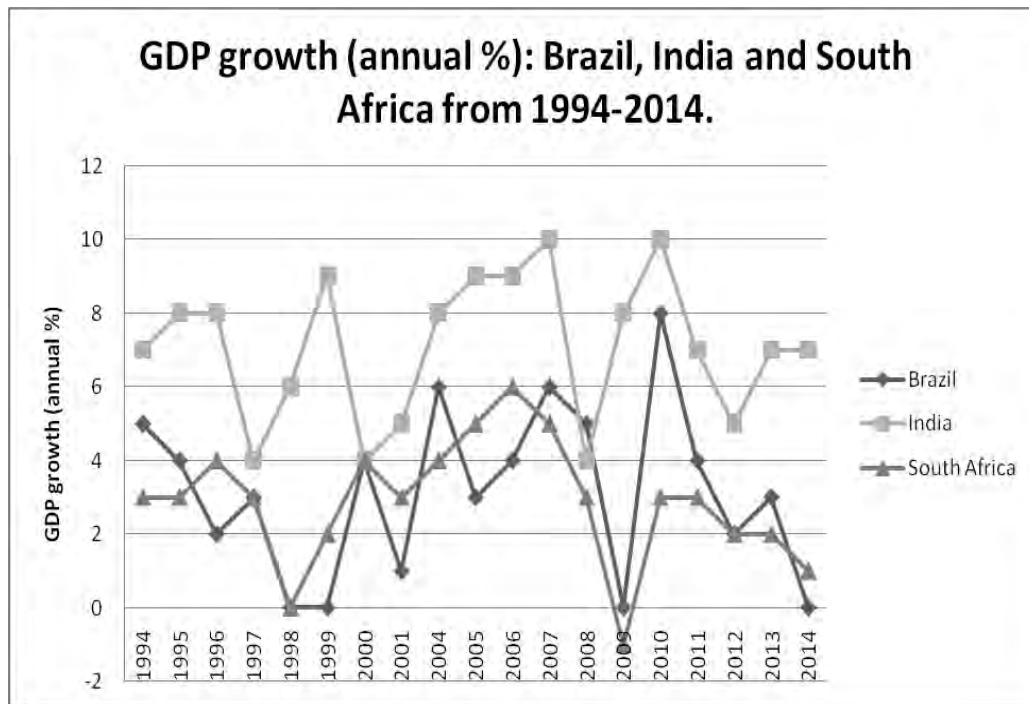
Economic reforms in the early 1990s precipitated a move towards a capitalist and market-oriented approach. Resultantly, India, Brazil and South Africa have experienced high GDP growth rates. India's economic performance during the past two decades has been especially impressive as Figure 2 demonstrates.

However, economic growth has been unevenly spread, which has resulted in growing inequality. With a Gini-Coefficient<sup>24</sup> of 54.7 for Brazil and 63.1 for South Africa in 2013, the two countries are amongst the most unequal societies in the world. India's Gini Coefficient of 33.9 indicates a more equal distribution of wealth.

<sup>23</sup>Every three years the DAC revises a list of countries that are eligible to receive ODA. Countries that have exceeded the high-income threshold (>US\$12,736) for three consecutive years are removed from the list (<http://www.oecd.org/dac/stats/daclist.htm>, (accessed 1.10.2015)).

<sup>24</sup> The Income Gini Coefficient measures the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.

**Figure 2: GDP growth (annual %): India, Brazil and South Africa 1994-2014**

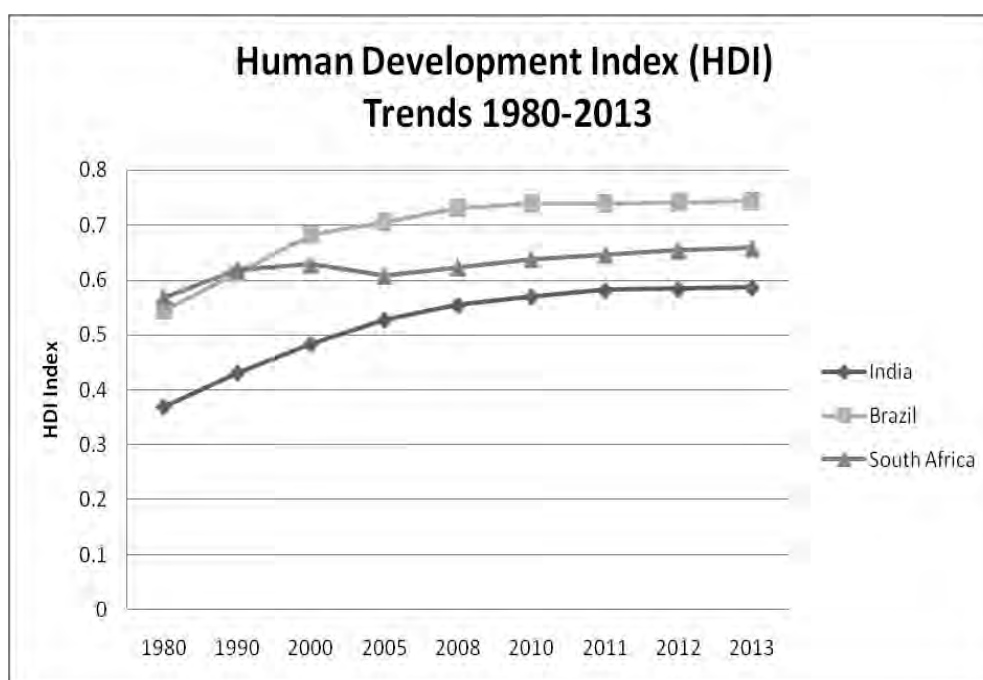


Data Source: World Development Indicators  
 Created: 10.11.2015  
 Author's own illustration

Economic growth has provided the governments of India, Brazil and South Africa with the financial resources to tackle many of their development challenges successfully. Since 1994 the three countries have made good progress in terms of human development, as measured by the Human Development Index (HDI).<sup>25</sup> However, Figure 3 reveals that South Africa experienced a serious setback at the end of the 1990s, which can be attributed to the spread of HIV/AIDS and the inadequate response of the South African government at the time to curb the pandemic.

<sup>25</sup> The HDI combines indicators of the basic dimensions of human development (longevity, knowledge and a decent standard of living) to measure a country's overall achievements, categorized as high, medium or low human development (UNEP).

**Figure 3: Human Development Index (HDI) Trends 1980-2013**



Data Source: UNEP  
Created: 10.11.2015  
Author's own illustration

### **3.3 The Dual Status as Recipients and Providers of Aid**

India, Brazil and South Africa have a long history as donors. India's donor history began in the 1950s, while Brazil's and South Africa's began in the late 1960s. It is therefore incorrect to call them 'new' or 'emerging' donors as Manning (2006:2), Woods (2008: 1205) and others point out. However, their increasing visibility and influence as donors is strongly linked to their respective economic growth trajectories and geopolitical aspirations.

Without the necessary financial resources, it would not be possible for these developing countries to provide development assistance beyond their borders. On the other hand, their domestic challenges ensure that traditional donors still consider them eligible to receive aid. As recipients and providers of development assistance, emerging donors form a unique group of hybrids that combine some of the characteristic features of both developed and developing countries.

While some researchers argue that this unique position provides them with the ability to act as a bridge between traditional donor countries in the North and emerging donor countries in the South (Burges, 2013; Charturvedi et al., 2014), others (Manning, 2006; Woods, 2008; Rowlands, 2010) caution that emerging donors might undermine hard-fought DAC standards.<sup>26</sup>

<sup>26</sup>In this context it is noteworthy that some NDDs signed the 2005 Paris Declaration on Aid Effectiveness in their role as beneficiaries but not as providers of aid, conveniently exempting themselves from DAC

### 3.3.1 India as a recipient and provider of development assistance

After independence from British rule in 1947, India started to provide economic as well as military aid to neighbouring countries, particularly Bhutan, Nepal and Afghanistan. Besides the economic and geostrategic reasons that influence India's choice of beneficiary countries, it also has a long history as a champion of formerly colonized nations and independence movements.

The Bandung Conference in 1955, which India co-hosted, was a major initiative to promote Afro-Asian trade, and cultural and political co-operation. The conference helped to establish development co-operation on a bilateral level between India and other developing countries in the South (Charturvedi, 2014:7). At the same time, India continued to receive significant amounts of ODA from traditional donors in the West. In fact, around the mid-1980s, India was the world's largest recipient of multilateral aid and among the top recipients of bilateral aid (Agrawal, 2010:43).

Due to increasing competition with China, India expanded its reach to countries in Africa from the 1960's onward. It especially favoured those African countries with a large Indian diaspora and those rich in natural resources, such as South Africa, Kenya, Uganda or Tanzania (Large, 2010). India's impressive economic growth has steadily increased the country's demand for energy and natural resources. Resource rich countries in Africa are therefore important partners and serve additionally as new export markets for affordable Indian goods and services (Agrawal, 2007; Kragelund, 2008; Fuchs & Vadlamannati, 2012).

India's development co-operation is best known for its Technical Assistance programmes. In 1964 India started the Special Commonwealth African Assistance Programme (SCAAP) and the Indian Technical and Economic Co-operation (ITEC)<sup>27</sup>. According to the Ministry of External Affairs (MEA), India currently transfers US\$10.3 million per year via this programme and has transferred a total of US\$1 billion to other developing countries during the past fifty years (Kragelund, 2010:10).

The Indian approach differs significantly from other emerging donors. Indian ODA is spent on training programmes (60 percent), soft loans to foreign governments (30 percent) as well as on project-related costs abroad (10 percent), such as feasibility studies or technical expertise (Agrawal, 2010:43-45). Generally, India gives very little aid as outright cash grants (ibid).

As a consequence of its impressive economic growth over the past twenty years, India has progressed from one of the world's largest aid recipients to one of the largest aid providers (Singh & Mukhamba, 2015:3). It is noteworthy that India delivers almost all of its ODA on a

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requirements, such as the reporting of outgoing aid flows, the monitoring and evaluation of projects or the untying of aid. This suggests that NDDs tend to pick and choose the norms and principles, either from the North or from the South, that best suit their own interests.

<sup>27</sup> The ITEC, which is still running, comprises four elements: project and project-related work, deputations of experts, study tours and the provision of training programmes in various areas, ranging from food processing, textile and women's entrepreneurship to rural credit programmes (Mawdsley, 2012:72).

bilateral basis. Some researchers argue that India is not willing to provide aid on a multilateral basis out of fear of weakening its foreign policy influence.

In 2003 the Indian Development Initiative was launched with the aim of rebranding India as a donor rather than a recipient of aid in order to boost its global political position (Kragelund, 2010:4). In the same year the Indian government announced that it would suspend bilateral development aid from twenty-two donor countries and would only allow its six biggest donors, namely the US, the UK, Japan, Germany, Russia and EU Institutions to continue to give ODA to the Indian state (McCormick, 2008:76). Additionally, India paid off US\$1,6 billion in outstanding debt to fourteen bilateral donors (Sinha, 2010 as quoted in Mawdsley, 2012:74). A further important step towards the institutionalisation of aid took place in 2007 when India launched the India International Development Co-operation Agency, a one-stop shop for coordinating all projects, Lines of Credits (LoC), technical co-operation, deputation of experts and the training of foreign nationals in India (Charturvedi, 2015:142).

Due to increased activities in terms of development assistance, in July 2011 the Indian government announced its intention to establish the Indian Agency for Partnership Development, a dedicated aid agency that had been under discussion since 2003 (Mawdsley, 2012:97). In January 2012, the Indian government launched the Development Partnership Administration (DPA) within the Ministry of External Affairs (MEA), which could be seen as a first step towards the establishment of a fully-fledged development co-operation agency (Charturvedi, 2015:143). Equipped with an estimated budget of US\$15 billion to be disbursed over a period of five years, the DPA is tasked to "...effectively handle India's aid projects through the stages of concept, launch, execution and completion" (MEA website).

While the creation of the DPA contributes to better management of Indian development assistance, it has not yet helped to make outgoing ODA more transparent and measurable. Data on outgoing ODA is still hard to come by and does not take the DAC definition of what constitutes ODA into consideration. Due to a lack of monitoring and evaluation mechanisms, the effectiveness of India's development assistance remains unclear. It is therefore difficult to form a comprehensive picture of the volume, nature and quality of India's activities and compare them with the activities of other emerging or traditional donors.

Indian development assistance is based on six conceptual pillars: (1) sustainability and inclusivity; (2) India's own developmental experience; (3) a lack of conditionality, (4) driven by demand; (5) mutual gains; and (6) contributing to India's soft power (Charturvedi et al., 2014:4). Without adequate monitoring and evaluation processes in place it is hard to assess whether or not these requirements have been met.

### 3.3.2 Brazil as a recipient and provider of development assistance

Brazil's institutionalisation of its development assistance started in the late 1950s with the establishment of the National Commission for Technical Assistance.<sup>28</sup> The aim of the Commission was to ensure the efficient use of incoming aid. Since the late 1960s Brazil's development assistance has focused on technical co-operation in developing countries rather than on concessional loans. In this sense, Brazil's approach is similar India's. The focus on non-monetary assistance is important because it helps the government to silence critics who might otherwise argue that Brazil should use its financial resources for its own poor population first before it reaches out to the poor in other countries.

While Brazil still remains a net recipient of ODA in financial terms, it has increasingly profiled itself as a regional power and provider of aid to other developing countries (John de Souza, 2010). Since the term of president Luiz Inácio Lula da Silva, which started in 2003, the volume, scope and regional reach of Brazilian development co-operation has grown significantly. Zimmermann and Smith (2011:722) report that it is estimated that in the years between 2005 and 2009 Brazil's aid has doubled from US\$158 million to US\$362 million. Over the five-year period, nearly 75 percent of co-operation consisted of contributions to multilateral organizations, most of which went to Mercosur (ibid). In 2008 Brazil's development agency Agência Brasileira de Cooperação (ABC) provided financial assistance to 236 projects in 46 countries (ibid).<sup>29</sup> Brazil's main donor countries include Japan, Germany, France, and the United States.

Despite its domestic challenges, Brazil has never been dependent on foreign aid. According to Schläger (2007:4), incoming ODA in 2005 accounted for only 0.023 percent of Brazil's GNI, while ODA to India constituted 0.109 percent. Schläger further notes that the technical co-operation share of the roughly US\$180 million ODA Brazil receives has been stable since the mid-1990s. More than 40 percent of the bilateral development assistance the country receives is concentrated on "programme assistance." Multi-sectoral development approaches account for roughly 15 percent of this ODA and 12 percent goes to the education sector (ibid:5).

Latin American countries as well as Lusophone African countries have been the main beneficiaries of Brazilian development assistance due to their cultural and linguistic commonalities. The top five destinations of Brazilian development assistance include Mozambique, East Timor, Guinea-Bissau, Haiti and Cape Verde (Cabral & Weinstock, 2010a: 5).

Brazil became a democratic country in 1985. Twenty years of military rule, during which the government focussed on expensive infrastructure projects to fast-track Brazil's industrialisation as well as the international debt crisis in the 1980s, left the country heavily indebted.

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28 Comissão Nacional de Assistência Técnica (CNAT)

29The Institute for Applied Economic Research (IPEA: Instituto de Pesquisa Econômica Aplicada), a government think tank, reports an even greater increase. According to IPEA, the volume of resources earmarked for Brazilian international development cooperation rose more than four times from US\$158.1 million in 2005 to US\$923.4 million in 2010 (cited by Melo e Souza, 2015: 86). Also the number of partner beneficiary countries has rose from 21 in 2003 to 95 in 2013 (ibid).

Subsequently, Brazil and other NDDs decreased their aid budgets and activities drastically. Hence, South-South co-operation during the 1980s had a rather low profile and only took off in the 1990s when economic growth enabled emerging economies to address development challenges beyond their national borders.

In 1987 Brazil established a dedicated aid agency, the Agência Brasileira de Cooperação (ABC), which is housed in the Ministry of Foreign Affairs (MFA). The mandate of the agency is to oversee and coordinate technical co-operation with other countries and multilateral organisations. ABC acts as a coordinating agency both in terms of Brazil's incoming and outgoing aid. However, in practice numerous ministries and government departments are involved in Brazilian development assistance (Rowlands, 2008:10). As part of the MFA, ABC's activities are closely aligned to Brazil's foreign policy objectives and geostrategic interests. It is therefore vulnerable to the ministry's foreign policy decisions and suffers from high staff turnover, which is characteristic of the diplomatic service (Cabral & Weinstock, 2010b:7). ABC also lacks financial and human resource autonomy (ibid:2), which compromises its ability to effectively coordinate the country's bilateral and multilateral development assistance programmes.

ABC characterises Brazil's approach as demand-driven and non-profit. The biggest share of development assistance comes in the form of Technical Assistance, which is seen as helping to facilitate structural change and overcome obstacles to growth (Vaz & Inoue, 2007:9). Brazil demonstrates much more openness towards collaborating with traditional donors and multilateral institutions than India and makes use of trilateral and multilateral co-operation arrangements (Rowlands, 2008:16). Although reluctant to accept the principles of the Paris Declaration, Brazil shares key values with European donor countries such as the promotion of democracy and human rights in partner countries (John de Souza, 2010:1).

Brazilian development assistance can be understood as an active instrument to pursue political objectives as well as to promote the country's economic interests. However, as is the case with India and South Africa, political and economic considerations do not necessarily exclude genuine sentiments of solidarity with other developing countries.

Like other NDDs Brazil does not report its outgoing aid flows to the OECD/DAC. Estimates suggest that in 2010 ABC was allocated an amount of US\$30 million for South-South co-operation (Cabral & Weinstock, 2010b). While this figure is still relatively small in comparison to traditional donor countries, it is already a significant increase from Brazil's aid allocation between 2000 and 2004, which according to Schläger (2007:5) was about US\$12 million. Studies by Britain's Overseas Development Institute and Canada's International Development Research Centre suggest that other Brazilian institutions involved in technical assistance programmes spend 15 times more than ABC's budget. This spending could be channelled through various organizations and modalities.

The significant increase in Brazilian development assistance activities in recent years has led to discussions about reform of the current institutional arrangements. In May 2013 President Dilma Rousseff announced the plan to replace ABC with a new, enlarged agency (Mello e

Souza, 2015:82). The new agency, which might be named The Brazilian Agency for Co-operation and Development<sup>30</sup> would operate under the Ministry of Development, Industry and Commerce (ibid, p.86). This institutional rearrangement of development co-operation may be interpreted as a step towards a closer alignment between development co-operation and the promotion of economic self-interest.

In the past Brazil was reluctant to publish aid data, but the government-funded Institute of Applied Economic Research has recently undertaken the task of putting together a comprehensive map of Brazil's outgoing aid flows (IPEA, 2013 as cited in Fues, 2015:31). This can clearly be understood as a sign of Brazil's readiness to improve its development co-operation in terms of transparency and accountability.

### **3.3.3 South Africa as a recipient and provider of development assistance**

Under Apartheid South Africa was isolated from the international donor community due to sanctions and embargos.<sup>31</sup> Under the Economic Co-operation Promotion Loan Act of 1968, the Apartheid regime provided financial assistance to other African countries such as Zaire, Malawi, Cote d'Ivoire, Comoros, Gabon, Equatorial Guinea, Swaziland and Lesotho as well as to its homelands in order to win their political support. The Apartheid regime established a strong military force to respond to the increasing domestic opposition as well as to fight against liberation movements in neighbouring countries. With South Africa's democratic transition in the early 1990's the role and tasks of the military changed. After 1994 the South African Defence Force (SADF) was primarily used for disaster relief and peacekeeping missions in conflict hotspots across the continent (Besharati, 2013b: 18).

After the first democratic elections in 1994, the international donor community channelled significant amounts of ODA through the new government. According to Bond (2001a: 25), South Africa was pledged approximately US\$5 billion in foreign development related aid from 1994-1999. Foreign contributions to non-governmental institutions dropped dramatically, which resulted in an erosion of the civil society landscape during the first decade of democracy. DAC donors were willing to support President Mandela in his quest to build a nation, address the injustices of the past and improve the living standards of ordinary South Africans. In the first years of democracy traditional donors focused on capacity building, training of government officials, study programmes and the exchange of knowledge and expertise.

The amount of incoming aid from traditional donors, such as the US, EU Institutions, Germany, the UK, France, the Netherland, Belgium and some Nordic countries, is estimated to be on average over US\$1 billion a year (Besharati, 2013b:15). Incoming ODA peaked in 2006 and

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<sup>30</sup>Agência Brasileira de Cooperação e Desenvolvimento (ABCD)

<sup>31</sup> However, unknown amounts of foreign aid did flow to the country via non-governmental organisations, the private sector, the World Bank and the IMF. For a more detailed account of the World Bank's and IMF's support of South Africa during Apartheid visit Bond, Patrick (2001b)" Reflections from South Africa: Breaking the chains of global apartheid", *International Socialist Review*, No. 19, <http://isreview.org/issues/19/PatrickBond.shtml> (accessed 20.01.2016).

has subsequently declined since the financial crisis in 2008. The announcement of the UK's decision to terminate direct aid to South Africa by 2015 is symptomatic of a general debate amongst traditional donors concerning whether or not aid to middle-income countries, such as South Africa, India and Brazil is still justifiable. The relation between South Africa and its traditional donors has not been without its challenges, in particular at times when South Africa supported undemocratic regimes with a poor human rights record such as Zimbabwe or Libya. Old friendships and loyalties formed during the struggle years between the ANC and the leadership of these countries still influence decisions on aid allocations and stand in contradiction to the principles South Africa formally subscribed to. However, it is noted that these old loyalties seem to be becoming less important and are making place for a kind of 'Realpolitik', which sees South Africa making decisions based on what is in the best interest of the country and its regional as well as global objectives.

South Africa's development assistance to the rest of Africa, which follows the guidelines of SSC, is mainly executed through peacekeeping missions, debt forgiveness, non-concessional loans for infrastructure development and customs and trade arrangements, which do not fall under the strict DAC definition of ODA (ibid).

The African Renaissance Fund (ARF) was set up in 2000 as an instrument to promote the vision of an 'African Renaissance.' Its aim was to establish development partnerships with other countries in Africa, demonstrate solidarity and promote economic development. ARF funded activities were very broad, ranging from social economic development, good governance and democracy and conflict resolution to humanitarian aid and disaster relief as well as technical co-operation. Housed in the Department of International Relations and Co-operation (DIRCO), the ARF was closely aligned to South Africa's foreign policy objectives and the NEPAD agenda.

It is estimated that only 3-4 percent of South Africa's overall development co-operation funds were channelled through the ARF (Besharati, 2013b:19). Since 2000 the bulk of the assistance has been conducted by various government departments (Braude et al., 2008:5). It is noteworthy that 75 percent of South Africa's outgoing aid is channelled through multilateral institutions (Chahoud, 2008 as cited in Mawdsley, 2012:88) such as the AU, the World Bank or the IBSA fund. In a sense this arrangement prevents South Africa from being criticised for the selection of beneficiary countries. It also helps the country to have more influence in these multilateral institutions and to be seen as a regional and global player that takes the interests of other countries into account.

In 2001 President Thabo Mbeki was one of the founding fathers of the New Partnership for Africa's Development (NEPAD), a programme that aimed to promote the continent's social, economic and political development. In 2011 the NEPAD Secretariat together with the AU Commission established the African Platform for Development Effectiveness (APDev), where mutual accountability frameworks for aid effectiveness were discussed and an African Consensus on Development Effectiveness was reached. In terms of norms and standards it is noteworthy that the African Consensus emphasized the need to take the global resolutions of the 2005 Paris Declaration and the 2008 Accra Agenda for Action further in order to establish

uniform standards and a common basis for engagement on the quality and management of aid (APDev, 2011:3). While South Africa provided US\$93 million to Zimbabwe between 2005 and 2011 from the ARF and the International Co-operation Fund, disbursements from these funds decreased by 85 percent between 2009 and 2011 (Business Day, 26.09.2013). This sharp decrease in financial assistance suggests that the support for South Africa's troubled neighbour was very much linked to the support former president Thabo Mbeki gave to Zimbabwe. While the government of president Jacob Zuma, who succeeded Mbeki in 2009, has not stopped its financial support for Zimbabwe and agreed to grant a R900 million loan to the country as budgetary support in 2013, it has however been more vocal in its critique of President Mugabe's autocratic leadership, which has negatively affected the country both politically and economically.

Another example that demonstrates that South Africa does consider the democratic credentials and human rights records of potential beneficiary countries is Swaziland. In 2011 the South African government agreed to grant a R2,4 billion loan to cash-strapped Swaziland under the leadership of its controversial head of state, King Mswati III, who is said to have accumulated a personal fortune of an estimated US\$200 million (Reuters, 8.01.2013). The loan offer included some conditions, which were guided by the Bilateral Commission for Co-operation agreement, which promotes democracy and the respect of universal human rights (Motsamai, 2011). However, in 2013 South Africa's bailout of Swaziland was rescinded when it became clear that the kingdom failed to fulfil the requirements of the loan agreement, such as fiscal and political reform (iol news, 28.08.2013).

Since the ANC Policy Conference in 2007, the establishment of a centralised aid agency has been under discussion in order to better coordinate and rollout South Africa's projects (Besharati, 2015: 192). The discussion to establish the South African Partnership Development Agency (SADPA) was motivated by several shortcomings of the ARF. The main criticism related to the fact that the ARF was reactive in nature and did not actively promote the political and commercial interests and foreign policy objectives of the country. In recent years government officials have lamented the fact that South Africa's substantial support to other countries has not translated into subsequent economic opportunities or an increase in its 'soft power' leverage (Sidiropoulos, 2010:65).

SADPA, which is at the time of this research paper not yet fully operational, is supposed to take over the ARF, which includes an annual budget allocation of \$65 million from the South African government, together with a current surplus of \$130 million in the ARF account (Besharati, 2015:195). O'Riordan (2013a:2) warns that the amount might leave SADPA severely under resourced and incapable of fulfilling its mandate. However, according to Tapula, de Kock and Sturman (2011) some of South Africa's development partners have pledged to match South African funding on a Rand for Rand basis once SADPA is up and running. This could provide SADPA with an initial start up capital of ZAR3 billion, if promises of matching funds are honoured.

The establishment of SADPA aims to give DIRCO an institutional mechanism to be able to focus more on the political aspect of development co-operation while the agency would focus

on the implementation side (NCOP Committee Meeting, 2011:1). The agency's mandate is to promote South-South co-operation between South Africa and other African countries, particularly the SADC region, and to work towards the MDG's and advance the African agenda. SADPA will be an entity of DIRCO and is supposed to enjoy a certain degree of autonomy in the management and execution of programmes. Projects that SADPA will pursue include a focus on humanitarianism, natural disasters, supporting peace missions, preventative diplomacy, peace-building, peace-keeping, deepening democracy through elections, and also addressing multilateral commitments from international financial institutions. The South African government is quick to stress that the establishment of SADPA does not mean that South Africa has graduated from a developing country to a developed country. South Africa will still receive aid and South Africa's status will not be changed to donor country (NCOP Committee Meeting, 2011:2).

Inspired by the commercial benefits that the Brazilian and Indian development assistance models have brought to their home economies, SADPA clearly has the objective of paving the way for South African businesses. By supporting major infrastructure projects, such as road construction, rail infrastructure and ports, SADPA aims to contribute to the development of the beneficiary country and to improve the movement of South African goods and services across the continent.

### **3.4 Summary**

India, Brazil and South Africa have provided development assistance to other countries for many decades. They support other developing countries not purely out of altruistic motives or a sense of solidarity but also out of the realisation that their destiny as countries is closely linked to the destiny of their neighbours and the region.

Development assistance is clearly a foreign policy instrument used to promote political and commercial interests. The impressive growth of the IBSA countries' economies during the past two decades has enabled them to increase the scope and volume of their development assistance. The establishment of dedicated aid agencies assists them in better coordinating their growing activities and developing a coherent strategy that is aligned to their foreign and economic objectives. The establishment of such aid agencies also aims to improve the country's profile as a regional and global leader.

The current institutional arrangements, norms and standards as well as motives and forms of development assistance of India, Brazil and South Africa are products of their respective socio-political and economic histories. It seems to be the wrong approach to compare their practices with the practices of traditional donors, taking DAC norms and standards as the ultimate guideline. As Kim & Lightfoot (2011:713) point out it would be risky and judgemental to automatically label practices of NDDs that fall outside the internationally agreed DAC principles and norms as 'illiberal' and 'incomplete' and therefore ineffective and underdeveloped.

The focus should rather be on how the Southern model of giving aid can complement the DAC model and be used for the benefit of all parties involved. However, in order to achieve such a win-win situation, more transparency would be required.

All three countries seem interested in improving on their transparency and the monitoring and evaluation components of their aid programmes. Brazil and South Africa in particular have demonstrated their openness to cooperate with traditional donors in trilateral arrangements. This indirectly signals their willingness to align their development assistance approach to international requirements as outlined by the DAC. However, it would be wrong to conclude that Brazil and South Africa are on their way to becoming fully-fledged DAC members. Due to their own experiences and historic backgrounds, their loyalties belong to developing countries in the South. Hence, while they subscribe to the principles of South-South co-operation they do not want to replace the DAC approach but instead see it as complimentary.

The next chapter will focus on aid flows from traditional donors to India, Brazil and South Africa during the time period of 1994 to 2013. The hypotheses of this research study will be tested by analysing aid flow data.

## 4 TESTING OF HYPOTHESES

The previous chapters focused on the history of development co-operation in general and the emergence of new donors in the South, namely India, Brazil and South Africa. Distinct features of North-South co-operation (NSC) as practiced by DAC donors as well as South-South co-operation (SSC), which is the preferred model by Non-DAC Donors (NDDs), have been discussed.

We found that traditional and emerging donors do not form two homogenous groups. Great variations in terms of the scope and volume of development co-operation exist within the groups. Emerging donors also differ in terms of their openness to cooperate with traditional donors and adopt some of the DAC norms and standards. While emerging and traditional donors follow a different development co-operation approach that is a product of their respective historical background, they nevertheless possess valuable development experience and expertise.

This chapter will concentrate on the core questions of this research paper: How do traditional donors respond when beneficiary countries set up their own aid agencies? Do traditional donors freeze, reduce or end aid? The decision by the British government to terminate direct aid to India and South Africa by 2015, both of which are countries that have recently embarked on setting up their own aid agencies, suggests that there might be a causal link between the "institutionalisation" of aid in emerging donor countries and the perception of traditional donors that a beneficiary country that is financially in a position to assist other countries might also be in a position to look after its own development needs.

Because of their commonalities, such as their democratic regime type, their membership in formations such as IBSA and the BRICS as well as their economic and geostrategic influence, India, South Africa and Brazil have been selected as case studies of emerging donor countries with dedicated aid agencies. While India and South Africa only recently embarked on establishing dedicated aid agencies in 2012<sup>32</sup> and 2011<sup>33</sup> respectively, Brazil set up its own aid agency Agência Brasileira de Cooperação (ABC) in 1987.

France, Germany, the UK, the US and EU Institutions are used in this research study as case studies for traditional donors since all of them have provided development assistance to India, Brazil and South Africa for many years and are among the top ten contributors of ODA to the three respective countries<sup>34</sup>

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<sup>32</sup> In July 2011 the Indian government announced its intention to establish the Indian Agency for Partnership Development (IAPD), a dedicated aid agency that had been under discussion since 2003 (Mawdsley, 2012:97). In January 2012 the Indian government launched the Development Partnership Administration (DPA) within the Ministry of Economic Affairs (MEA), which may be considered as a first step towards the establishment of a fully-fledged development cooperation agency (Chaturvedi, 2015:142-143).

<sup>33</sup> While South Africa is still in the process of establishing a dedicated aid agency, the South African government laid the foundation for such an agency in 2011 (DIRCO, 2011b:35). According to Besharati (2015:187) the discussion to establish such a dedicated aid agency started at the African National Congress (ANC) Policy Conference in 2007.

<sup>34</sup> For a detailed overview of the top ten donors of Gross ODA to India, Brazil and South Africa visit <http://www.oecd.org/dac/stats/>.

The data analysis will be structured to test the four hypotheses. Hypothesis H1 and H2 expect to see a stagnation, drop or termination of traditional donors' ODA to beneficiary countries as well as a shift of ODA to other countries after the establishment of their own aid agencies. Hypothesis H3 expects traditional donors to freeze, reduce or terminate ODA to beneficiary countries that have improved significantly in terms of their socio-economic performance. Hypothesis H4 expects to see a negative correlation between traditional donors' aid allocations and beneficiary country's non-compliance with DAC norms and standards.

The first two hypotheses H1 and H2 will be assessed by analysing aid flow data from the DAC/OECD. Data from the World Bank will be used to test hypothesis H3. The testing of hypotheses, especially hypothesis H4, will also include interviews that the author conducted with development co-operation experts and representatives of the five traditional donors.

The eight interviews were conducted in the time period of August-October 2015. The semi-structured interviews with open-ended questions were aimed at eliciting qualitative responses. Five representatives of traditional donors (France, Germany, UK, US and EU Institutions) that are based in South Africa as well as three development co-operation experts (two from South Africa and one from Germany) took part in the interviews. Seven out of eight interviews were conducted telephonically due to the fact that the interview partners were based in Gauteng, while the interviewer was based in the Western Cape. One interview with a Cape Town based development co-operation expert was conducted face-to-face. The interviews took between 45 and 60 minutes. The representatives of the five traditional donors in South Africa held the following positions: three heads of development co-operation and two development co-operation programme managers. All interview partners were assured that their responses would not be linked to their position or the traditional donor that they represent. The interview partners answered the questions in a frank and open manner.<sup>35</sup>

The data analysis in this chapter is structured as follows: Firstly, we conduct an analysis of aid flow data from the DAC/OECD in order to gauge whether there is a change in aid allocations from traditional donors to India, Brazil and South Africa after the three countries established dedicated aid agencies. For that purpose, we will compare aid flows for the time period of 1994-2013 from France, Germany, the UK, the US and EU Institutions, both before and after India and South Africa established dedicated aid agencies.<sup>36</sup>

In the case of Brazil, which established a dedicated aid agency in 1987, the focus will be on the time period of 1994 until 2013. Aid flows before 1987 will not be taken into account for the following reasons:

- Firstly, it can be argued that the dynamics of the Cold War would still have played a role in aid allocations until the end of the 1980s. Hence it would be difficult to gauge

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<sup>35</sup> Annexure I contains the questionnaire as well as all the responses.

<sup>36</sup> While South Africa is still in a process of establishing a dedicated aid agency, the South African government has however already laid the foundation for such an agency in 2011. Therefore, the year 2011 is used in this research as the year after which (according to the hypotheses) the aid volumes from traditional donors to South Africa should show a decrease or a stagnation.

the impact of the establishment of a dedicated aid agency on foreign aid allocations to Brazil.

- Secondly, it is more practical to use the same time period for all three countries, since the political and economic global environment in which they operate would then be comparable.
- Thirdly, we assume that Brazil's foreign ODA does not increase significantly after 1987 since the country already had a fully operational aid agency. If this assumption is not correct and foreign ODA increases for Brazil during 1994 to 2013, this would suggest that hypothesis H1 needs to be rejected.

Secondly, the analysis will not only examine the total amount of gross ODA (US\$)<sup>37</sup> but also the share of total gross ODA (percent) that the five traditional donors allocated during this time period to the three respective countries.

It is important to take the share of total gross ODA into account since this reveals whether a reduction in incoming aid is caused by a shift in traditional donors' aid allocations to other countries or if it is a consequence of overall budget cuts. The share of total ODA also helps us to rule out the possibility that a stagnation or increase in ODA (US\$) is related to a significant increase of the traditional donor's overall development co-operation budget. This could further mean that despite a stagnation or increase of total ODA (US\$), the share of ODA has decreased and a shift of aid allocations to other countries has taken place.

Thirdly, we will track the socio-economic performance of India, Brazil and South Africa over the same time period and compare the performance against the incoming aid flows from the five traditional donor countries. The socio-economic performance will be compared with variables such as GDP growth, GDP per capita, life expectancy and infant mortality rate.

Since the official announcement to establish a dedicated aid agency is commonly preceded by intensive discussions and deliberation amongst government officials and diplomats which often starts many years earlier, it can be assumed that traditional donors anticipate the establishment of such aid agencies and take such plans into account when deciding on aid allocations. Consequently, when looking for changes in aid allocation patterns, we also consider the point of time when the discussion around the establishment of such agencies in the respective countries began. While it could not be established from the available literature when exactly such a discussion started in India, Besharati (2015:187) refers to the 2007 ANC-Policy Conference as being when the idea of a dedicated aid agency in South Africa was first introduced.

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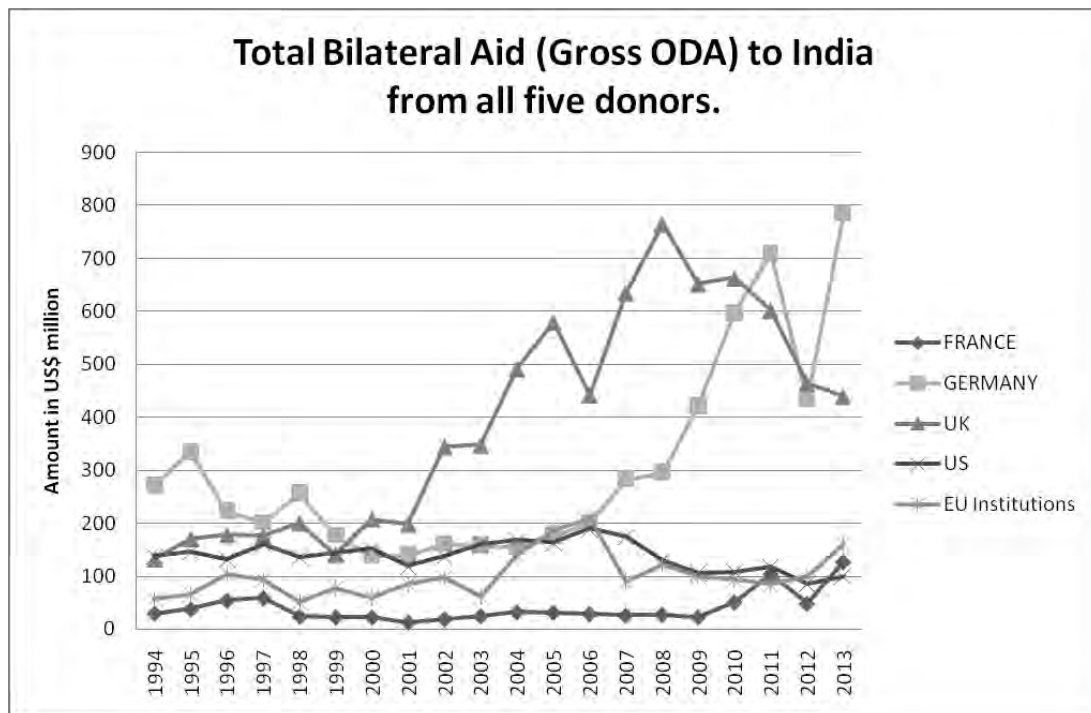
<sup>37</sup>Gross ODA is the amount that a donor actually spends in a given year. This figure becomes net once repayments of the principal on loans made in prior years (but not interest) are taken into account, as well as offsetting entries for forgiven debt and any recoveries made on grants (OECD).

## 4.1 Hypothesis 1 (H1): Change in incoming aid volumes (1994-2013)

Hypothesis H1 predicts that traditional donors will freeze, reduce or terminate ODA to India, South Africa and Brazil after those countries establish their own aid agencies. The hypothesis is based on the assumption that traditional donors perceive the establishment of such aid agencies as a sign that a beneficiary country has reached a level of economic maturity that enables it to look after its own development needs. To test the hypothesis, we will compare aid flows for the time period 1994-2013 from France, Germany, the UK, the US and EU Institutions, both before and after India and South Africa established dedicated aid agencies. In the case of Brazil, which established a dedicated aid agency in 1987, we will use the same time period for reasons already elaborated on earlier. In the case of Brazil, we expect to see no significant increase in aid allocations after 1994 since we assume that traditional donors perceive a beneficiary country with a dedicated aid agency as no longer in need of foreign development assistance.

### 4.1.1 Traditional donors' aid allocations to India

Figure 4: Total Bilateral Aid (Gross ODA) to India from all five donors



Source: OECD  
Created: 5.11.2015  
Author's own illustration

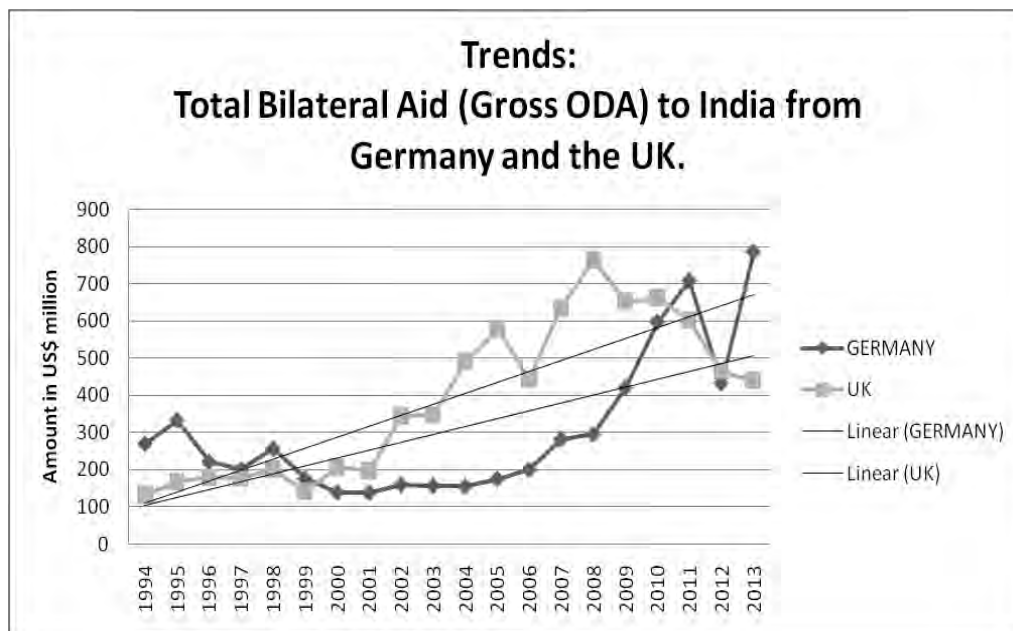
Amongst the five traditional donor countries, the UK has contributed the highest amount of ODA to India over the years. This can be explained by India's history as a former British colony and the political, economic and cultural ties that still exist between the two countries.

During the time period of 2000 to 2008 aid flows from the UK increased significantly. However, aid flows from the UK started to decline in 2009, which could have been a result of the global financial crisis.

In Figure 4 ODA flows to India from all of the five donors seems to remain more or less stable between 1994 and 2001. While the ODA amounts from France, EU Institutions and the US do not show any significant changes until 2012, the ODA amounts from Germany show a dramatic increase between 2006 and 2013. In fact, in 2011 and 2013 Germany provided more ODA to India than any other donor. Taking the global financial crisis in 2008 into account, this trend is puzzling. A sharp decline in incoming ODA from the UK and Germany occurred in 2012. However, in 2013 aid flows from Germany increased again and reached US\$786 million, which was its highest level ever, while the downward trend in ODA from the UK continued. In 2012 the ODA flows from France, the EU and the US remain in the same trajectory as before, albeit with a slight upward trend in 2013.

Since Figure 4 might not reveal an adequate picture of the individual aid flow trends from the five donor countries, the following two figures will focus on the donor countries providing the highest amounts of ODA (Germany and the UK) and the countries with smaller amounts (France, the US and EU Institutions). We use 'lines of best fit' to reveal overall trends that might not be observed from a pure visual inspection.

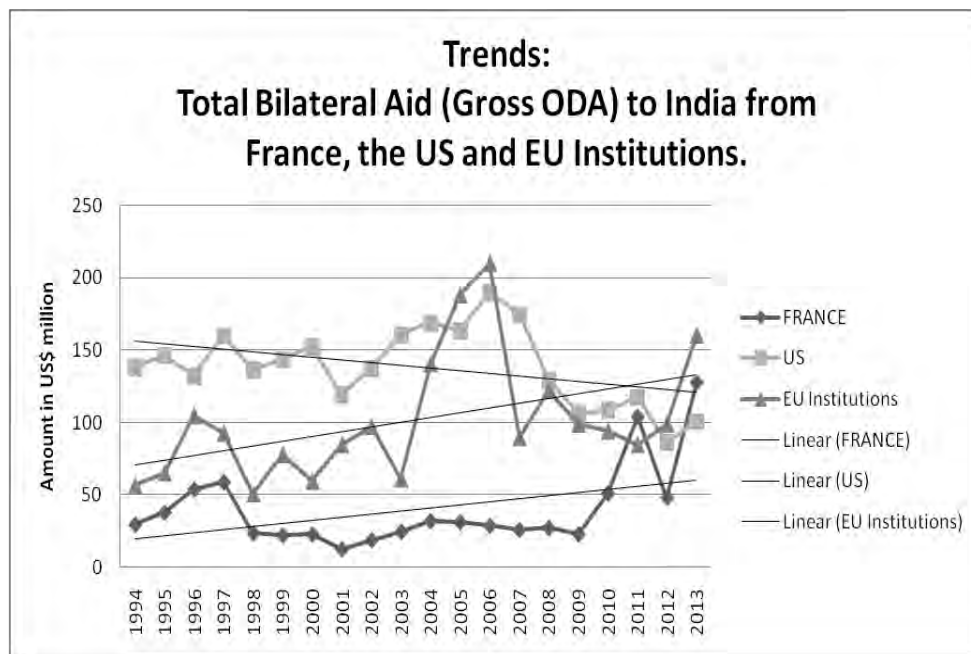
**Figure 5: Trends: Total Bilateral Aid (Gross ODA) to India from Germany and the UK**



Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

Figure 5 demonstrates clearly how aid flows from the UK and Germany have increased since 1994. Despite the fact that the UK started to decrease ODA to India in 2009, the country is still one of the most important providers of Development Assistance and has allocated US\$464 million and US\$439 million to India in 2012 and 2013 respectively. In contrast to the UK, Germany clearly follows a different development co-operation strategy. Since the year 2000 ODA flows from Germany have steadily increased and reached an unprecedented amount of US\$786 million in 2013. This seems consistent with Germany's development co-operation strategy, which identified India, Brazil and South Africa amongst a few other countries as important Global Development Partners.<sup>38</sup>

**Figure 6: Trends: Total Bilateral Aid (Gross ODA) to India from France, the US and EU Institutions**



Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

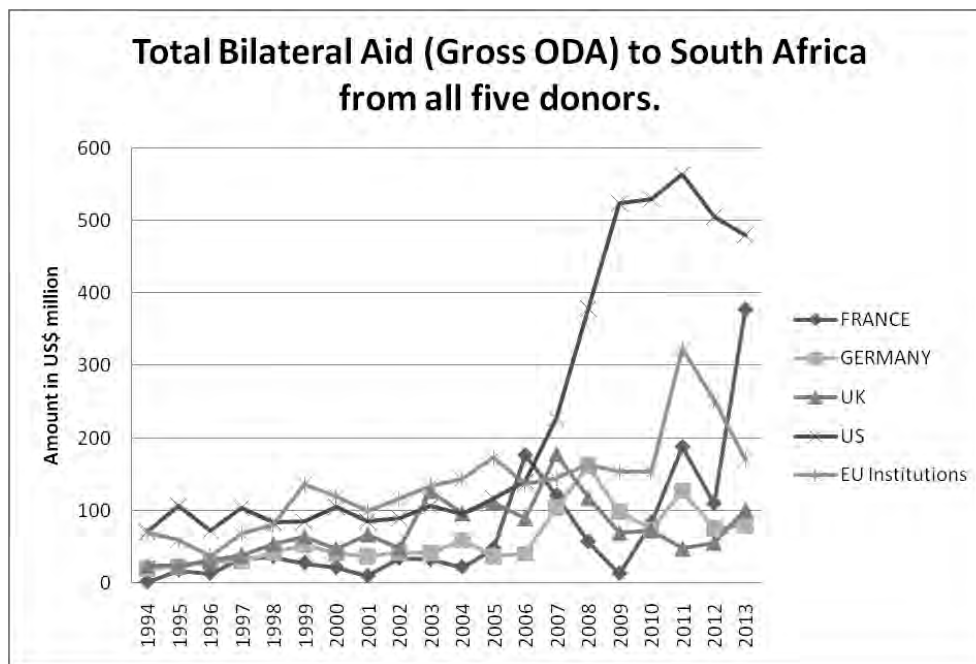
Figure 6 reveals that ODA flows from the US have steadily declined since 2007, which may be linked to the global financial crisis or a change in the country's development co-operation strategy. However, US aid allocations in 2013 seem to increase again and hence suggest that the establishment of India's aid agency in 2012 did not have a negative impact on future aid allocations. On the other hand, ODA flows from France and EU Institutions have increased over the years and show a dramatic increase between 2012 (France: US\$48 million; EU: US\$99 million) and 2013 (France: US\$127 million; EU: US\$160 million). However, it is interesting

<sup>38</sup>According to the BMZ- Strategy Paper (06/2011): "Konzept der entwicklungspolitischen Zusammenarbeit mit Globalen Entwicklungspartnern 2011-2015", Global Development Partners have a key role to play in solving some of the developmental challenges that the world is facing.

to note that aid flows from EU Institutions have also experienced a decrease between 2008 and 2011 but have recovered since then.

#### 4.1.2 Traditional donors' aid allocations to South Africa

**Figure 7: Total Bilateral Aid (Gross ODA) to South Africa from all five donors**



Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

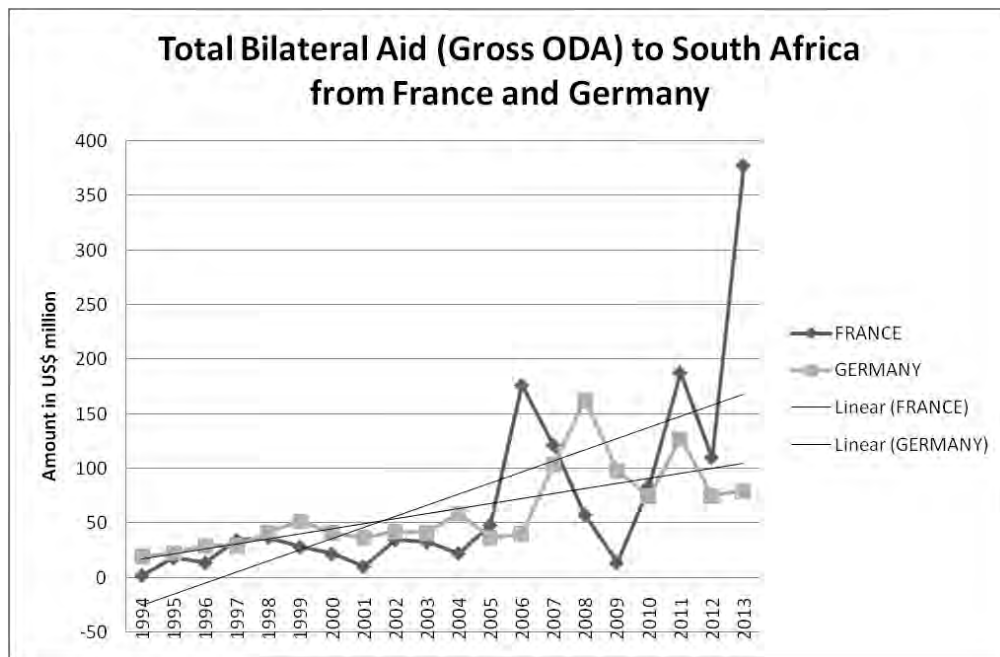
From 1994 until 2004 South Africa's aid flows from the five traditional donors slowly increased. An impressive increase of ODA from the US and EU Institutions started to show in 2006 (US: US\$141 million; EU: US\$137 million) and reached its peak in 2011 (US: US\$564 million; EU: US\$323 million). However, in 2012 aid allocations decreased sharply across the whole subset of traditional donors.

Except for France and the UK, whose aid allocations increased (sharply in the case of France and moderately in the case of the UK) aid flows after 2012 either decreased (Germany and EU) or reached a plateau (US). While the data suggests that aid allocations from traditional donors decreased in the aftermath of the 2008 global financial crisis, it is noteworthy that the aid allocations soon recovered and reached in some cases unprecedentedly high amounts, especially in the case of France, the US and EU Institutions.

We suggest that South Africa's hosting of the 2010 FIFA World Cup may have influenced some traditional donors to increase aid after the successful bidding process in 2004 in order to secure preferential treatment in terms of tenders and contracts related to this mega event. The US aid agency's emphasis on HIV/AIDS prevention and treatment may also play a role in the high

amounts of ODA that South Africa, the country with the highest infection rate in the world, still receives. Since Figure 7 might not reveal an adequate picture of the individual aid flow trends from the five donor countries, the following two figures will zoom in on the donor countries providing the highest amounts of ODA (Germany and the UK) as well as the countries with the smallest amounts (France, the US and EU Institutions).

**Figure 8: Total Bilateral Aid (Gross ODA) to South Africa from France and Germany**

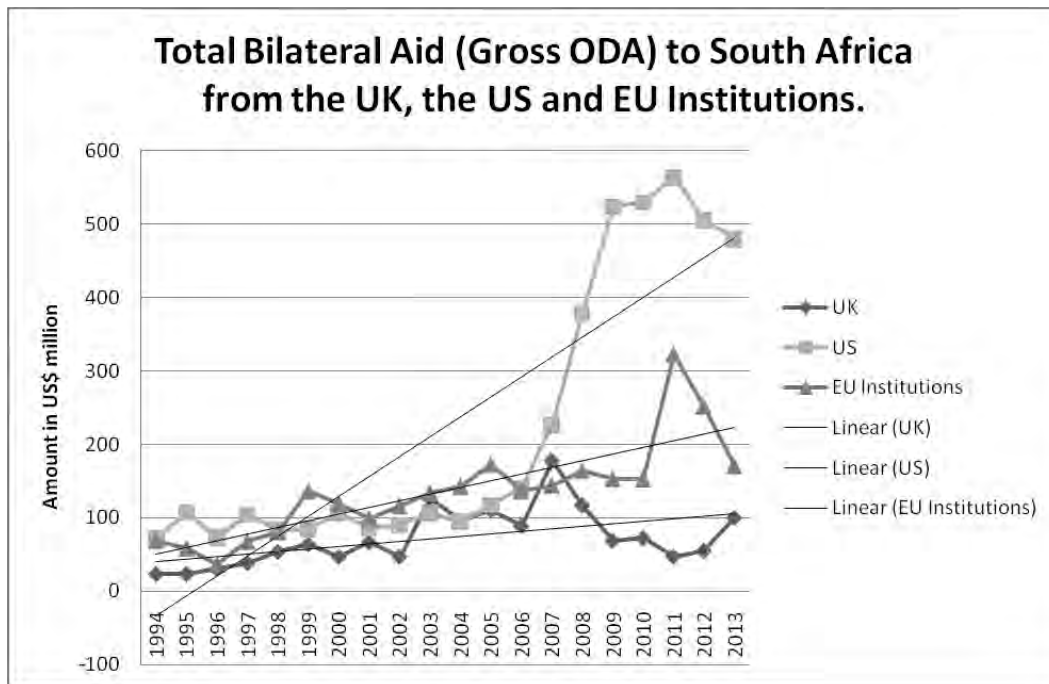


Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

Figure 8 shows that ODA from France and Germany increased significantly between 1994 and 2013. However, ODA flows from France show great variations between the years 2005 (US\$48 million) and 2013 (US\$377 million), while ODA allocations from Germany seem to have increased more gradually.

This can be explained by the fact that France in contrast to Germany provides its Development Assistance mainly in the form of loans for infrastructure projects, which means that huge volumes of ODA may be allocated in one single year. This leads to the sort of aid flow pattern that we see in this figure. In the case of France and Germany the establishment of a dedicated aid agency in South Africa seems not to have had a negative impact on aid allocations after 2007, when the plans for the establishment of SADPA were discussed at the ANC policy conference. Aid flows from both countries increased, albeit to various degrees.

**Figure 9: Total Bilateral Aid (Gross ODA) to South Africa from the UK, the US and EU Institutions**

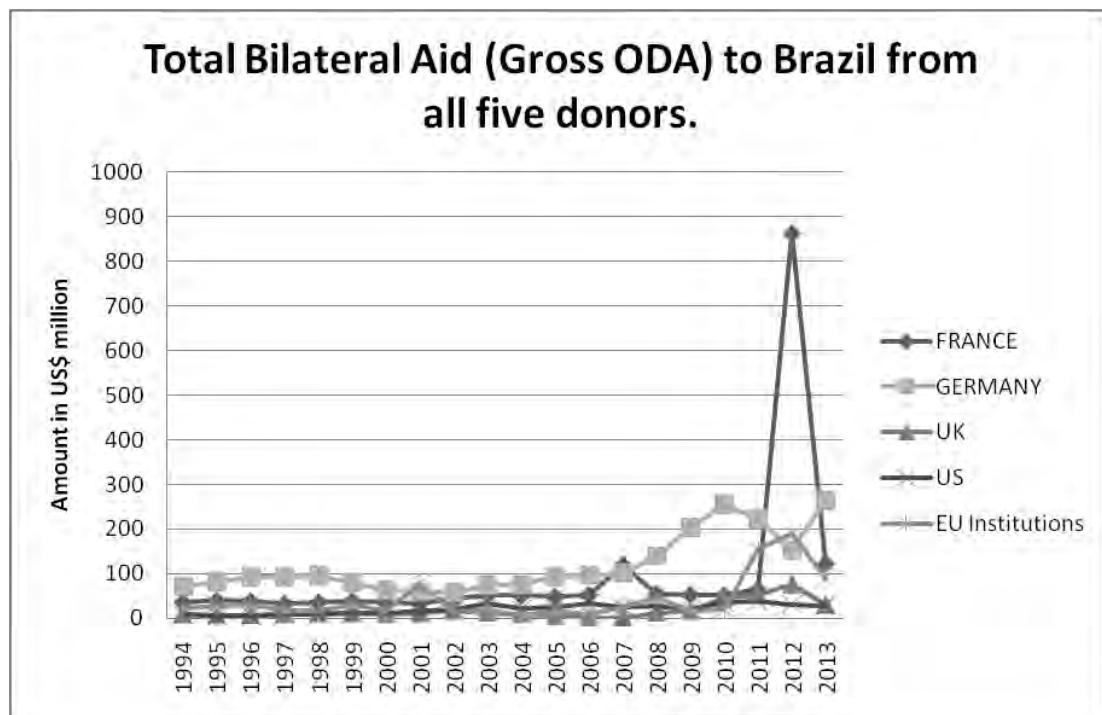


Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

Figure 9 shows that aid flows to South Africa from the UK, the US and the EU have increased in the time period of 1994 to 2013, albeit to various degrees. While ODA from the US shows the highest increase, especially after 2006, aid allocations from the UK have increased the least. In fact, aid allocations from the UK show a downward trend from the year 2007 onwards, which may be linked to the global financial crisis. While this downward trend continued until 2011 (UK: US\$48 million), ODA flows from the UK to India have since recovered and reached US\$100 million in 2013. In comparison it is noteworthy that aid allocations from the US and EU Institutions have decreased significantly between 2011 (US: US\$564 million; EU: US\$323 million) and 2013 (US: US\$479 million; EU: US\$171 million).

### 4.1.3 Traditional donors' aid allocations to Brazil

Figure 10: Total Bilateral Aid (Gross ODA) to Brazil from all five donors



Source: OECD  
Created: 5.11.2015  
Author's own illustration

The first thing that is noticeable in Figure 10 is that aid allocations to Brazil from all five donors are significantly lower than those made to India and South Africa over the same time period. In order to establish whether or not this is caused by Brazil's upper-middle income status it would be necessary to compare its incoming aid with those of upper-middle income countries. While South Africa also belongs to this category, it would not serve well as a control country due to its recent democratic transition and its developmental challenges, such as HIV/AIDS, which might be important factors for traditional donors to provide more assistance to South Africa than they would usually provide for upper-middle income countries.

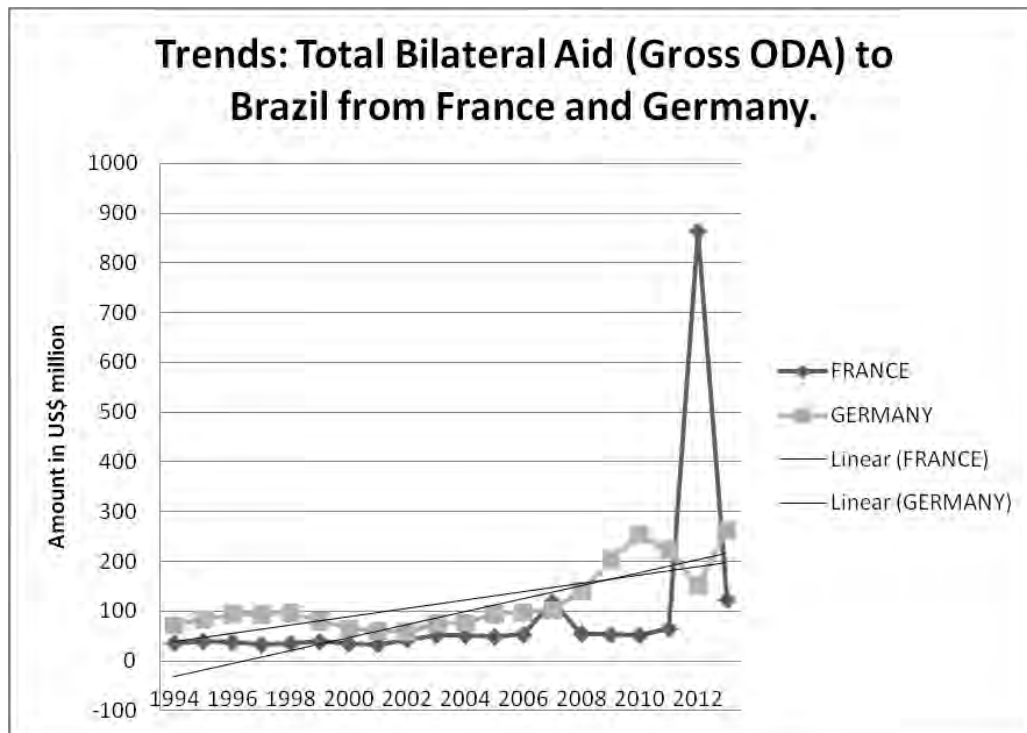
Figure 10 further reveals that aid flows from France, Germany, the UK, the US and EU Institutions to Brazil seem to remain relatively stable in the time period of 1994 to 2005. Aid flows from traditional donors start to show different trajectories from 2005 onwards.

Germany and France increased aid to Brazil significantly in 2010 (Germany: US\$254 million) and 2012 (France: US\$863 million) respectively. This increase in ODA may be related to Brazil's hosting of the 2014 FIFA World Cup and the business opportunities associated with it.

However, after 2012 almost all traditional donors except Germany decreased aid to Brazil. This may be explained by Germany's development co-operation strategy, which has identified India,

Brazil and South Africa as Global Development Partners<sup>39</sup> who enjoy a special status due to their strategic geo-political importance.

**Figure 11: Trends: Total Bilateral Aid (Gross ODA) to Brazil from France and Germany**



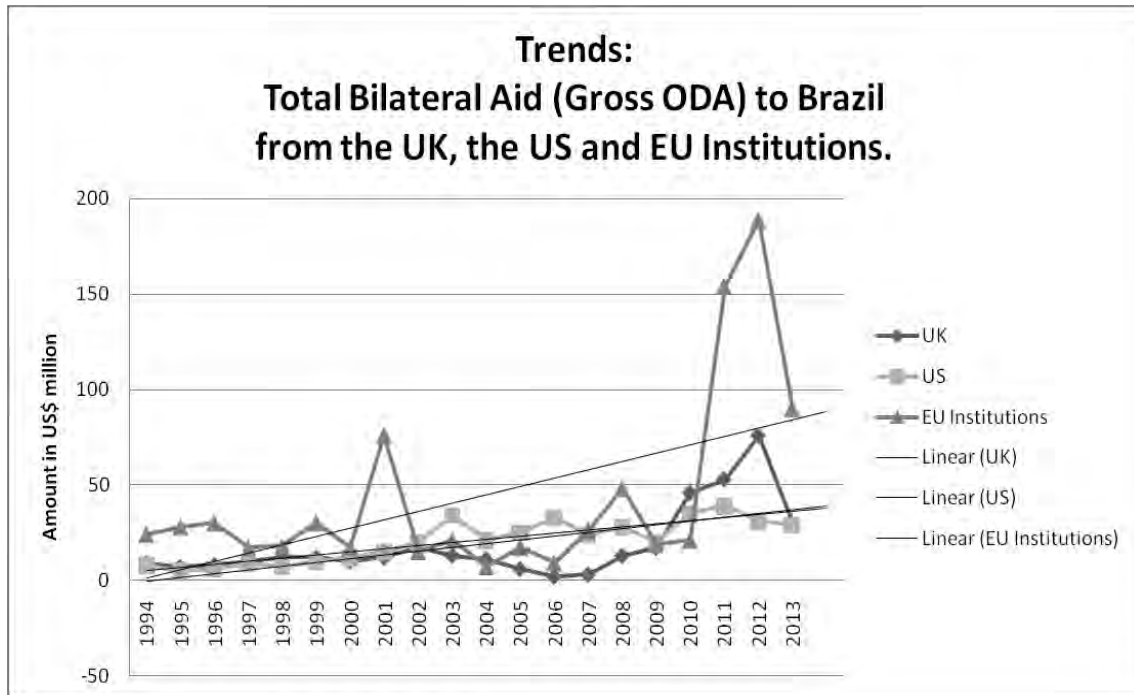
Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

Figure 11 demonstrates that aid flows to Brazil from France and Germany remained relatively stable until 2006 (France: US\$53 million; Germany: US\$97 million) and started to exceed US\$100 million in 2007 (France: US\$119 million; Germany: US\$102 million). While aid flows from Germany increased gradually from 2007 onwards, ODA from France peaked in 2012 (US\$863 million) and declined dramatically in 2013 (US\$122 million).

The sharp increase in ODA flows from France can be explained by the fact that France provides ODA mainly in the form of loans for infrastructure projects. This means that a huge amount of ODA may be allocated in a single year. Germany, on the other hand, provides ODA in the form of grants and government support.

<sup>39</sup>Globale Entwicklungspartner (GEP)

**Figure 12: Trends: Total Bilateral Aid (Gross ODA) to Brazil from the UK, the US and EU Institutions**



Source: OECD  
 Created: 5.11.2015  
 Author's own illustration

Figure 12 reveals a dramatic increase in aid from EU Institutions to Brazil between the years 2010 (EU: US\$21 million) and 2012 (:US\$189 million). While aid from EU Institutions has decreased in 2013, the allocated amount (EU: US\$90 million) is still three times higher than aid allocations from the UK (UK: US\$30 million) and the US (US: US\$29 million) for the same year. It is noteworthy that all three countries provided less aid to Brazil in 2013 than in the previous year. It can be argued that the increase in aid between the years 2010 and 2012 from all three donors are related to Brazil's hosting of the 2014 FIFA World Cup and the infrastructure requirements associated with this mega-event, such as transport, telecommunication, stadia and general urban upgrading.

#### 4.1.4 Summary of findings for hypothesis H1

Hypothesis H1, which predicts that traditional donors freeze, reduce or terminate aid after beneficiary countries set up their own aid agencies, has not been confirmed by the aid flow data presented in this research study. The data does not support the assumption that the creation of such agencies is interpreted by traditional donors as a sign that a recipient country is no longer in need of assistance. However, this does not imply that H1 can be outright rejected. The analysis of aid flows reveals a much more complex picture.

The aid flow data for most traditional donors, except the UK and the US, does not support H1. France, Germany and EU Institutions did not freeze, reduce or end aid to India after it announced that it would establish a dedicated aid agency in 2011 and launched the Development Partnership Administration (DPA) in January 2012. However, the aid flow data for the UK and the US are consistent with H1 since aid flows steadily decreased from around 2008 onwards. While the launch of the DPA only took place in 2012, it can be assumed that the plans for the establishment of the agency had been under discussion for quite some time. It can therefore be argued that traditional donors anticipate such developments and change their aid allocation strategy accordingly. It is further noteworthy that traditional donors behave differently from each other in terms of aid allocations and that fluctuations in aid allocations in both directions are common.

While some traditional donors such as the UK reduced aid allocations to India after 2012 when the country set up the DPA, it is noteworthy that the same donor shows the opposite behaviour in the case of South Africa. However, Germany, the US and EU Institutions show exactly the opposite behaviour. All three DAC donors reduced aid allocations to South Africa, albeit to various degrees, after 2011 when the country embarked on establishing its own aid agency SADPA but increased aid allocations to India after the launch of the DPA in 2012. The aid flow data for France outright rejects H1 since aid allocations to India and South Africa increased after the creation of DPA and SADPA.

The aid flow data for Brazil has been used as a kind of control country in this research study because Brazil has had a dedicated aid agency for almost thirty years. The case of Brazil provides further evidence that the establishment of a dedicated aid agency does not discourage traditional donors from increasing ODA. We suggest that the increase in aid flows in the period of 2009 until 2012 might be related to Brazil's hosting of the FIFA World Cup in 2014 and the commercial interests of traditional donors in obtaining contracts and providing goods and services for this mega event.

The different aid flow trajectories of the five traditional donors suggest that each donor applies its own set of criteria when determining the amount of aid for a beneficiary country. When comparing the incoming ODA to Brazil from the five traditional donors over the period of 1994 to 2013 with the incoming aid to India and South Africa, it is noteworthy that Brazil does not enjoy the same level of financial support as the other two emerging countries. While the data does not support the hypothesis that the establishment of ABC in 1987 prompted traditional donors to reduce or terminate aid, we may not rule out the possibility that total aid flows to Brazil after 1987 did not increase in the same way as for other upper-middle income countries that had not established a dedicated aid agency.

The interviews with development co-operation experts and representatives of the five traditional donors support the conclusion that the creation of dedicated aid agencies by beneficiary countries does not prompt traditional donors to freeze, reduce or terminate aid. All respondents state that the 'institutionalisation' of development assistance in beneficiary countries is welcomed by traditional donors because it can lead to more transparency and accountability and ultimately improve the effectiveness of aid.

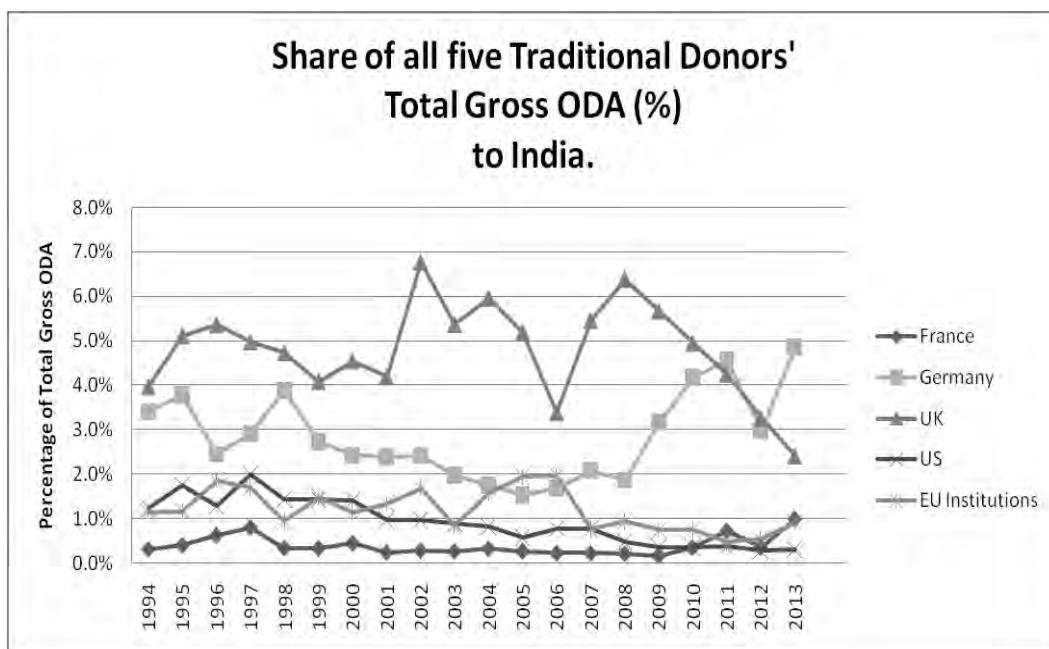
## 4.2 Hypothesis 2 (H2): Shifts in aid allocation patterns (1994-2013)

Hypothesis H2 predicts that traditional donors shift their aid allocations towards other beneficiary countries after India, South Africa and Brazil establish their own aid agencies. This implies that while beneficiary countries with new aid agencies might continue to receive ODA, the overall share of ODA that is allocated to them might actually decrease due to the fact that traditional donors review the 'neediness' of the country in question and consequently shift their financial support to other countries.

To test the hypothesis, we will compare the Total Gross ODA shares (percent) of the five traditional donors to India, Brazil and South Africa before and after the three countries have set up aid agencies.

### 4.2.1 Share of traditional donors' total gross ODA (%) to India

Figure 13: Share of all five Traditional Donors' Total Gross ODA (%) to India



Data Source: OECD/DAC

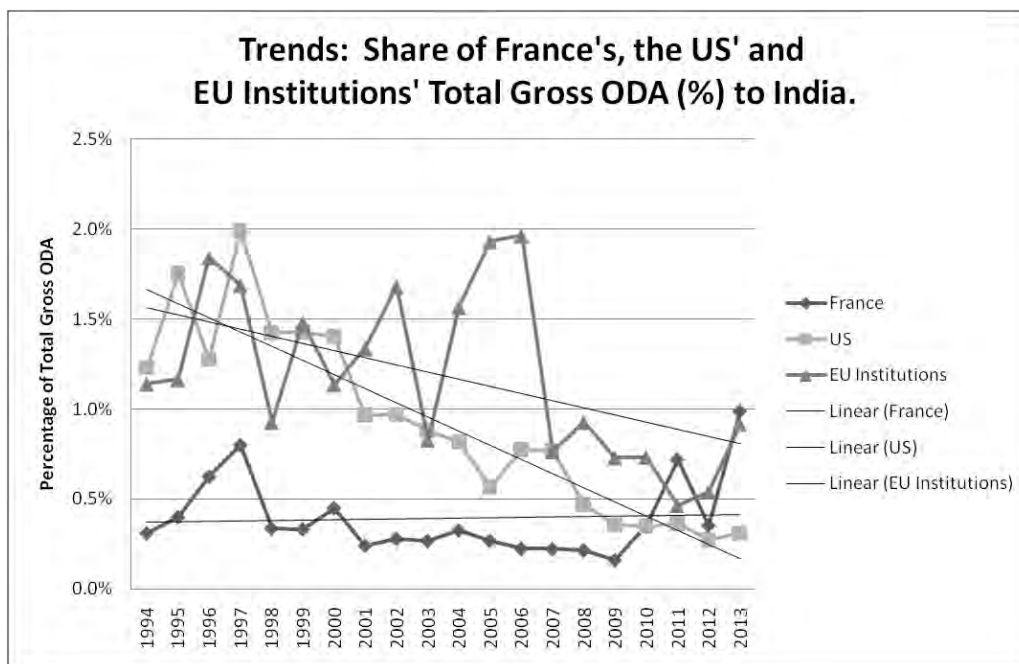
Created: 5.11.2015

Author's own illustration

Figure 13 demonstrates that of all the five traditional donors, the UK provides the highest ODA share to India, while France provides the smallest share. This may be explained by the historical ties that exist between Britain and India as a former British colony. While fluctuations of ODA shares from France, the US and EU Institutions seem insignificant, the upwards trend of Germany's ODA share to India between the years 2008 (Germany: 1.9 percent) and 2013 (Germany: 4.8 percent) is surprising and indicates the level of importance that India has as a strategic partner country for Germany.

In contrast to Germany's development co-operation strategy with India, the UK has drastically reduced its ODA share from 6.4 percent in 2008 to 2.4 percent in 2013. However, it is important to point out that the UK still allocates more of its development co-operation budget to India than France, the US or EU Institutions. Since figure 13 might not fully reveal how ODA shares from France, the US and EU Institutions have changed over the years, we want to take a closer look at the following figure.

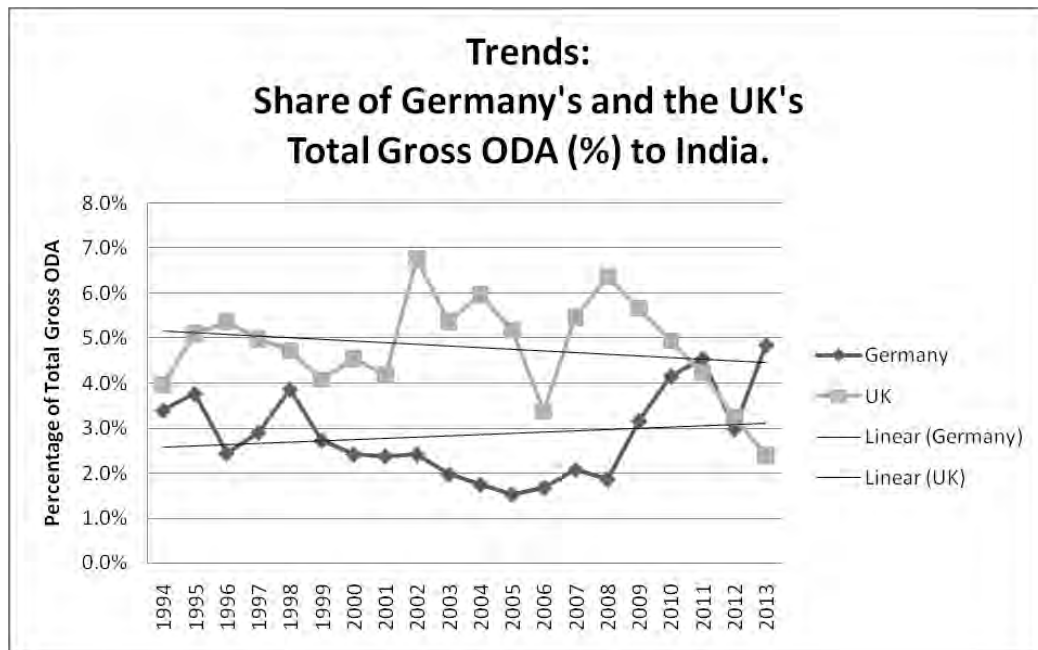
**Figure 14: Trends: Share of France's, the US' and EU Institutions' Total Gross ODA (%) to India**



Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

Figure 14 reveals that between the years 2008 and 2012 the US and EU Institutions have reduced the share of their development assistance to India substantially. A drastic reduction can especially be reported in the case of the US. In 1994 the US provided 1.2 percent of its Total Gross ODA to India, but it only allocated 0.3 percent in 2013. However, it is noteworthy that the downward trend in ODA shares from the US started to occur in 1997, five years before the NPA was launched. The US ODA share in 2013 was slightly higher than in 2012, the year when India's aid agency was set up. It is noteworthy that the ODA shares of France and EU Institutions have increased substantially since 2009 and 2011 respectively.

**Figure 15: Trends: Share of Germany's and the UK's Total Gross ODA (%) to India**



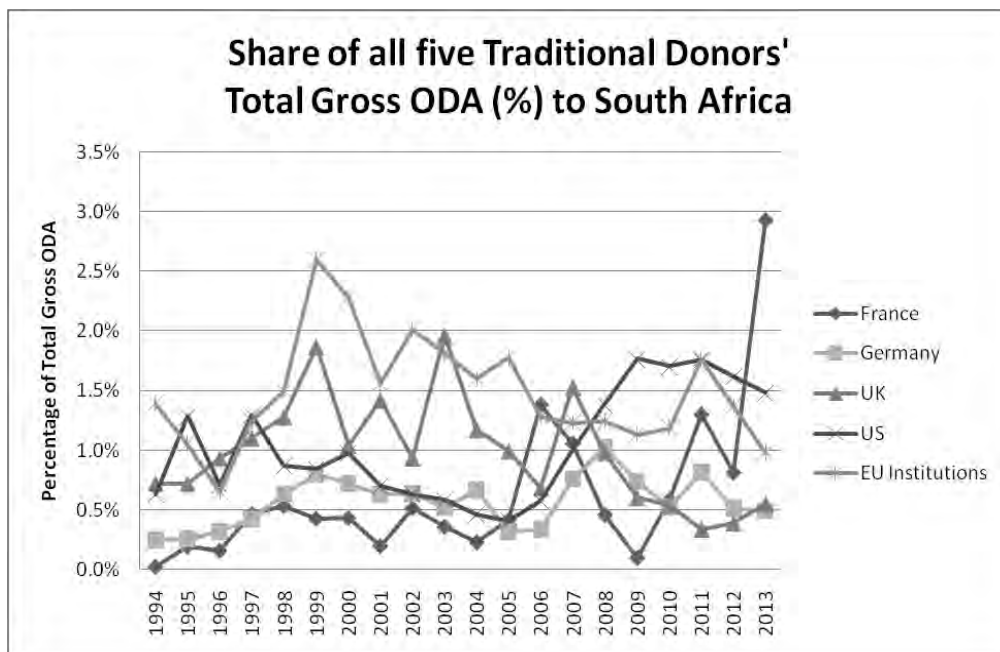
Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

Figure 15 shows that Germany and the UK allocated a substantial share of their overall development assistance to India. While Germany's ODA share averages between 2.5 and 3 percent, the UK's ODA share stands between 4.5 and 5 percent.

The figure demonstrates quite impressively the different co-operation strategies that the two donors pursue. While Germany has identified India as an important strategic development co-operation partner and hence increased its ODA share for this country, the UK has clearly decided to shift its focus and aid allocations to other countries. This shift is certainly in line with the UK's development co-operation policy, which aims to assist the poorest countries in the world. As a middle-income country with high economic growth rates, India does not fulfil this criterion.

## 4.2.2 Share of traditional donors' gross ODA (%) to South Africa

Figure 16: Share of all five Traditional Donors' Total Gross ODA (%) to South Africa

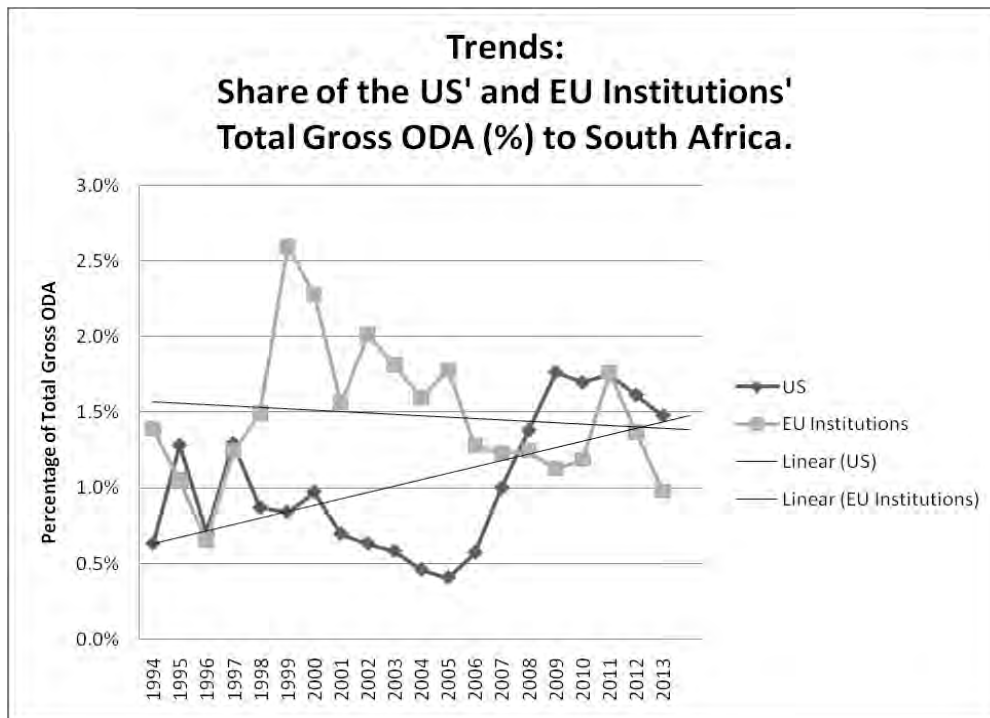


Data Source: OECD/DAC  
Created: 5.11.2015  
Author's own illustration

Figure 16 shows that traditional donors' ODA shares for South Africa in the time period of 1994 to 2013 show great fluctuations and do not seem to follow any pattern. While the ODA shares from the EU and the UK decreased steadily since 1999 and 2003 respectively, the ODA share of the US starts to increase in 2005 and reaches a plateau in 2010.

Germany's ODA share is the most stable in the whole sample, fluctuating between 0.3 (1994) and 1.1 percent (2008). With the exception of France, traditional donors decrease their ODA share from 2011 onwards, albeit not drastically. France is the only country that increased its ODA share substantially in 2013.

**Figure 17: Trends: Share of the US' and EU Institutions' Total Gross ODA (%) to South Africa**

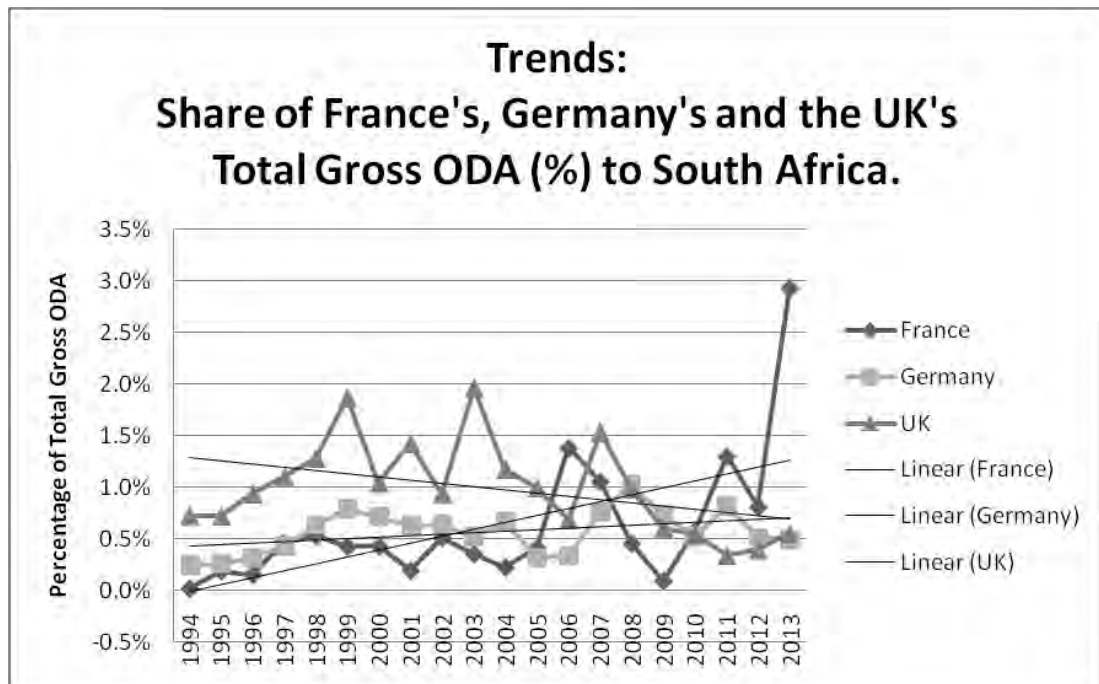


Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

Figure 17 clearly shows that ODA shares from the US have increased since 1994 (0.6 percent) and reached a peak in 2009 (1.8 percent). Shares from the US saw a dramatic increase in the time period of 2006 and 2009. Since 2011, the year when South Africa embarked on the establishment of SADPA, ODA shares from the US have declined.

The data for EU Institutions presents a different picture. ODA shares from EU Institutions reached a peak around the turn of the Millennium but then declined until 2009. Between 2009 and 2011 a significant increase of 0.7 percent can be reported. However, ODA shares from the EU started to decline again after 2011.

**Figure 18: Trends: Share of France's, Germany's and the UK's Total Gross ODA (%) to South Africa**



Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

Figure 18 shows that the three donor countries France, Germany and the UK do not follow the same pattern and show great variations in terms of allocated ODA shares to South Africa over the years.

While Germany decreases its ODA share to South Africa after 2011, the UK and France increase their respective shares in the following two years, albeit to various degrees.

The increase in France's ODA share from 2012 (0.8 percent) to 2013 (2.9 percent) is impressive and might be explained by the fact that France provides development assistance mainly in the form of loans for infrastructure projects.

### 4.2.3 Share of traditional donors' gross ODA (%) to Brazil

Figure 19: Share of all five Traditional Donors' Total Gross ODA (%) to Brazil



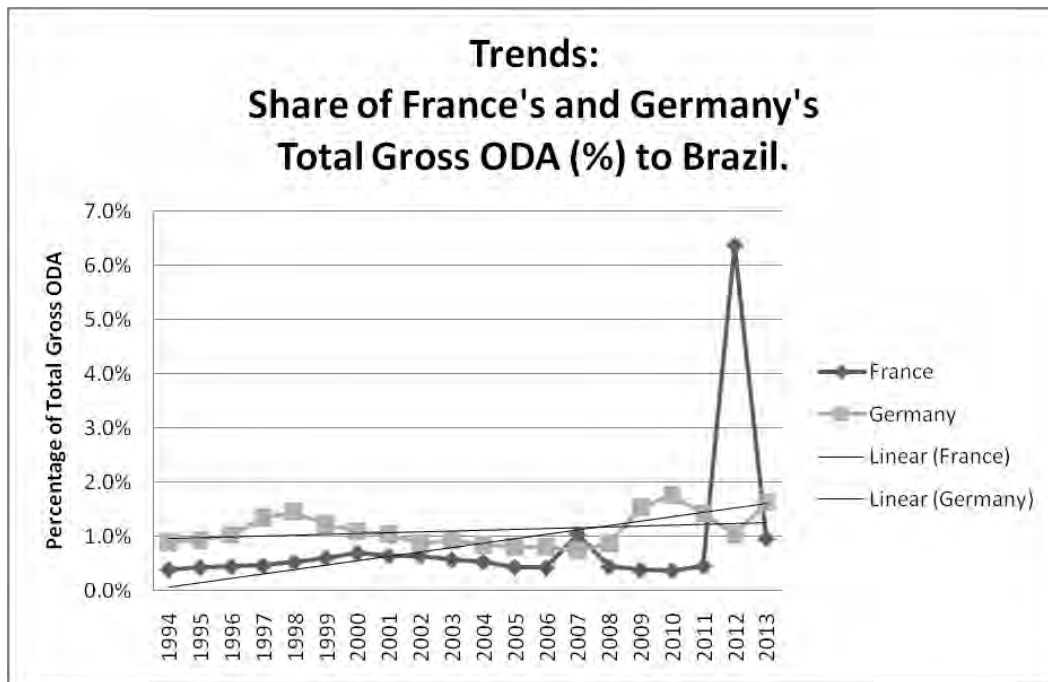
Data Source: OECD/DAC  
Created: 5.11.2015  
Author's own illustration

Figure 19 shows that ODA shares from traditional donors fluctuate in the time period of 1994 to 2013 but do not show any consistent upward or downward trends. With the exception of Germany and France, most traditional donors' ODA shares to Brazil remain below 1 percent during that entire time period.

While Germany allocates the biggest ODA share to Brazil, the US allocates the smallest share. The sharp increase in France's ODA share from 0.4 percent in 2011 to over 6 percent in 2012 is noteworthy.

Since France provides development assistance mainly in the forms of loans for infrastructure projects it may be plausible to assume that the dramatic increase of ODA in 2012 was related to the financing needs of a big infrastructure project, perhaps even in connection with the hosting of the 2014 FIFA World Cup.

**Figure 20: Trends: Share of France's and Germany's Total Gross ODA (%) to Brazil**



Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

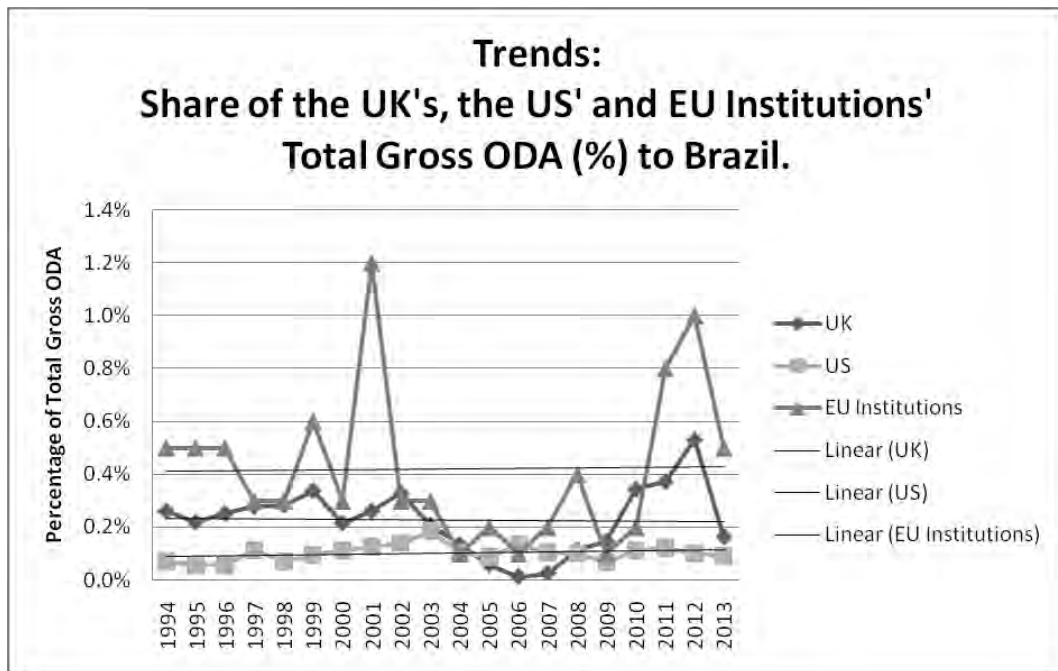
Figure 20 indicates that Germany's ODA share increased gradually between 1994 (Germany: 0.9%) and 2013 (1.6%). Unlike other donors, such as the UK or EU Institutions (see Figure 18), Germany's ODA shares over the years do not show significant fluctuations and hence seem to be more consistent and predictable.

It can be assumed that ODA shares from Germany will follow a similar pattern in the future due to the fact that Germany has identified Brazil, India and South Africa together with a few other countries as Global Development Partners due to their strategic geo-political importance and the key role that these countries play in the protection of Global Public Goods (GPGs).<sup>40</sup>

The sharp increase in France's ODA share in 2012 might be related to the financing needs of a big infrastructure project. As already mentioned, France provides development assistance mainly in the form of loans for infrastructure projects. This might explain the inconsistent ODA allocation patterns over the years.

<sup>40</sup> According to the World Bank "Global Public Goods" (GPGs) refer to those goods that are both "non-rival" (you or I or both of us can consume the good without affecting the utility either of us derive from its consumption) and "non-excludable" (once the good is produced, no one can be prevented from enjoying it). In this sense GPGs refer to a clean environment, prevention of climate change, protection of biodiversity, the fight against communicable diseases, such as HIV/Aids, TB and Malaria as well as the promotion of peace and security. The concept of GPGs has become an increasingly important part of international policy making.

**Figure 21: Trends: Share of the UK's, the US' and EU Institutions' Total Gross ODA (%) to Brazil**



Data Source: OECD/DAC  
 Created: 5.11.2015  
 Author's own illustration

Figure 21 shows that ODA shares from the UK and EU Institutions fluctuate significantly over the years and do not seem to follow the same pattern up until 2010. It is interesting to note that ODA shares from the UK and EU Institutions both start to increase in 2010 (UK: 0.3 percent, EU: 0.2 percent), reach a peak in 2012 (UK: 0.5 percent, EU: 1.0 percent) and then decrease significantly in 2013 (UK: 0.2 percent, EU: 0.5 percent).

It can be assumed that the hosting of the 2014 FIFA World Cup, for which the preparation usually starts four to six years earlier, had an influence on donors' aid allocation decisions since development aid is often used as a diplomatic tool to pave the way for companies in traditional donor countries to win lucrative tenders. In contrast to all of the other donors, the US' ODA share remains at around 0.1 percent over the entire time period and does not show any fluctuations.

#### 4.2.4 Summary of findings for hypothesis H2

The presented aid flow data neither supports nor reject Hypothesis H2, which predicts that traditional donors shift their aid allocations towards other beneficiary countries after India, South Africa and Brazil establish their own aid agencies. Hypothesis H2 is based on the assumption that the creation of aid agencies in beneficiary countries prompts traditional donors

to review the 'neediness' of the country in question since a beneficiary that is in a position to help other countries might be able to look after its own development needs.

While some traditional donors such as the UK reduced their ODA share to India after 2012 when the country set up its own aid agency, it needs to be pointed out that a decline in the UK's ODA share began in 2008 and therefore may not be conclusively related to the establishment of the DPA in 2012. In fact, the interviews with development co-operation experts and representatives of the five traditional donors suggest that changes in the development co-operation strategies towards beneficiary countries are mostly informed by domestic debates as well as by the economic status and performance of beneficiary countries. The UK, for example, is among a few traditional donors with special legislation in place for its development co-operation. According to this legislation, the UK's mandate is to reduce poverty when providing development assistance.<sup>41</sup>

The fact that the UK increased its ODA share to South Africa after the country embarked on setting up SADPA in 2011 supports the conclusion that the creation of dedicated aid agencies does not necessarily motivate a shift of UK's aid to other countries. A similar argument can be made for the cases of Germany, the US and EU Institutions. While the three donors reduced their respective ODA shares for South Africa after the country embarked on setting up SADPA in 2011, they acted differently towards India. ODA shares from the three donors increased after 2012 when India launched its aid agency.

The aid flow data for France outright rejects hypothesis H2 since France increased its ODA shares to India and South Africa after both countries embarked on setting up dedicated aid agencies.

The data for the UK's ODA share to India seems to support H2 since ODA shares to India continuously declined from 2008 onwards. This indicates that a shift in the UK's aid allocations to other countries has taken place. However, because the UK started to decrease its ODA share to India three years before India officially announced the establishment of a new aid agency, it cannot be concluded that the shift in aid allocations to other countries was a direct response thereof. The data for all of the other traditional donors does not support the hypothesis H2 since their ODA shares increased after 2012 when India launched its own aid agency.

However, the data for Germany, the US and the EU is consistent with hypothesis H2 since their ODA share to South Africa has decreased after 2011 when the country started to establish SADPA. This means that a shift in aid allocations to other countries has in fact occurred. However, the data for France and the UK does not support the hypothesis H2, since increases of their respective ODA shares to South Africa occurred after 2012, albeit to varying degrees. It is interesting that both countries' ODA shares for South Africa decrease sharply in 2012 but then show an increase again in 2013, which is especially dramatic in the case of France. In the case of the UK it must be mentioned that ODA shares for South Africa have declined steadily

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<sup>41</sup>visit <http://www.loc.gov/law/help/foreign-aid/uk.php> for more detailed information on the UK's Development Assistance Legislation.

since 2003, which signals a general shift in the UK's aid allocations towards other poorer countries.

Since this decline in the UK's ODA share started before South Africa officially announced its plans to establish its own aid agency, it cannot be concluded that the occurrences are related. However, it must be stressed that the official announcement to establish a dedicated aid agency is preceded by intensive discussions and deliberations amongst government officials and diplomats that often start many years earlier. It can therefore be assumed that traditional donors anticipate the establishment of dedicated aid agencies and take such plans into account when deciding on aid allocations.

The data for Brazil does not support hypothesis H2 since ODA shares from traditional donors increased after Brazil established its own aid agency in 1987. According to hypothesis H2, we would have expected ODA shares from traditional donors to decrease after 1987 because traditional donors would have shifted their aid allocations to other countries that they perceived to be more in need of their support. The data shows that this has not been the case. The sudden dramatic increase of France's ODA share to Brazil in 2012 is especially noteworthy and might be related to the financing needs of a big infrastructure project. France provides it development assistance mainly in the form of loans for infrastructure projects. This explains the dramatic increase in France's ODA shares from one year to the other and the sudden decrease afterwards. What the data does not answer is whether or not Brazil would have received higher ODA shares from traditional donors over the years if it had not had an aid agency since 1987. It would be interesting to investigate this question further and compare shares of ODA to Brazil with ODA shares to other upper-middle income countries over the same time period. However, this exercise would extend beyond the focus of this research study.

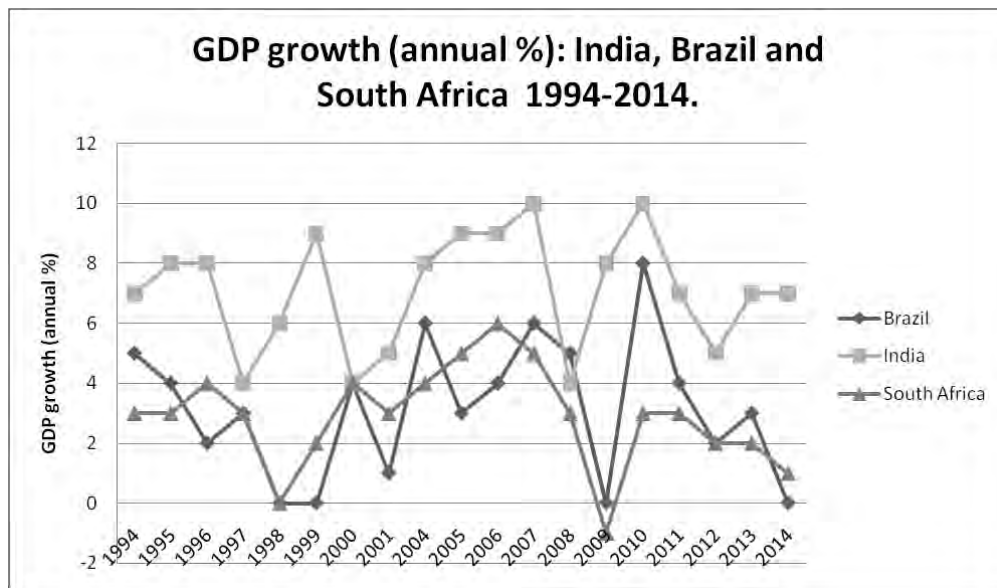
### **4.3 Hypothesis 3 (H3): Trends in Socio-Economic Performance (1994-2014)**

Hypothesis H3 predicts that socio-economic improvements in beneficiary countries such as India, Brazil and South Africa prompt traditional donors either to freeze, reduce or end aid allocations to these countries. This prediction is supported by the UK's decision to terminate direct aid to India and South Africa by 2015.

The UK defended its decision by arguing that the countries had reached a level of economic maturity that allowed them to look after their own development needs. We therefore expect to see a negative correlation between socio-economic improvement in the three countries as measured by indices such as GDP growth, GDP per capita, life expectancy and infant mortality rate on the one hand and incoming aid flows from traditional donors on the other hand.

### 4.3.1 GDP growth (annual %): India, Brazil and South Africa

Figure 22: GDP growth (annual %): India, Brazil and South Africa 1994-2014



Data Source: World Development Indicators

Created: 10.11.2015

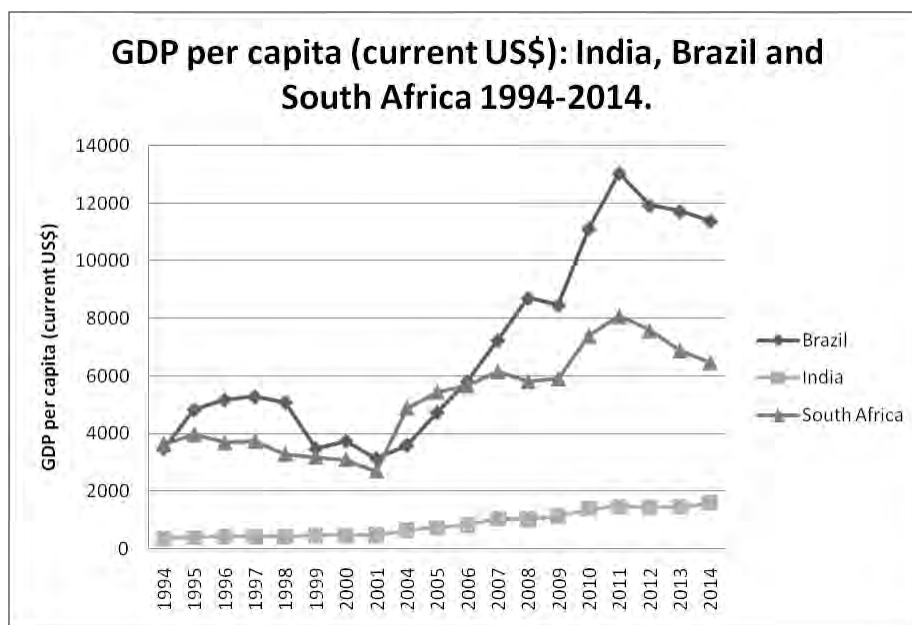
Author's own illustration

Over the time period of 1994 to 2008, the economies of India, Brazil and South Africa have consistently grown albeit on different growth trajectories and with some fluctuations. The most impressive GDP growth took place in India, averaging between 6 and 7 percent annually.

At the time of the global financial crisis in 2008, all three countries experienced a sharp decline in GDP growth. While their economies recovered from this decline rather quickly and managed to increase GDP growth significantly by 2010, a general decline in GDP growth has been recorded since the year 2011 with Brazil experiencing the most dramatic decline.

### 4.3.2 GDP per capita (current US\$): India, Brazil and South Africa

Figure 23: GDP per capita (current US\$): India, Brazil and South Africa 1994-2014



Data Source: World Development Indicators  
Created: 10.11.2015  
Author's own illustration

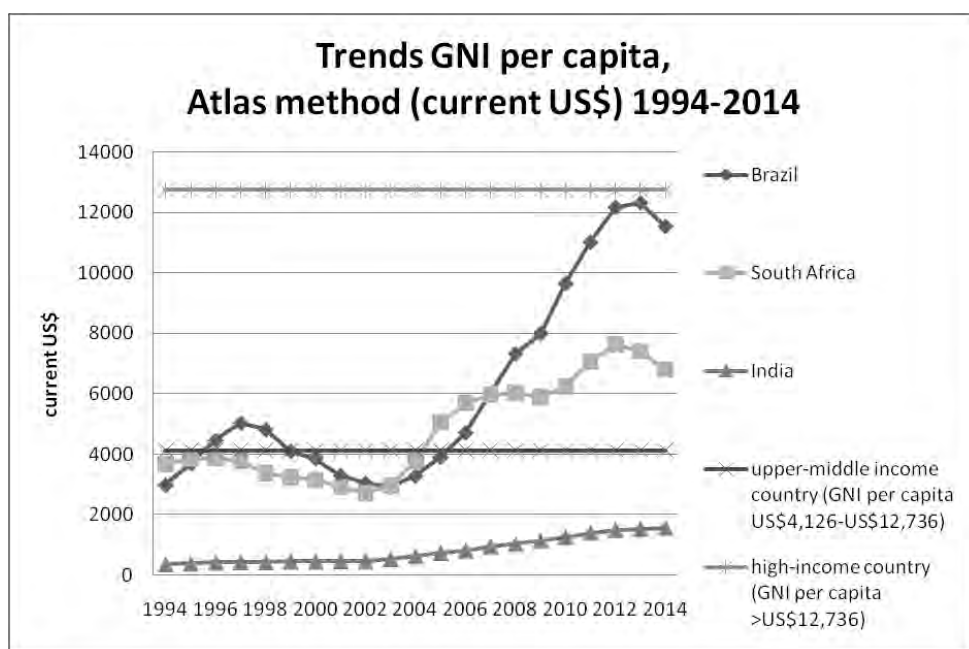
GDP per capita (current US\$) has grown significantly for Brazil and South Africa from US\$3.483 and US\$3.650 in 1994 to US\$11.385 and US\$6.478 in 2014 respectively. It is noteworthy that the annual increase in GDP per capita continued for both countries until 2011 but then started to decline quite significantly.

These findings are consistent with the previous figure where we have seen a dramatic decline in GDP growth since 2011. Figure 22 shows that India's impressive GDP growth surpasses the economic performance of Brazil and South Africa by far. Considering this, one would have expected a higher GDP per capita rate in India or at least a more dramatic increase in GDP per capita over the years.

However, when considering the size of India's population, which was 1,252 billion in 2013 (World Bank), the gradual advancement of people previously living in abject poverty is impressive. However, figure 23 indicates that despite India's impressive economic performance and the steady upward trend of GDP per capita, the average person in India is still far less well off than his counterpart in Brazil or South Africa.

We revisit figure 1, which clearly shows that Brazil nearly reached high-income status between 2012 and 2013. This could call into question its eligibility to receive aid from DAC donors, but Brazil has since experienced a decline in GNI per capita. India and South Africa, whose GNI per capita are in line with lower and upper-middle income countries, are comparatively safe in this regard.

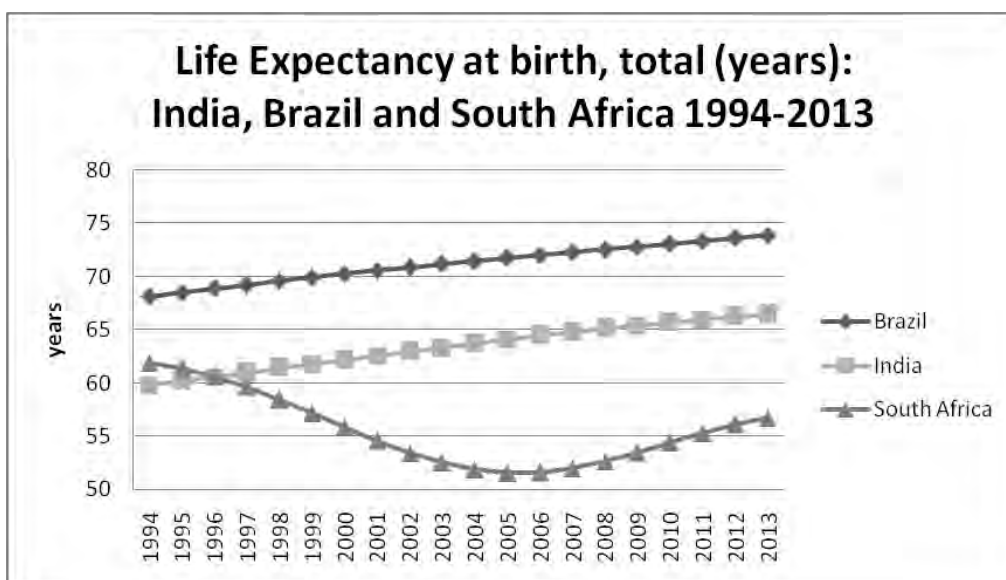
**Figure 1: Trends GNI per capita, Atlas method (current US\$) 1994-2014**



Data Source: World Development Indicators  
 Created: 11.11.2015  
 Author's own illustration

### 4.3.3 Life Expectancy at birth, total (years): India, Brazil and South Africa

**Figure 24: Life Expectancy at birth, total (years): India, Brazil and South Africa 1994-2013.**



Data Source: World Development Indicators  
 Created: 10.11.2015  
 Author's own illustration

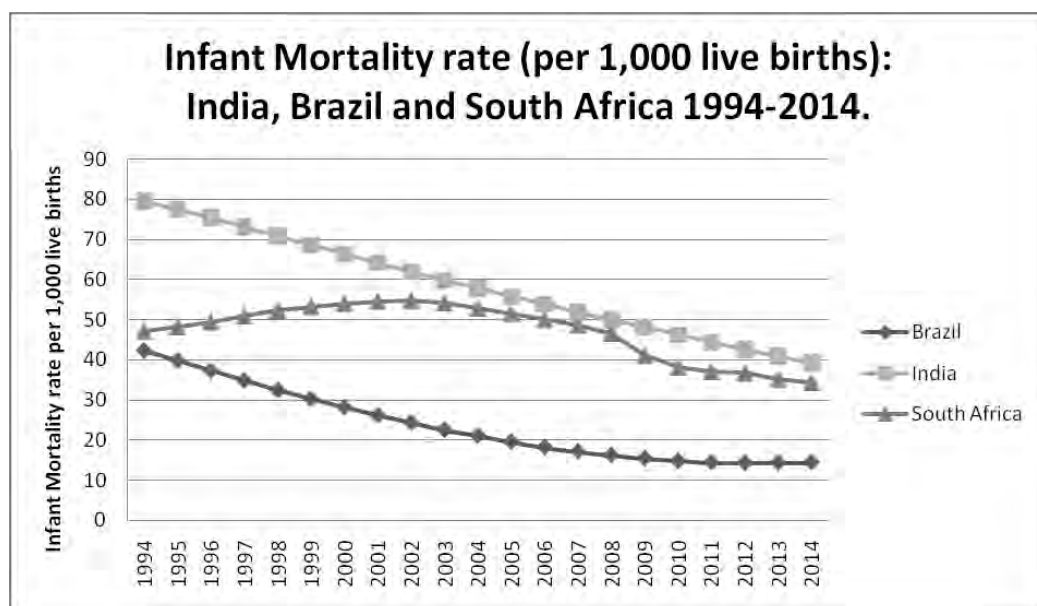
In the time period of 1994-2013 life expectancy has steadily improved in India (from 59,8 years in 1994 to 66,5 years in 2013) and Brazil (from 68,1 years in 1994 to 73,9 in 2013). India's achievement in terms of life expectancy is especially impressive given the huge size of its population, of which a great percentage still lives in rural areas.

The life expectancy trajectory for South Africa shows a different picture and points to a human tragedy that started to unfold from the mid-1990s. While life expectancy in South Africa in 1994 (61.9 years) was higher than in India (59.8 years), it consistently declined from there onwards due to the HIV/AIDS pandemic. The pandemic reached its height in 2005 when life expectancy dropped to its lowest at 51,6 years.

Life expectancy in South Africa began to show signs of recovery after 2006 and has since improved steadily. However, life expectancy for South Africa in 2013 (56,7 years) is still much lower than in India (66,5 years) and Brazil (73,9 years).

#### 4.3.4 Infant Mortality rate (per 1,000 live births): India, Brazil and South Africa

**Figure 25: Infant Mortality rate (per 1,000 live births): India, Brazil and South Africa 1994-2014**



Data Source: World Development Indicators  
 Created: 10.11.2015  
 Author's own illustration

The infant mortality rate (per 1,000 live births) in Brazil and India has decreased continuously since 1994 and has dropped for Brazil from 42 (1994) to 14 (2014) and for India from 80 (1994) to 39 (2014). While Brazil and India have made good progress on this front, the data for South Africa shows a different picture.

While South Africa's infant mortality rate was nearly on par with Brazil's in 1994 (Brazil: 42; South Africa: 47), the country's mortality rate increased during the 1990s and only started to stabilize and then to decrease from the mid-2000s on. While the downward trend in South Africa's infant mortality rate has continued since then, it is still relatively high for an upper-middle-income country.

Again, the HIV/AIDS pandemic has arguably been the most important factor responsible for the increase in the infant mortality rate in South Africa during the 1990s and still plays a role in today's figures, albeit to a lesser extent thanks to improved treatments to prevent mother-to-child transmission of the virus.

### **4.3.5 Summary of findings for Hypothesis H3**

Hypothesis H3 predicts that improvements in the socio-economic performance of beneficiary countries, as measured by indices such as GDP growth rate, GDP per capita, Life Expectancy and Infant Mortality rate, prompt traditional donors to either freeze, reduce or terminate aid. The rationale is that traditional donors feel that beneficiary countries have reached a level of socio-economic maturity that puts them in a position to look after their own development needs.

The analysis of economic and social indicators implies that hypothesis H3 cannot be outright accepted nor can it be rejected. Again, the reactions from traditional donors to socio-economic improvements in beneficiary countries in terms of aid allocations are inconsistent and mixed.

In the time period of 1994 to 2014 India and Brazil managed to improve the living standards of their population significantly in terms of GDP per capita, GNI per capita, HDI ranking,<sup>42</sup> life expectancy and infant mortality rates. India's socio-economic achievements are especially impressive given its huge population, a large percentage of which still lives in rural areas. While South Africa has not done badly in terms of economic performance either, the HIV/AIDS pandemic had a devastating impact on life expectancy and infant mortality rates in the mid-1990s and still impacts negatively on these two development indicators today.

High GDP growth rates in the last two decades have contributed to the three countries' economic ability to tackle some of their development challenges successfully. However, the decline in GDP growth in recent years, particularly for Brazil and South Africa, might limit the countries' ability to make further progress and might even reverse some of their achievements. The data for India, Brazil and South Africa does not support H3 since a general improvement in socio-economic performance does not correlate with a decrease in foreign aid by traditional donors. France, Germany and the US have increased or kept their ODA shares for South Africa and Brazil over the time period, despite their socio-economic improvements. In the case of South Africa, it can be argued that traditional donors, especially the US aid agency USAID, which has a strong focus on HIV/AIDS prevention and treatment, realized that an intervention

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<sup>42</sup> See Chapter 3 for graphs on GNI per capita as well as on HDI ranking.

from outside was necessary in order to curb the disease and that South Africa's positive economic performance alone would not solve the problem.

An interesting case that seems to support hypothesis H3 is the UK since the country's ODA shares to India, Brazil and South Africa showed a downward trend over the time period of 1994 to 2013. ODA shares from EU Institutions to the three countries in the same time period have also either stagnated or slightly decreased.

The data, especially when looking at the UK, suggests that the socio-economic performance of a recipient country might play a role in traditional donors' aid allocation decisions. This conclusion has been supported by the interviews conducted with development co-operation experts and donor representatives. According to the respondents, aid allocation decisions are influenced by the economic status of beneficiary countries but also by domestic debates in traditional donor countries and foreign policy objectives. The UK, one of the few countries that has development co-operation legislation in place, has a legal mandate to focus on the poorest countries in the world. India, Brazil and South Africa as middle-income countries no longer fulfil this criterion.

It seems that there are different opinions amongst donors on how to deal with beneficiary countries that have reached middle-income status. Some interview partners argue that middle-income countries should still receive development aid since they are home to a large number of poor people and still experience significant development challenges. These respondents view emerging economies as key role players for the development of their respective regions as well as for the solution of global challenges such as climate change. Other interview partners take the position that emerging donors are now economically in a position to look after their own development needs. One respondent states: "The financial crisis and not necessarily the planned establishment of dedicated aid agencies in emerging donor countries has intensified the debate around 'selectivity' amongst traditional donors where aid budgets are reduced or eliminated completely for middle-income countries in favour of prioritising the poorest low-income countries."

#### **4.4 Hypothesis 4 (H4): Compliance with DAC norms and standards**

Hypothesis H4 is based on the assumption that emerging donors' compliance with DAC norms and standards is a prerequisite for traditional donors to support and cooperate with them. The hypothesis predicts that emerging donors' compliance with DAC norms and standards may be positively related to foreign aid allocations as well as to opportunities in terms of development co-operation with traditional donors.

Since the aid flow data presented in this chapter does not conclusively reveal what factors might have caused the changes in aid allocations, we will use interviews conducted with three development co-operation experts and representatives of the five traditional donors to shed light on this question.

All of the eight interview partners agree that traditional donors welcome the emergence of new donors in the South and endorse them as potential co-operation partners. One respondent states: "... more development actors mean more assistance for poor countries. It also means that more actors share the responsibility to assist poor countries in their development."

Traditional donors value the development expertise that these new partners bring along, which may complement their own efforts and might be better suited to the development needs of poor countries. At the same time, they are concerned that emerging donors different approach based on South-South co-operation might undermine international agreements on development assistance, which the DAC has so far negotiated.

Most interview partners refer to the different historical backgrounds of traditional and emerging donors, which influences the way each of them provides development assistance to other countries. While traditional donors, (especially former colonial powers) act out of a kind of moral obligation, emerging donors are not burdened with such historic "indebtedness." Traditional donors practice North-South co-operation, follow DAC norms and standards and are integrated in the DAC coordinating structure. Emerging donors, on the other hand, follow the principles of South-South co-operation but are not part of an overall coordinating structure.

Some interview partners state that the emergence of new donors has not changed traditional donor's ways of doing business since rules and regulations of development co-operation are determined by the traditional donor country's government and the respective aid agencies headquarters at home. However, other interview partners argue that the emergence of new donors has spurred a policy-dialogue amongst all donors and has prompted traditional donors to become more open to other approaches. One respondent notes: "Traditional donors do open up to emerging donors and the way they operate. DAC norms and standards still guide the way traditional donors are operating but they are no longer seen as the only legitimate framework for development co-operation."

The general view amongst the interview partners is that emerging donors do show willingness to follow good practices and endorse certain DAC norms and principles on a voluntary basis. However, it is felt that emerging donors have little interest in joining the DAC since they still view themselves as developing countries and hence do not refer to themselves as 'donors' but as 'development partners.' They also fear being "swallowed up" and losing political influence by joining the DAC.

All interview partners confirmed that the compliance or non-compliance of emerging donors with DAC norms and standards has no influence on traditional donors' aid allocation decisions. Traditional donors seem to follow a pragmatic approach as one respondent explains: "No, it would not be in the interest of traditional donors to try to punish emerging donors for their non-compliance with DAC norms and standards by reducing or ending their development assistance to them. Emerging donors are seen as key partners in the global fight against poverty, climate change or terrorism."

However, several respondents point out that whoever provides the funding sets the rules. DAC norms and standards apply in cases where a traditional donor provides the funding in a trilateral

co-operation arrangement. However, traditional donors do not expect potential co-operation partners to adhere to DAC norms and principles when providing assistance to other countries.

One respondent further points out that development assistance is a tool of foreign policy. He notes: "Aid is allocated to a country not necessarily because the country needs it but because the country is important from a strategic point of view. Consequently, a strategically important country will still receive aid despite the fact that it might not comply to DAC norms and standards."

Based on these responses, hypothesis H4 needs to be rejected.

#### **4.5 Summary: Testing of Hypotheses**

The data analysis does not support hypotheses H1 and H2, which predict that aid allocations from traditional donors to India, Brazil and South Africa stagnate, decline, end or shift to other countries after they establish dedicated aid agencies. The evidence in this regard is not conclusive. While some traditional donors such as Germany tended to allocate more development aid to India, Brazil and South Africa in recent years, others like the UK have steadily reduced their aid allocations to the IBSA countries since the financial crisis of 2008.

It is noteworthy that the same donors, namely Germany, the US and EU Institutions, that reduced their respective ODA shares to South Africa after 2011 when the country started to establish its aid agency SADPA, exhibited different behaviour towards India, where they increased their ODA shares after the launch of its DPA in 2012.

However, what the data analysis does not tell us is whether or not the increases or decreases in aid allocations to India, Brazil and South Africa are linked to the establishment of aid agencies or other factors, such as domestic debates or the political and economic interests of traditional donors or if they are 'part of a bigger picture' in terms of economic maturity as one interview respondent put it.

The data analysis does not reveal what factors influence traditional donors' aid allocation decisions. However, the aid flow data for India, Brazil and South Africa clearly proves that the establishment of aid agencies does not necessarily lead to a stagnation, decrease or termination of aid. It further shows that traditional donors do not follow the same aid allocation pattern and have unique development assistance strategies in place for each beneficiary country.

The data for India, Brazil and South Africa also does not support hypothesis H3, which predicts that improvements in the socio-economic performance of beneficiary countries prompts traditional donors to freeze, decrease or end aid allocations.

France, Germany and the US have increased or kept their ODA shares consistent for South Africa and Brazil over the observed time period, despite South Africa's and Brazil's impressive socio-economic achievements. In the case of South Africa, it can be argued that traditional donors, especially USAID, which has a strong focus on HIV/AIDS prevention and treatment,

realized that an intervention from outside was necessary in order to curb the disease and that South Africa's positive economic performance alone would not solve the problem.

However, this in turn does not mean that hypothesis H3 can be outright rejected since ODA shares from the UK to India, Brazil and South Africa showed a downward trend over the time period of 1994 to 2013, while ODA shares from EU Institutions to the three countries have either stagnated or slightly decreased.

Especially in the case of the UK, the data suggests that the socio-economic performance of a recipient country does play a role in aid allocation decisions. This conclusion has been supported by the interviews conducted with development co-operation experts and donor representatives. According to the respondents, aid allocation decisions are influenced by the economic status of beneficiary countries but also by domestic debates in traditional donor countries and foreign policy objectives. The UK is one of the few countries with development co-operation legislation in place and has a legal mandate to focus on the poorest countries in the world. As middle-income countries, India, Brazil and South Africa do not fulfil this criterion.

It can therefore be argued that for some donors, the 'neediness' of a country, often measured by economic indices such as GNI or GDP, is an important factor that determines aid allocations, while for others it is not.

The last hypothesis H4, which predicts that beneficiary's non-compliance with DAC norms and standards impacts negatively on traditional donors' aid allocations and opportunities for co-operation has not been supported by the interview responses. All respondents agreed that traditional donors' take a pragmatic approach and do not expect partners to adhere to the same rules and regulations.

In conclusion, it can be noted that while the set of criteria on which aid allocation decisions are based might be the same for all traditional donors in question, the weighing of each criteria differs significantly and causes great variations in aid allocation behaviour amongst traditional donor countries. While such a differentiation amongst traditional donors might provoke criticism, it also can be viewed in a positive light since this will ensure that traditional donors cover the whole spectrum in terms of geographical location but also in terms of projects and focus areas.

## 5 CONCLUSION

India, Brazil and South Africa are not new donors to the aid sector, as they have each provided development assistance to other countries for many decades. Their respective approaches are a product of their historical background as well as their current economic and political interests. High economic growth rates during the past two decades have provided them with the financial resources to address many of their development challenges successfully and increase their development co-operation activities to other developing countries in volume and scope. A relatively new feature is the move to institutionalize and professionalize development co-operation. The establishment of dedicated aid agencies in the IBSA countries seems to be motivated by the objective to better manage and streamline development assistance as well as to use it more strategically and proactively.

Traditional donors welcome the establishment of such agencies and actively support beneficiary countries in this endeavour. DAC donors perceive this development as an opportunity to improve and increase their development co-operation with the respective countries and engage in new forms of partnerships such as trilateral arrangements. They also anticipate that the new aid agencies will promote transparency and accountability and consequently will enhance the effectiveness of development programmes.

Contrary to general assumptions, the data analysis suggests that the establishment of aid agencies does not lead to a stagnation, decrease or termination of traditional donors' aid allocations. It further does not prompt traditional donors to shift ODA to other countries. A comparison of ODA allocations (US\$) and ODA shares (%) from the five traditional donors France, Germany, the UK, the US and EU Institutions to the IBSA countries reveals that there are no common trends amongst the group of traditional donors in terms of aid allocations to a particular beneficiary country.

However, the establishment of such agencies is often perceived as being part of a bigger picture in terms of the economic maturation process of a partner country. The economic status of a middle-income country plays an important role in the aid allocation decisions of some traditional donors such as the UK, but it seems less important for other donors such as Germany.

It is further noteworthy that the same donor that reduces aid to one country after it establishes its own aid agency does not behave in the same way when another partner country embarks on setting up such an agency. In fact, aid allocations from the five traditional donors differ significantly and show great fluctuations over time. While some donors reduce aid after the (announced) establishment of a dedicated aid agency, others do not.

This inconsistency in traditional donors' behaviour strongly suggests that it is the strategic value of a beneficiary country at a particular point in time for a particular donor that determines the flow of aid rather than the fact that the country has set up an aid agency.

The research outcomes further suggest that traditional donors follow unique development co-operation strategies that are not first and foremost informed by the 'neediness' of a beneficiary

country but by domestic debates as well as their own political and economic interests. The argument that traditional donors reduce aid to beneficiaries as soon as they have reached middle-income status since they perceive them as no longer in need of assistance does not apply to all traditional donors.

It is inferred that it is the strategic value of a beneficiary country that ultimately determines traditional donors' aid allocations rather than other factors such as the establishment of a dedicated aid agency or socio-economic status. This is supported by the fact that emerging donors' compliance with DAC norms and standards has no influence on aid allocations. Compliance with these standards are also not a prerequisite for traditional donors to cooperate with them.

This finding, which is based on the interviews conducted with representatives of the five traditional donors as well as development co-operation experts, suggests that traditional donors tend to take a pragmatic approach when cooperating with emerging donors that are considered to be important partners. One interview partner explained: "Aid is allocated to a country not necessarily because of the country's needs but because the country is important from a strategic point of view. Consequently, a strategically important country will still receive aid despite the fact that it might not comply with DAC norms and standards."

To infer that traditional donors are driven entirely by self-interest and only support beneficiary countries that are of strategic importance to them would however not do them justice. Self-interest does not have to be in contradiction to the interests of the partner country. A "win-win"-scenario in which both partners' interests are recognized is the best basis for constructive and fruitful co-operation.

It can further be assumed that developing countries, which nowadays have more donor options available, would not accept assistance that does not bring them benefits. Traditional donors' support for the prevention and treatment of HIV/AIDS in South Africa or the provision of disaster relief for India's neighbour Nepal after the earthquake in April 2015 are two examples of this. While traditional donors pull together in such times of crisis, they usually pursue different development co-operation strategies. This can be seen as positive since the differentiation of donor strategies ensures that each donor carves out its own niche and that many countries and regions receive development assistance and benefit from it.

The findings of this research study should encourage beneficiary countries that consider establishing dedicated aid agencies to pursue this idea. In fact, they should make use of traditional donors' willingness to assist in this process. DAC donors have more than fifty years of experience in this regard and hence have some valuable lessons to share. DAC donors, on the other hand, should be more open about what they expect from such newly established aid agencies and how this might impact on their future co-operation strategies.

DAC donors should also be more transparent about their own political and economic interests when providing development assistance to developing countries. When representatives of traditional donors were asked in the interviews about factors that influence their country's aid allocation decisions, this important aspect was hardly addressed. Since most developing

countries in the South subscribe to the principles of SSC, which endorse the promotion of mutual-interests, this openness would lead to a better understanding of each other's positions.

The establishment of dedicated aid agencies by emerging donors is an important step towards bringing more transparency and accountability into the already complex development co-operation landscape. Transparency and accountability are also critical for building a relationship of trust between traditional and emerging donors, who despite their differences have to work together to successfully tackle current and future development challenges.

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## ANNEXURE

### Interview Questions and Responses<sup>43</sup>

Time of Interviews: August - October 2015

#### Background:

In recent years former recipients of Official Development Assistance (ODA) from the DAC/OECD have themselves become important donors to other countries. Emerging donors, such as India, Brazil and South Africa have established (or are in the process of establishing) dedicated aid agencies to better streamline their increasing activities. The establishment of dedicated aid agencies can be interpreted as a sign that a recipient country has successfully graduated from being a beneficiary to a provider of aid.

The following questions aim to find out how traditional donors perceive this graduation process of former recipient countries in the South and how this impacts on the relationship between traditional and emerging donors in terms of aid flows, focus areas and types of co-operation arrangements.

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#### **Q1: Briefly tell me your views on how traditional donors perceive the emergence of new donors in the South, such as India, Brazil and South Africa?**

A1: "Traditional donors' perceptions depend on who the emerging donors are. Brazil or Mexico for example are perceived by traditional donors as potential partners in trilateral development co-operation. Other emerging donors, such as China or India are perceived as not so open towards partnerships with traditional donors. South Africa is still sitting on a fence and has to profile itself as an emerging donor country and potential development co-operation partner. Traditional donors are not sure yet what to expect from South Africa."

A2: "Traditional donors are aware of the need to engage with emerging donors in order to promote transparency, accountability and aid effectiveness. Traditional donors also realize that new development co-operation actors might complement their own activities and efforts. However, some DAC donors fear that emerging donors have different interpretations and degrees of respect for the principles of development co-operation, such as good governance."

A3: "Emerging donors are often perceived as not well equipped, under resourced and understaffed. Their aid agencies, if they have ones, are not always operational. They also lack transparency in what they are doing. Generally, each donor irrespective whether it is a traditional or an emerging donor sees other donors as potential competitors."

A4: "Generally, traditional donors view the emergence of new donors in the South as a positive development since more development actors mean more assistance for poor countries."

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<sup>43</sup> The eight interview partners included representatives of aid agencies from the five traditional donor countries France, Germany, The UK, the US and EU Institutions as well as three development assistance experts.

It also means that more actors share the responsibility to assist poor countries in their development. However, the fact that the new emerging donors are not integrated into the DAC system and do not adhere to DAC norms and standards can be problematic."

A5: "Traditional donors endorse the emergence of new donors since they are potential co-operation partners in triangular co-operation arrangements and may complement the work of traditional donors."

A6: "Traditional donors view emerging donors as potential co-operation partners, in particular in terms of trilateral development co-operation. They (traditional donors) are willing to support them, promote capacity building and share their expertise and know-how."

A7: "I can only comment on South Africa. Firstly, South Africa does not like the term "donor". The South African government gazetted SADPA in June 2013 but since then little progress has been made. No senior management staff has been assigned yet. However, my country is strongly committed to support SADPA and to assist in setting up the aid agency institutionally. My country and South Africa are already partners in trilateral co-operation and might be able to do this more effectively once SADPA is fully operational."

A8: "Emerging donors have a lot of potential and add a lot of development experience, such as recent experiences of economic growth, which are in demand by low-income countries. However, emerging donors have yet to realize their potential as development partners."

**Q2: In which way would you say differ traditional and emerging donors in terms of their motives and general modus operandi?**

A1: "Both, traditional and emerging donors, have a similar set of motivations for their development co-operation, such as historical and cultural links, solidarity, security concerns or economic and political self-interests. However, they differ in terms of their emphasis on the various motivation factors. Even amongst the group of traditional donors vast differences exist in terms of which of the motivation factors has more weight. Traditional and emerging donors are not two homogenous groups. Vast differences between member countries exist within the groups. While traditional donors have agreed to basic DAC-norms and standards for their development co-operation, emerging donors subscribe to the principles of South-South co-operation."

A2: "Most emerging donors do not want to be seen as donors but as partners. For most Southern partners even the word "aid" (the main business of DAC) is a dirty word. They believe in horizontal co-operation of equals rather than vertical, one-way provider-receiver relationships. They emphasize that their assistance is demand-driven. Their South-South co-operation does not fit into the traditional ODA definition and the DAC parameters. They still consider themselves as developing countries and hence insist that they should not have the same responsibilities as industrialised countries."

A3: "Emerging donors are new to the game and are not (yet) part of the overall coordinating structure that the DAC has established. Due to their experience as developing countries and recipients of aid, they often have a special relationship to partner countries. They operate outside the overall coordinating structure, forging relationships to the political elite of recipient countries. This can undermine the efforts of traditional donors."

A4: "Traditional Donors practice North-South co-operation while emerging donors practice South-South co-operation. South-South co-operation is more demand-driven and follows different principles and standards than the DAC."

A5: "Traditional Donors started with their international development assistance as a response to the era of decolonisation in the 1950s and 1960s. They felt a moral responsibility towards developing countries in the South. Emerging donors do not share such a history. For emerging donors caritative motives do not really play a role when providing development assistance to other countries. They use development assistance more as a tool to further their political as well as economic interests. However, emerging donors lately seem to realize that some of the agreed DAC principles make sense and in fact help to make aid more effective. Traditional donors practice North-South co-operation, while emerging donors practice South-South co-operation. South-South co-operation is more demand-driven and follows different principles and standards than the DAC."

A6: "Traditional and emerging donors have different histories. While traditional donors act globally, emerging donors' activities focus more on neighbouring countries and their respective regions."

A7: "I can only comment on South Africa. It is difficult to say since SADPA has not yet developed a concept. South Africa's development co-operation is certainly part of its foreign policy. It also aims to combat poverty in other countries. The difference between the development co-operation approach of my country and South Africa is that my country has identified 50 partner countries worldwide and is focussing on certain issues, like HIV/AIDS, Good Governance and Energy & Climate Change for South Africa for example. South Africa on the other hand is not keen to only serve a selection of partner countries or concentrate on specific focal areas but operates demand-driven."

A8: "I can't really speak for emerging donors and what motivates them. However, generally speaking they are guided by the principles of South-South co-operation. Development aid provided by the donor country that I represent is clearly motivated by the objective to alleviate poverty. In fact, there is a development act in place which stipulates what Official Development Aid should achieve and how it is to be used".

**Q3: Do you think that the emergence of new donors has changed traditional donors' way of "doing business"? If yes, please elaborate.**

A1: "Traditional donors' way of doing business has often changed over the last decades as a result of "lessons learnt", internal discussions amongst traditional donors as well as an

increasing say of beneficiary countries in terms of the way development co-operation is carried out. The emergence of new donors has spurred the discussion on "Aid Effectiveness" and has prompted traditional donors to revisit some of the agreed DAC norms and standards, such as the untying of aid for example. Critics warn that traditional donors use the practices of emerging donors as an excuse to justify their disregard for some of the agreed DAC norms and standards."

A2: "No, in general it has not yet changed the way traditional donors are doing business. However, traditional donors are using the non-compliance of emerging donors with DAC standards as an excuse to also divert from agreed DAC norms and standards, for example when it comes to the tying of aid."

A3: "Yes, I think so. It has driven policy-dialogue amongst traditional donors. Traditional donors have to prove that they are better than their emerging donor counterparts in terms of aid effectiveness, transparency or sustainability. They feel that they have to differentiate themselves and work on their own "brand" as traditional donors."

A4: "Traditional donors do open up to emerging donors and the way they operate. DAC norms and standards still guide the way traditional donors are operating but they are no longer seen as the only legitimate framework for development co-operation."

A5: "No, not really. Rules and regulations of development co-operation are determined by the traditional donor country's government and the aid agency's head office at home. Hence these rules and regulations are strongly influenced by domestic considerations. Missions abroad in partner countries are just implementing these rules and regulations, which sometimes create tensions with the partner countries."

A6: "Generally, I don't think so. However, I think that traditional donors' emphasis on transparency has become stronger."

A7: "I can only comment on South Africa. No, my country has not changed its policies. It still supports South Africa. Despite the fact that South Africa is a middle-income country it has still many development issues, such as HIV/AIDS, high unemployment, skills shortage, poor education, etc. that need to be addressed."

A8: "Yes, I think to a certain extend. The emergence of new donors has changed the way my country is cooperating with these former beneficiary countries. There is a shift away from bilateral aid to these emerging donors which are also emerging economies. There is also a shift of ODA to other government departments in my country, such as the Department of Foreign Affairs for instance. The prosperity fund programme for example aims to promote sustainable development and growth in key emerging countries while at the same time promoting growth in my home country. However, the main objective of our development aid approach "poverty reduction" remains the same and has not been changed or altered by the emergence of new donors."

**Q4: India, Brazil and SA are not members of the DAC. However, do you think they generally agree with and adhere to DAC norms and standards?**

A1: "On a political level emerging donors do not accept DAC norms and standards. They use a different rhetoric and emphasize that their South-South co-operation approach is quite different from the development assistance approach traditional donors use. However, in practice they often adhere to DAC norms and standards, for example when they sign MOU's for trilateral development co-operation with traditional donor countries."

A2: "Officially emerging donors do not subscribe to DAC norms and standards. If they adhere to DAC standards it is done so on a voluntary basis. However, India, Brazil and South Africa have endorsed the Busan Partnership for Effective Development Co-operation, a step which signals their willingness to improve their development co-operation in terms of accountability, transparency and monitoring."

A3: "Based on statements by government officials from India, Brazil and South Africa it seems that they have endorsed DAC norms and standards as general guidelines. However, they are opposed to joining the DAC not the least because they fear to be "swallowed up" and lose influence."

A4: "There is little interest on the part of emerging donors to be part of the DAC and fully adhere to DAC norms and principles. While they might adhere to some norms and principles, they do however subscribe to a different approach of South-South co-operation."

A5: "It depends which rule we are referring to. Sometimes emerging donors lack the capacity to adhere to DAC rules and sometimes they lack the political will. They generally view themselves still as developing countries and hence adhere to the principles of South-South co-operation."

A6: "Yes, I think they generally agree to certain DAC norms and standards. They also show a willingness, albeit to various degrees depending on the country, to follow good practice examples. However, I am not sure in how far they adhere to these norms and standards in practice."

A7: "South Africa is not keen to be seen as a donor or to join the DAC/OECD. Hence it does not perceive DAC principles and standard as guiding principles. South Africa is more aligned to BRICS. However, DAC has provided platforms to bring South Africa and other emerging donors on board. "

A8: "Emerging donors like to distinguish themselves from the OECD. However, there is a lack of insights and knowledge on how South-South co-operation is defined and measured".

**Q5: Do you think that India, Brazil and South Africa share the same approach in terms of development co-operation or are there distinct differences amongst this group?**

A1: "India, Brazil and South Africa subscribe to the principles of South-South co-operation and hence share similar features when it comes to their development assistance approach, such as the tying of aid, the explicit notion of economic and political self-interest or the rhetoric of demand-driven development assistance."

A2: "Every donor is different in terms of history, economic performance, socio-political situation, etc. However, there are some commonalities between India, Brazil and South Africa. In the IBSA Trust Fund guidelines one can distil principles of South-South co-operation shared amongst South Africa, Brazil and India such as national ownership, mutual exchange, local capacity building, innovation and sustainability."

A3: "There are distinctive differences amongst this group. In fact, I wonder if South Africa qualifies to be categorized as a donor country, given the relatively small amounts that it allocates to development co-operation with other countries."

A4: "The scope of their engagement is quite different. However, they all provide development assistance mainly to neighbouring countries and focus more on infrastructure projects and investment than on "soft issues", such as early childhood development or capacity building."

A5: "They all follow the principles of South-South co-operation. Their approach is shaped by their foreign policy as well as the needs of recipient countries."

A6: "The three countries are quite different, geographically as well as in terms of size. They provide different types of development assistance depending on what they have to offer and what other countries request from them."

A7: "There are distinct differences amongst the group of emerging donors. The IBSA countries do not necessarily share the same values. In some instances, South Africa has more in common with Germany for example when it comes to Human Rights issues than with China."

A8: "There are major differences since there is no coherent approach in terms of South-South co-operation. However, there are also similarities between the three countries. For examples their development assistance is demand driven, they often provide short-term technical support and they use their own civil servants to roll-out and oversee development projects in partner countries."

**Q6: In your experience does the compliance or non-compliance with DAC norms and principles of emerging donors impact on traditional donors' aid allocation decisions towards these countries?**

A1: "No, it would not be in the interest of traditional donors to try to punish emerging donors for their non-compliance with DAC norms and standards by reducing or ending their

development assistance to them. Emerging donors are seen as key partners in the global fight against poverty, climate change or terrorism."

A2: "No not really. Development Assistance is a tool of foreign policy. Aid is allocated to a country not necessarily because the country needs it but because the country is important from a strategic point of view for the donor country. Consequently, a strategically important country will still receive aid despite the fact that it might not comply to DAC norms and standards."

A3: "No, it does not impact on traditional donors' aid allocation."

A4: "No, it does not have an influence on the co-operation with my country."

A5: "No, it does not change anything since it is viewed in the context of South-South co-operation which follows different rules and regulations."

A6: "No, it does not impact on traditional donors' aid allocation. What happens economically and politically at home in the traditional donor country has most probably the biggest impact on aid allocations."

A7: "No, my country does not interfere with the foreign policy of partner countries and does not tie development support to conditions."

A8: "Definitely not. My country's aid allocation decisions are guided by the objective to reduce poverty. Spending decisions are also influenced by a beneficiary country's internal progress in terms of economic growth."

**Q7: Is the compliance with DAC norms & standards a prerequisite for traditional donors to cooperate with emerging donors, let's say for instance in a triangular co-operation arrangement?**

A1: "Initially there was a drive amongst traditional donors to "socialize" emerging donors and integrate them into the DAC system. For various reasons this is no longer the case. It is important to note that DAC members themselves do not always follow DAC guidelines and fall short of fulfilling commitments that were made at high-level DAC forums."

A2: "I don't think so. Whoever provides the funding sets the rules of the game. If a DAC donor provides funding in a trilateral co-operation arrangement, the other two partners will adhere to DAC norms and standards. If an emerging donor provides the funding, the partners will adhere to the principles of South-South co-operation."

A3: "No, it is not a prerequisite. It is important to note that DAC norms and principles are reflecting a common understanding that the traditional donor community has developed over the years. They serve as a kind of reference point."

A4: "No, it is not a prerequisite."

A5: "No. Emerging donors are sometimes not in a position to fulfil particular DAC requirements. However, if we enter into a trilateral co-operation agreement, we ensure that DAC guidelines are adhered to as far as possible."

A6: "Yes, the terms of co-operation will be guided by DAC norms and standards. Usually the terms will be agreed on in a MOU before the co-operation starts."

A7: "No, this is not the case. My country has for example a trilateral co-operation agreement with South Africa and Zimbabwe- but on a local level."

A8: "I am not absolutely sure about this. It might form part of our standard agreement with development partners. My country follows a more pragmatic approach, which means that our co-operation with emerging donors is based on mutual interests and expertise."

**Q8: What are the traditional donors' views and expectations regarding the establishment of dedicated aid agencies in former recipient countries, such as SADPA in South Africa?**

A1: "Generally, traditional donors welcome and politically support the establishment of dedicated aid agencies in emerging donor countries. There is also an element of curiosity on the side of traditional donors involved. Just from an administrative point of view it is easier for traditional donors to liaise with one aid agency in emerging donor countries than a range of different ministries and departments."

A2: "Traditional donors are excited about the establishment of a dedicated aid agency in South Africa and are keen to cooperate with SADPA in trilateral development co-operation. They view SADPA as an opportunity to increase the volume of trilateral development projects and programmes in the region."

A3: "It would be politically correct for them to say "yes, it is a great idea to establish a dedicated aid agency". However, there is a reverse trend amongst traditional donor countries. They are actually pulling back from dedicated aid agencies and integrate them in the ministry of Foreign Affairs."

A4: "Traditional donors see the establishment of dedicated aid agencies as a positive development because they hope that this will contribute to better and more efficient development co-operation, which is also more strategic. In the past emerging donors provided development assistance to other country on request. This often resulted in rather spontaneous ad hoc decisions. Sometimes this worked out well and the projects had a positive impact but sometimes it also resulted in projects that were not thought through and showed little results."

A5: "Traditional donors think it is a great idea for South Africa to have its own aid agency. Firstly, it will make it easier for traditional donors to cooperate with South Africa and jointly roll out development programmes in the region. Secondly, it will help South Africa to better coordinate its activities and hence improve aid effectiveness."

A6: "Traditional donors view the establishment of such aid agencies as a positive development that will contribute to more and better co-operation between them and emerging donors. That is why traditional donors support emerging donors in this endeavour by providing technical assistance or the exchange of information as it is the case here in South Africa with SADPA."

A7: "My country actively supports the establishment of SADPA through study visits to my home country, skills transfers and sharing institutional know-how. It is hoped that SADPA will have the institutional capacity to manage South Africa's outgoing aid. In the past there was just one person responsible at Treasury for South Africa's development co-operation with other partners."

A8 "We support the establishment of dedicated aid agencies such as SADPA and perceive it as a positive step towards a more coordinated, consistent and strategic development assistance approach".

**Q9: Do you perceive the establishment of such aid agencies as the beginning of a new era in terms of the countries' development co-operation with traditional donors? Please elaborate.**

A1: "The establishment of dedicated aid agencies is certainly a distinct moment in the development co-operation history of a country. However, I would not say that it is the beginning of a new era. The establishment of an aid agency forms part of a longer process, in which the emerging donor country has expanded its development assistance programmes in terms of geographic reach, focus areas, financial scope and development partners involved. "

A2: "No, it is not the beginning of a new era since all of the three countries have offered development assistance to other countries for many years already. The establishment of dedicated aid agencies is in a sense a continuation of their activities and a response to the need for a more coordinated approach. Despite the fact that India, Brazil and South Africa establish dedicated aid agencies they still do not refer to themselves as "donors".

A3: "Symbolically it is a very important step in the development co-operation history of a country. In practice, a new era in terms of development co-operation with traditional donors might only start once the dedicated aid agency is fully operational and can demonstrate its effectiveness and capacity."

A4: "No, the establishment of dedicated aid agencies is not the start of a new era but a further step in a process that started many years ago when developing countries first started to provide assistance to other developing countries."

A5: "Yes, in a way it is the beginning of a new area since the establishment of a dedicated aid agency changes the relationship between traditional and emerging donors. They see each other more as "partners" rather than as "donors" and "recipients". The establishment of a dedicated aid agencies in South Africa for example also changes the perception that other

countries have of South Africa. South Africa must be careful not to be seen as the “big brother” in the region."

A6: "No, it is not the beginning of a new era but forms part of a process. It will also not drastically change the way emerging and traditional donors cooperate from one day to another."  
"

A7: "Not really. I think that the relationship between South Africa and my country will not be much affected by the establishment of SADPA."

A8: "Yes, it is the beginning of a new era. It is the point of time when bilateral aid programmes are no longer adequate and when the relationship between the country and its traditional donors changes from a recipient-donor relationship towards a real partnership."

**Q10: Do you think that the establishment of dedicated aid agencies in India, Brazil and South Africa has prompted traditional donors to rethink their development assistance strategy and make changes in terms of aid allocations, focus areas and types of development co-operation? If yes, what are the reasons for that?**

A1: "No, not really. The establishment of dedicated aid agencies as such does not change traditional donors’ development assistance strategy. Often it is perceived as a mere symbolic step in the graduation process of an emerging donor. The domestic debate in traditional donor countries has the greatest influence on their development assistance strategy."

A2: "The financial crisis and not necessarily the planned establishment of dedicated aid agencies in emerging donor countries has intensified the debate around "selectivity" amongst traditional donors where aid budgets are reduced or eliminated completely for middle-income countries in favour of prioritising the poorest low-income countries. It is felt that middle-income countries are in a position to look after their own development needs. The graduation to a fully fledged donor country does not mean that ODA stops completely it can also mean that grant based giving is transformed into more loans, technical co-operation, dialogue and exchange."

A3: "Yes, I think traditional donors have to rethink their development assistance strategies in terms of visibility, focus areas and aid effectiveness. Not necessarily in terms of aid allocations. Western donors have to demonstrate that they have more in common than they disagree on."

A4: "No, they do not change their development assistance strategies because of the establishment of dedicated aid agencies in beneficiary countries. In the case of the aid agency I represent funds will be allocated to those regions and countries where it makes the biggest impact."

A5: "No, they do not change their development assistance strategies but instead consider the new opportunities that the establishment of dedicated aid agencies in partner countries present to them."

A6: "No, the establishment of dedicated aid agencies will not cause a shift or change of development co-operation strategies. In the case of South Africa (I cannot comment on India and Brazil) our focus remains on scientific exchange, social projects, innovation and infrastructure projects. "

A7: "No, I think that traditional donors do not change aid flows, focus areas, etc. as a response to SADPA. Other traditional donors (UK or Sweden) might feel that as an upper-middle income country South Africa does no longer need their assistance and is in a position to look after its own development needs. That is the reason why they decide to reduce or stop aid. My country does not share this views and will continue with its support of these countries."

A8: "No, there is no causal link between the establishment of dedicated aid agencies and changes in terms of strategies or aid allocations. Such changes are mainly driven by domestic factors, such as financial constraints in the traditional donor country. The establishment of dedicated aid agencies forms part of a bigger picture. It is rather the economic status of emerging donors that prompt traditional donors to change aid allocations and strategies since it is felt that these emerging donor countries are now in a position to look after themselves.

**Q10a. What other factors might prompt such changes?**

A1: "Domestic factors (financial, constraints in the donor country) as well as public perceptions of voters in donor countries."

A2: "There is a trend that the number of donor countries worldwide is growing, that the total amounts of aid are increasing and that the number of beneficiary countries is decreasing. This means basically there is more aid for fewer countries. The future donors will allocate resources to countries that can be categorized as "least developed countries", "fragile states" or countries that play an important role in terms of "climate change."

A3: "Other factors that might prompt such changes are the changing needs of beneficiary countries as well as their increasing influence in determining their own development path. "

A4: "Cuts in the development co-operation budget by the governments of traditional donor countries or changes in government policies. If emerging donors become too rich or if other countries need more help."

**Q11: Do you think that emerging donors, such as India, Brazil and South Africa with dedicated aid agencies should still receive development aid? Please substantiate your view.**

A1: "There is a shift away from bilateral aid to emerging donor countries towards international co-operation for development. Emerging donor countries, often in economic terms categorized as middle-income countries, are perceived by traditional donors as being able to look after their own development needs. However, while traditional donors seem to phase out bilateral aid to these middle-income countries, they nevertheless continue with their financial assistance through other channels, such as multilateral organizations, especially when it comes to challenges of global concern, such as climate change."

A2: "Traditional donors use the economic status of middle income countries, such as India, Brazil and South Africa as an excuse to reduce aid to these countries. While they do no longer give as much bilateral aid to these countries, traditional donors use them more and more as anchor countries from which they can roll out projects in a trilateral co-operation arrangement."

A3: "Yes, I think they should. Development assistance is not just about poverty alleviation- it is part of a global consensus."

A4: "There are good reasons for both positions. On the one hand it can be argued that emerging economies are financially in a position to look after themselves. On the other hand, most poor people live in middle income countries. However, the economic status of beneficiary countries plays a more important role in traditional donors' aid allocation decisions. Whether the beneficiary country has established its own aid agency or not is not relevant in this context."

A5: "Yes, I think emerging donors should still receive aid since they have quite a number of development challenges to overcome. Since they are often champions in their regions it is important that they do not backslide in their development."

A6: "It depends on the country and has to be negotiated case by case. However, there should be a move away from this concept of "aid" towards the concept of "partnership and co-operation".

A7: "Yes, I think they should as long as they have development needs. For my country the three countries are important regional and global actors and as such play an important role in the solution of global problems such as climate change."

A8: "No, emerging donors which are also emerging economies that have attained middle income status have the financial resources to address their development needs. Our limited funds are reserved to reduce poverty in poor countries".