

# Development in Brief



No 10, 8 August 2013

## How are the "New" Donors Changing the Rules of Development Cooperation?

Author: Dr Stefan Lindemann

Editor: Annemie Denzer

The world of development finance is at a turning point: while the "traditional" donors assembled in the OECD Development Assistance Committee (DAC) still play a dominant role, their portion of the overall volume of concessional development finance (approx. USD 173 billion in 2009) has fallen from over 90% to below 70% in the past 10 years (Greenhill et al. 2013). Besides private donors and foundations, the most important "new" actors are several non-DAC donor countries (e.g. China, India and Brazil). Their relative share of total development finance may still be below 10%, but their increasing importance has led to tangible changes in the rules of development cooperation.

### Beneficiaries with more bargaining power

From the point of view of the beneficiary countries, the first positive to be highlighted is that the new donors provide them with access to additional development funds. Furthermore, and this is arguably the more important change, the recipients now also have more options to choose from: while they previously often felt at the mercy of the conditionalities imposed by the DAC donors, they are now in a better negotiating position and are better able to assert their own interests. Of particular importance in this respect is that the methods of the new and old donors often differ: non-DAC donors make their funds available comparatively quickly, deliver and construct very cheaply, do not impose conditionalities and primarily focus on what are typically priority sectors for the recipient countries, i.e. infrastructure, energy and productive sectors.

However, the methods employed by the new donors also involve certain risks for the beneficiaries. In particular, non-DAC donors can only be quicker and cheaper because they do not feel committed to the DAC Principles for Effective Development Cooperation (e.g. with

regard to transparency, environmental and social standards, involvement of the target group in planning, implementation and operation, economic sustainability standards and aid tying). This can lead to significant follow-up costs for the beneficiary countries in the medium- to long-term. The criticism of the development cooperation of the new donors is reminiscent of the criticism leveled at the old donors towards the end of the last century and which led to the introduction of the DAC standards.

### DAC donors under pressure to adapt

The development finance provided by the old and new donors was previously frequently complementary: by focusing on the MDGs, the old donors neglected major investments in the economic infrastructure and the productive sector and many new donors have come in to fill this important gap. However, the growth of the new donors has led to an increase in the areas of overlap and is placing pressure on traditional donors to adapt.

The established position of the traditional donors is called into question as they are now confronted with allegedly quicker and cheaper "competitors". Moreover, the economic and financial crisis in the north and the successful alternative development strategies demonstrated by the new donors are also raising questions of the previously generally accepted developmental expertise of the old donors.

In this overall context it is increasingly difficult for the DAC donors to impose conditionalities. The attempt to improve the opportunities for influence through better donor coordination was only partially successful due to the varying donor interests and is now also being made more difficult by the fact that non-DAC donor countries are reluctant to integrate into the established coordination mechanisms of

the DAC donors, as this would threaten their comparative cost advantages. The old donors are trying to make up for this by establishing new forms of cooperation that are in the mutual interest of all parties (e.g. trilateral cooperation).

However, the increased competition with the new donors also offers opportunities for the DAC donors. The latter now have a stronger incentive to critically review their internal processes and to accelerate project planning and implementation. This should of course not lead to a "race to the bottom" in development standards. Instead, the DAC donors have to better explain the rationale behind their conditionalities and subject them to more cost-benefit analyses in close dialogue with their partners. The dialogue at eye level should also include more open discussion on projects in areas of joint interest – an approach that many new donors have been practicing for many years and which is also widely accepted in the beneficiary countries. This focus on mutual benefits may relate to joint economic interests as well as the protection of global public goods.

### Summary: competition or convergence?

Will the new donors converge towards the DAC donors or retain their own methods? Are the old donors prepared to learn from the new donors, or will they insist on their established standards?

There are currently many arguments that point to the convergence of the positions – not always out of goodwill, but primarily because the more assertive beneficiary countries will demand more developmental quality from the new donors and increased speed and customer orientation from the traditional donors. This may ultimately benefit all parties in development cooperation. ■

### Sources

Greenhill, R., Prizzon, A., Rogerson, A. (2013): The Age of Choice: Developing Countries in the New Aid Landscape. Working Paper 364. Overseas Development Institute: London.