# *DEVELOPMENT ASSISTANCE THINKING AND PRACTICE – JAPAN, CHINA AND A PIVOT TO ASIA*

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# Development Assistance Thinking and Practice – Japan, China and a Pivot to Asia

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Abstract

Official development assistance is being redefined and the calculation method updated. This is partly in response to meeting the financing needs for the new sustainable development goals and partly in response to the emergence of new donors whose policies and practice towards development assistance differs from Western donors. This paper traces development thinking and policies in the post-war era in general and examines Japan and China in particular as these countries have a different approach to development assistance and cooperation.

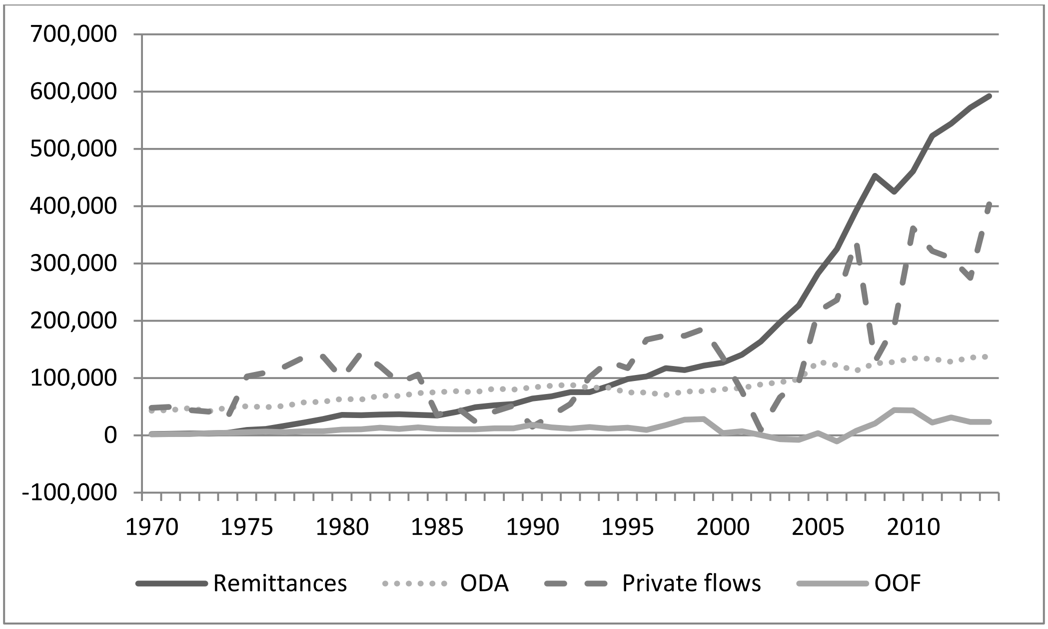
Keywords: development; development theory; official development assistance; Japan; China; DAC committee

JEL Classification: F35; N25; O10

*Introduction*

Development assistance, or foreign aid, is undergoing a transformation as to who provides it and how it is provided. Among the new providers, there are a number of new so called emerging donors, the middle-income countries that may still receive funds but have chosen to set up their own aid programs. Non-governmental organisations have expanded rapidly, and philanthropic organisations are growing in size and influence. This means that there are more providers of aid and far more funds available for development assistance in a broad sense. The newly agreed Sustainable Development Goals (SDGs) will require funding of approximately USD 2.5 trillion annually, compared to the current level of USD 100 billion per year in official development assistance flows.[1] Furthermore, the official flows are dwarfed by private flows in aggregate. These developments have led to, among other things, a revision of the way that official development assistance is defined and calculated and to a recognition that more flows should be measured to gauge development assistance.

*Figure 1. Financial flows 1970-2014 (USD million)*




Source: OECD/DAC statistical database,

Figure 1 shows that while ODA has increased at a steady pace private flows are much larger but fluctuate more and remittances have grown substantially since the turn of the millennium. These developments pose something of a dilemma with the need to fund the new SDGs. Financial flows are increasing, but is it possible to capture and direct private flows

[1] UNCTAD (2014) and OECD (2016)

more towards projects that are in line with the SDGs? The DAC initiative to calculate and publish total official support for sustainable development is part of the answer to provide a measure that is broader than both traditional official development assistance and what is known as other official flows. Private funds will be necessary to reach the level of funds needed, however they cannot easily be channelled to development purposes, nor is it straightforward to determine what constitutes a development project.

Will these developments lead to a new way of recognising aid or is a shift towards a pragmatic stance long held in Asia? This paper will examine this by examining the origins of aid, Japan's development assistance practices, the new donors' actions.

*The Origin and Changing Development Assistance*

The general view is that the modern concept of aid or official development assistance (ODA) started with the Marshall aid to Europe in 1948-52.[2] $13 billion was allocated to reconstruction in Europe after the Second World War.[3][4] $11.8 bn of this was in the form of grants and just $1.1 billion was in the form of loans. The aim was to provide finance for a faster reconstruction than if European countries were to fund the reconstruction using their own budget funds.[5] The largest amounts were for food and fertiliser (32 per cent), whereas 16 and 14 per cent respectively were channelled to energy and equipment respectively. 19 per cent went to unprocessed goods. There was thus a strong emphasis on basic needs (food) and reconstruction with energy and equipment receiving substantial amounts.

In 1960, the Development Assistance Group (DAG) was formed (which later became the Development Assistance Committee, DAC) at the Organisation of Economic Cooperation and Development (OECD). The objective of the DAG was to bring together countries providing development assistance, exchange data and to some extent coordinate and cooperate. Over the years this has become more formalised with a definition of ODA agreed upon and consequently reporting requirements for member countries.

ODA is strictly defined by the DAC and emphasises that the purpose of the money is to finance economic development and that the funds are concessional. Funds are concessional if they contain a grant element of at least 25 per cent (calculated at a discount rate of 10 per

[2] The official name was the European Recovery Program, Sorel, et al (2008)
[3] Wood (1986), Sorel et al (2008),
[4] This amounts to approximately $130 bn in current terms
[5] Wood (1986), Sorel et al (2008)

cent).[6] The calculation is based on the repayment period, grace period and interest rate. Other official flows (OOF) include export credits and loans from government agencies directed at developing countries that have softer terms than private sector credits but harder terms than ODA. Government-owned development banks and export credit agencies are the main sources of other official flows. The DAC has collated information on member countries ODA and OOF. The DAC has also been collecting data on private flows to developing countries such as portfolio and direct investments that over the years have made up a larger share of total financial flows to developing countries than the official flows.

The data indicate that about 70 per cent of ODA is in the form of bilateral flows that are managed ty donor governments or specialised agencies.[7] The remaining 30 per cent is in the form of multilateral flows. Of these about 70 percent goes through a number of multilateral development banks (MDBs) and financial institutions and 24 per cent through UN agencies and the remainder through other specialised funds with a multinational ownership. The MDBs though increase their capital by raising money on international capital markets thus augmenting the funds that they can on-lend to recipient governments. In addition, repaid loans add to the loanable funds.

The Bretton Woods institutions, the World Bank Group and the International Monetary Fund (IMF) were established in 1944 with particular mandates and aims. The International Bank for Reconstruction and Development (the largest institution in the World Bank Group) was founded with the objective of assisting development and reconstruction in territories of members, including restoration of economies destroyed by war.[8] The mandate was subsequently widened to focus on developing countries. The other institutions in the World Bank Group; the International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Guarantee Association (MIGA) were founded in 1960, 1956 and 1988 respectively. IDA provides very concessional funds to developing countries, while IFC aims to stimulate private sector development and MIGA as the name indicates is a guarantee mechanism. The IMF was founded with the objective of facilitating monetary cooperation and has no direct role in financing development projects.[9] Its mandate in developing countries is to support financial and monetary stability.

After the first decades of lending and the World Bank's shifting focus to developing countries, the then President of the World Bank decided that a thorough assessment should be

[6] Definition first set in 1969 and slightly amended in 1972. Details are in Scott (2015)
[7] OECD (2015)
[8] Article 1, Articles of Agreement, International Bank for Reconstruction and Development.
[9] Article 1, Articles of Agreement, International Monetary Fund.

undertaken of development funding and provide recommendations as to what would be the best way to support development broadly. A Commission headed by Lester B Pearson, former prime minister of Canada, was set up. The report *Partners in Development* but is commonly referred to as the Pearson report was presented in 1969. It assessed what had been achieved by aid and spelled out recommendations for multilateral aid.[10] Multilateral aid, the report argued, was better than bilateral because it made aid efforts international, enhanced performance assessments and coordination. In addition, multilateral aid could be allocated to all developing countries including those that lack bilateral ties. In a multilateral context more expertise could be pooled and it could also facilitate regional integration.

The Pearson report recommended that industrialised countries should allocate 20 per cent of their aid funds to multilaterals, and provide funds to subsidise World Bank lending. In the area of coordination, the report favoured joint country assessments by the World Bank and the IMF and consistent policy advice from the two organisations. In addition, multilaterals should aim for standardised assessments of development performance and regular estimates of aid requirements and review of donor policies and programs. The most well-known recommendation is that industrialised countries should set aside 0.7 per cent of gross domestic income to aid. That recommendation was adopted by the UN General Assembly in 1970 as a target to work towards.[11]

The Pearson Commission made a case for free and equitable international trade and investment policies, seeing trade and foreign investment as useful conduits. Industrialised countries should lower barriers to developing countries exports thereby helping them to expand their exports and generate foreign exchange. Furthermore, developing countries were recommended to develop investment friendly policies to attract foreign direct investments. Foreign investors were expected to provide jobs, technology and contribute to exports as well. The Commission also advocated debt relief, measures to slow population growth and more aid to education and research.[12] The findings of the Commission led to the 0.7 per cent target being adopted as a target for aid and it also led to the World Bank broadening its operations during the 1970s expanding into rural development for example. Many other recommendations on trade and investments for example were directed at industrialised countries and are therefore not within the World Bank's remit to do anything about. The

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[10] Pearson (1969)
[11] OECD (2011)
[12] Partners in Development (1969).

report emphasised that recipients, rather than donors, must lead development efforts for aid to be successful. There should in essence be a partnership between donors and recipients.

In the 1970s aid efforts were increased and for the World Banks it also meant a broader approach. The bank approved more projects in the agricultural sector for example. The higher oil and commodity prices in the 1970s also ushered in a need to broaden growth in developing countries, away from a reliance on commodity exports. The higher oil prices also led to commercial banks being flushed with so called petro dollars that were recycled into lending to developing countries, increasing development finance beyond ODA to certain developing countries.

The next major development in global aid thinking was the so-called Brandt report in 1980 and a second Brandt report in 1983, named after Willy Brandt who chaired both teams. The first report entitled *North-South: A Programme for Survival* called among other things for a doubling of ODA by 1985 in order for all donor countries to reach the 0.7 per cent target.[13] It emphasised interdependence between donors and recipients. The second Brandt report was called *Common Crisis,* and it moved the target date for 0.7 per cent ODA to 1988 instead.[14] The reports stressed the need for increased funding for development from individual governments and called for measures to facilitate more private sector lending. It was suggested that the World Bank co-finance commercial bank loans to developing countries for example. The first Brandt report made these suggestions as commercial banks were on-lending the petro dollars. The second report came out just as the debt crisis had started in Latin America and it called for both better measures for debt negotiations and further private sector financing. Both reports stressed the role of trade and called on developed countries to open their markets for developing country exports. Both reports talked about the contribution that foreign direct investment could make in terms of jobs and technology transfer.

In the 1980s, the debt crisis in several Latin American countries shifted the focus of major donors towards managing debt and structural adjustment in developing countries. The aim was to achieve policy reforms that would pave the way for more broad-based growth. The practice moved from seeing development assistance as a partnership between donor and recipient to a more one-sided relationship with donors imparting policy advice and attaching conditionalities. Structural adjustment was introduced as a way to implement reforms that would – it was assumed – facilitate growth and development. While new ways to deal with

[13] Brandt (1980)
[14] Brandt (1983)

developing country debt were introduced through the Baker and Brady plans respectively during the 1980s, the structural adjustment programs by and large did not achieve the intended targets.

The next shift in developing thinking and practice was an increased focus on governance during the 1990s. A number of financial crises in emerging economies raised numerous other concerns about financial flows and the international financial system. This led globally to a focus on good governance. In development projects, country-ownership was emphasised, signalling that the recipient countries own the development process and projects.[15]

In 2000, the UN convened a meeting to development and that led to the so called Millennium Declaration with the aim of eradicating extreme poverty. The more specific eight Millennium Development Goals (MDGs) followed and these were targeted to be reached by 2015. The then UN Secretary General Kofi Annan had asked former Mexican President Ernesto Zedillo to lead a panel to estimate the funds need to realise the goals and provide recommendations on how to do that. In their final report, the Panel estimated that ODA needed to be doubled and reiterated that donors should reach the 0.7 per cent of GNI target.[16] The report also suggested that when allocating ODA donors should consider the depth of poverty and the extent to which recipient country policies was effective in reducing poverty. The report also called on industrialised countries to reduce barriers to trade for developing countries, echoing the Pearson report. Furthermore, the report stressed the importance of domestic resource mobilisation to achieve the goals and recommended that developing countries work to strengthen economic fundamentals. This included economic policies, allocate spending on health and education, and strengthen the rule of law, financial system and capacity building. Another UN report, Investing in Development, published in 2005 called for significant increases in ODA to meet the MDGs. The report also recommended that developing countries should draw up development strategies indicating how the MDGs should (or could) be reached. This implied a shift in emphasis to developing country ownership of their own strategies.

As 2015 approached, work had begun on new goals to further the development agenda when the MDGs came to a close. The Sustainable Development Goals (SDGs) or Agenda 2030 was adopted. The agenda is broad with 17 goals and 169 targets and the estimated funding needs range from 5 to 7 trillion USD per year, with 3 to 4 trillion coming from the

[15] OECD (1996)
[16] Zedillo (2001)

developing countries themselves.[17] Private sector resources are also necessary to reach the level of funding required. The DAC has therefore responded with a new measure called TOSSD (Total Official Support for Sustainable Development), which should capture "the full array of officially supported bilateral, multilateral and south-south finance provided to finance sustainable development".[18] TOSSD aims to include concessional and non-concessional funds, private sector instruments and humanitarian aid from DAC members, multilaterals, officially supported NGOs and other providers. There are numerous practical details to be worked out but the initiative not only follows from the official declarations recognising the need to augment ODA to reach the SDGs but possible also recognising that there is much more to development assistance than ODA.

*New Donors Bring Change*

As the work on implementing the MDGs was underway several studies were published discussing the changes that were well underway on the donor side. First, it was noted that new donors were providing more and more development assistance. Second, NGOs have grown in size and importance as providers of assistance especially in social services. Third, philanthropic donors have emerged and become significant donors in their own right. Finally, as Figure 1 indicates, private sector flows have increased dramatically.

Among the new donors there are European countries that are not yet DAC members who nevertheless follow the DAC principles. These are mainly countries in Eastern Europe. Another group consists of Arab donors, which is actually not new. Kuwait started to provide assistance in 1960, Saudi Arabia and the UAE soon followed. Their assistance is almost entirely directed at other countries in the Middle East and northern Africa. The amounts have fluctuated considerably, much as oil prices and consequently government incomes have. According to DAC data, Kuwait, Saudi Arabia and UAE alone provided $11.4 bn in 2014. The DAC-reporting countries together provided $16.2 bn in 2014.[19]

Another group of new donors are middle-income countries like India, China and Brazil. They are at the forefront of the so called South-South cooperation. They also have a longer history of providing assistance than the term emerging donors suggest. The Bandung conference in 1955 is usually cited as the starting point for South-South cooperation. The conference led to declarations to cooperate for mutual benefit and those words have been

[17] UN (2015) A/RES/70/1 and UN (2015) A/69/315
[18] Fact sheet TOSSD: A New Statistical Measure for the SDG era, OECD
[19] OECD/DAC statistical databases

repeated as the essence of what is termed South-South cooperation.[20] The developing countries or now middle-income countries should cooperate for mutual benefit and aid one another but not interfere in domestic politics and not impose conditions along with assistance.

India began to provide some assistance in the 1960s with a technical assistance programme. China, by contrast provided aid to fellow communist countries in the years between 1949 and 1978 in total amounts estimated a $4.4 bn. Since the opening of China, the government became a recipient of ODA but began to provide assistance in a broad sense to other developing countries. By 2014, the total estimated by DAC was $3.4 bn. Russia is another large provider and Brazil is becoming a significant provider too. These middle-income countries follow on from the Bandung principles with aid that should be mutually beneficial. There is a strong emphasis on aid for infrastructure and often regional projects that aim to improve trade.[21] The total ODA from 10 non-DAC reporting new donors amounted to $5.1 bn. In addition to these emerging donor nations, philanthropic giving to development has grown significantly. An OECD survey estimated the amounts to $7.3 billion per year over 2013-2015.[22]

In reviews of emerging donors, a number of concerns have been raised.[23] One issue is a lack of transparency regarding aid among emerging donors. This followed from them using a different terminology than DAC to categorise financial flows and technical assistance to developing countries. Another concern about emerging donors is that they might support states that DAC donors do not provide funds to while sanctions are in place such as Zimbabwe and the Sudan. Woods found that China provided assistance to Zimbabwe for example. Another concern was that coordinated DAC donor efforts to achieve debt relief could be undermined by emerging donors providing new loans just as a debt rescheduling had taken place. Finally, emerging donors might offer assistance without conditions, particularly related to governance and environmental and social standards. Woods cites for example that China agreed to finance a coal-fired power plant in Indonesia that the other agencies refused to fund. Waltz and Ramachandran also analyse emerging donors and point out that the Southern group of donors rarely attach conditions to their aid but often tie to the purchase of donor country goods and services.[24] Mwase and Yang summarised the philosophies of Brazil,

[20] Final Communiqué
[21] Woods (2008)) and Mwase and Yang (2012) summarise discussion about new donors.
[22] OECD (2017), "Global Private Philanthropy for Development"
[23] Woods (2008)
[24] Waltz and Ramachandran (2011)

China and India as viewing themselves as development partners rather than donors.[25] As partners, they will not attach conditions to aid as that undermines the principle of sovereignty. Tied aid is preferred by emerging donors as this means that there is less scope financial mismanagement.

### *Japan's Approach to Economic Cooperation*

One of the largest donors in absolute terms over time is Japan. The Japanese approach has been one that can be characterised by development cooperation rather than aid as the development policies and practice show.[26] Japan's development cooperation started with reparations to Burma, the Philippines, Indonesia and Vietnam in the 1950s.[27] Japan also paid what is called quasi reparations to nine Asian countries. The term quasi reparation is used to denote that these countries did not request reparation payments but that Japan nevertheless extended it. These early funds for development were directed at restoring infrastructure that had been demolished during the war. The funds were request based, which meant that the recipient governments requested funds for a particular project and chose a Japanese supplier of goods and services. The funds were then paid to the Japanese company supplying the goods. Reparation payments started in 1955 and continued until 1976. The total amount spent was about $1.9 billion.

While the reparations payments were ongoing, Japan also started providing yen loans to governments.[28] The first loan agreement was concluded in 1958 when the government lent the Indian government money. This was followed by another loan to India the same year, which was co-financed by the World Bank. The yen loans were request-based and tied to Japanese procurement. The Japanese government used the term economic cooperation, denoting that this was indeed cooperation between Japan and the recipient.

The policy behind the economic cooperation that emerged is perhaps best summarised in the 1957 Diplomatic Bluebook. It was noted that there was a complimentary relationship between an undeveloped Asia with abundant natural resources and Japan with its technological knowhow and industries. This resulted in "economic cooperation that combines the government and private sector in a planned, high-priority, and flexible way".[29] In other

[25] Mwase and Yang (2012)
[26] For in-depth studies of Japan's aid see for example Söderberg (1996), and Rix (1980), Orr (1990), Ensign (1990), and Arase (1995)
[27] Tagaki (1995). Arase (1995), Kobayashi (2002)
[28] Arase (1995), Kobayashi (2002)
[29] Arase (1995) p 36

words, it was recognised that the public and private sector could act in a mutually beneficial way, mutually beneficial for the government and the private sector and mutually beneficial for Japan and the Asian countries. The first annual White Paper on Economic Cooperation was published in 1958 and explains that cooperation encompasses direct investment, capital, technical cooperation and trade. The paper clarifies the objectives of the different modes of cooperation and the role of grants versus loans for example.

In the 1960s, Japan's development cooperation program began to expand through concessional loans to Asian countries through the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund (OECF). The former provide export credits and other types of finance to Japanese companies that traded with developing countries. The latter provided yen loans for investments in developing countries. These loans made it possible for Japanese companies to acquire resources needed for production of goods while developing countries received investments. Fifteen of the first thirty loans were for base metals. In 1965, the OECF began to lend foreign governments money directly and on concessional terms.

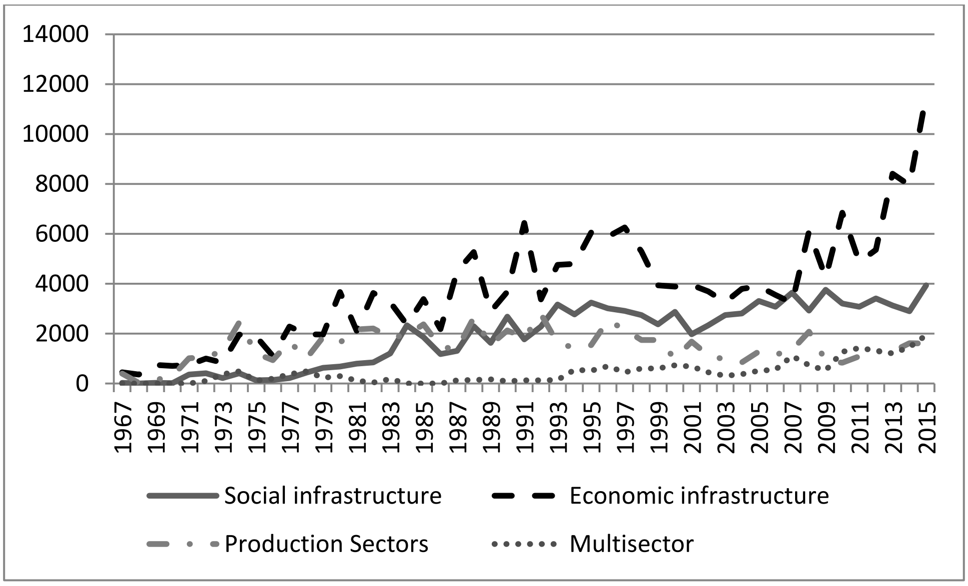
Formal targets for development cooperation were announced starting in 1977 with the aim of increasing funds available for development cooperation.[30] The motives for providing development assistance were initially rather loosely formulated and stressed humanitarian reasons and Japan's dependence on other countries. The lending programs were largely tied to procurement of Japanese goods and services and were also connected to Japan getting access to natural resources. The divergence between Japan and Western donors was obvious with Japan's emphasis on cooperation and viewing all funds flowing from to developing countries as part of that. The Western view and DAC ODA definition emphasised instead concessional, public untied funds.

In the 1980s the government stated that Japan as an economic superpower had an obligation to provide aid. Furthermore, Japan was a main creditor and surplus country.[31] It was still dependent on other countries, dedicated to peace, and also had an obligation to support developing countries as it was the only non-western country to have industrialised. In the late 1980s Japan became the largest donor in absolute terms, overtaking the United States. Criticism was levelled against the Japanese arguing that the aid was too tied to procurement of Japanese goods and services, too focused on infrastructure and that too large a share was on loans rather than grants or very soft credits.

[30] Arase (1995)
[31] Tagaki (1995)

Japan's response was to prepare a charter on development in 1992 explaining its ODA policy and priorities.[32] The Charter put forward the basic philosophy and principles guiding the work and priority issues. The priorities were assisting with global problems related to the environment and population, provide support for basic human needs as well as human resource development. Infrastructure improvement was a priority as it was considered a prerequisite to socioeconomic development and it was further noted that Japan's own development policies and experience would be put to practical use.

*Figure 2.* Japan ODA by major sector, constant 2014 prices, million USD




Source: OECD/DAC database

Figure 2 shows the sectoral allocation of Japan's ODA from 1967 to 2015 and it is clear that economic infrastructure has been the largest sector over time. This reflects the policy of fostering economic growth and building infrastructure as a base for industrialisation.

The latest charter from 2015 states that Japan should contribute to peace and prosperity through cooperation for non-military purposes, promote human security and aim at self-reliant development through assistance for self-help efforts based on Japan's own experiences.[33] The emphasis is on "quality growth" and such growth will lead to poverty reduction. There is a continued strong emphasis on development of infrastructure and industries as part of quality growth. Thus, the Japanese policy has been one of providing soft

[32] ODA Charter 1992
[33] Cabinet decision on the Development Cooperation Charter (provisional translation), February 10, 2015.

loans, ODA and others to in particular Asian countries and primarily to infrastructure. ODA has been broadened and considerable funds provided for softer areas and technical assistance but the main thrust is on economic infrastructure and a trickle down policy.

### *China's Development Assistance Policy and Practice*

China has a long history of providing financial and technical support for development projects. Before the economic reforms started in 1978, development assistance was mainly provided to other communist countries, in particular Vietnam and North Korea and some African states. The most comprehensive study of China's aid program until 1975 is by Copper.[34] The data he presents indicates that North Korea, Vietnam and Albania were the single largest recipients. Copper notes that aid was used as a foreign policy tool to build relations with socialist countries and build a non-Western bloc. In 1964, Zhou Enlai set out eight principles for China's aid emphasising "the principle of equality and mutual benefit".[35] Aid should further help recipients build their economies and free themselves of colonial control. The second principle states respect for the recipients' sovereignty and that no conditions are attached to the funding. The principles also include references to the quality of material and staff supplied by the Chinese government, in effect a type of guarantee. Aid was provided in the form of grants, low-interest rate loans and technical assistance. Grants were more common than loans until 1960 when loans became more common. The aid was essentially tied to buying Chinese products and engaging Chinese firms for a variety of projects.

The projects can be categorised as belonging to economic infrastructure, civil society and agriculture. Economic infrastructure includes the roads, railroads and airports. The most well-known is the Tan-Zam railroad in Tanzania and Zambia. Civil society projects include funding for meeting halls and theatres. Projects supporting agriculture include irrigation and also direct shipments of agricultural produce to Albania for example. The degree of concessionality during this time is difficult to assess given the paucity of data and therefore it cannot be determined whether the aid disbursed until 1975 would be classified as ODA according to the DAC-definition. The total amounts of promised aid up until 1975 are estimated by Copper to total $4.4 billion.

[34] Copper (1976)
[35] Copper (1976), p 155.

China has been a recipient of ODA since reforms started in 1978. The country resumed its membership in the World Bank in 1980, and is the third largest borrower on a cumulative basis after India and Brazil.[36] It joined the Asian Development Bank in 1986 and has become one of the largest borrowers alongside Indonesia and India.[37] The loan portfolio consists overwhelmingly of infrastructure projects. China only joined the European Bank for Reconstruction and Development in early 2016 not to become a borrower but as a donor. There are presumably foreign policy reasons behind this decision to be involved in this multilateral that extends loans to countries in the former Eastern Bloc, several bordering China.

In the 1980s, the focus in China was much more on implementing domestic reforms than on supporting developing countries. However, development assistance continued to be provided and increased rapidly after 2000. The principles for providing aid and aggregate numbers on funds provided were presented in a White Paper on aid published by the Ministry of Commerce in 2011.[38] In the paper, the strategy laid out stresses that aid is aimed at assisting countries in preparation for self-reliance and independent development. There are no political conditions attached, and mutual benefit and common development is the aim. The resources allocated for aid included grants, interest free loans and concessional loans. The first two are allocated from budgetary resources and the concessional loans are provided by the Export-Import Bank of China. By the end of 2009, a total of RMB 106.2 billion ($14.9 billion) had been provided as grants, RMB 76.54 billion ($10.65 billion) in interest-free loans, and RMB 73.55 billion ($10.3 billion) in concessional loans.

The grants are allocated to hospitals, schools, basic houses and water supply projects. Interest- free loans also help construct public buildings and project to improve livelihoods. 61 per cent of concessional loans were geared to transportation, communication and electricity and another 9 per cent to energy. The aid is tied to procurement of Chinese goods and services. The White Paper also included data on debt relief and by the end of 2009 and stated that China had provided debt relief of a total of RMB 25.6 billion. ($3.5billion).

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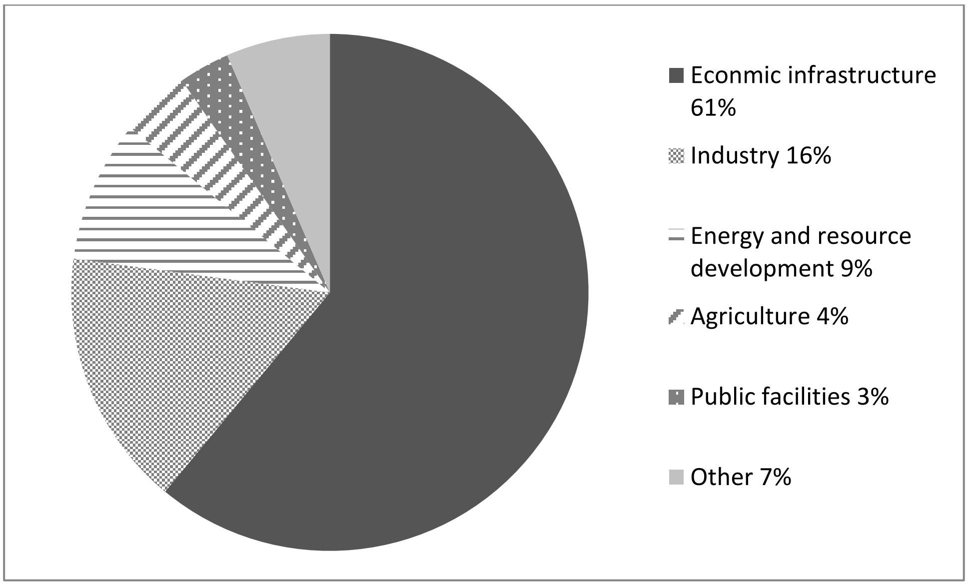
[36] As of fiscal year 2016 the five largest borrowers cumulatively were India USD 105.5 billion, Brazil USD 59.6 billion, China USD 57.8 billion, Mexico USD 54.6 billion and Indonesia USD 52.2 billion. World Bank Annual Report FY 2016.

[37] As of 2015, cumulative disbursements amounted to $24.4 billion to Indonesia, $23.8 to China and $22.9 billion to India. ADB Annual Report 2015.

[38] White paper China's Foreign Aid (2011)

*Figure 3. Sectoral Distribution of China’s Concessional Loans as of 2009*




Source: China’s Foreign Aid (2011)

The 2011 White Paper was followed by an updated paper in 2014. The policies described in the paper were essentially the same. In the years 2010-2012 another RMB 89.34 billion ($14.4 billion) had been spent on grants, interest—free loans and concessional loans.[39] The documents make it clear that infrastructure including buildings is at the heart of Chinese aid and the softer areas such as education and health care receives very little funding. Cumulative amounts by 2012 total RMB 345.6 billion ($52 billion) of which RMB 138.5 billion was in the form in grants, RMB 83.8 in interest-free loans and RMB 123.31 billion in concessional loans. The loans are tied to procurement of Chinese goods and services and thus differ from DAC members loans that are by and large untied.

China differs in its approach from DAC donors in that the latter prepare country strategies that lay out a longer term strategy for ODA to specific countries. China, by contrast, does not programme its development support but it is rather developed through high-level meetings.[40] The emphasis on infrastructure also require less permanent staffing in both donor and recipient countries.

China has thus had an emphasis on loans and tied aid in their aid program. It has stated that China’s development model is relevant for other developing countries. This is usually understood to mean an emphasis on infrastructure and industrial development taking precedence over direct poverty reducing projects. Furthermore, there is an emphasis on

[39] China’s Foreign Aid (2014)
[40] Bräutigam (2011)

mutual benefit and common economic development and refraining from any political conditions. This broader approach to utilise different types of funding and involving and/or supporting companies in the development work is similar to the Japanese model.[41] This thinking on aid and preferences is not new. China has seemingly followed in Japan's footsteps in some important respects.

In some respect there is an echo of Japan's position in the 1980, holding large foreign exchange reserves, being a creditor country and at the time being the only non-Western country that had industrialised. Japan therefore felt it had an obligation to provide aid and also to promote its philosophy of economic cooperation and help countries become self-reliant. Japan has a long tradition of economic cooperation with an emphasis on cooperation as in mutually beneficial operations. Japan is still among the largest providers of ODA in absolute terms and makes significant contributions but the philosophy has been more oriented towards being partners in development rather than donor-recipient. China is essentially following that lead with its emphasis on tangible projects preferably in infrastructure and a strict policy of aid not being political.

### *Changing Views of ODA in the DAC*

In early 2016, DAC announced that preparations to alter the definition and calculation of ODA were well underway.[42] The background as outlined in the DAC communiqué is the vast funds needed to reach the SDGs. These will require "an increasingly broad range of development actors" to work together alluding to non-DAC member countries as well as non-government entities that are engaged in development cooperation. In addition, it is noted the reaching the SDGs will require vast amounts of funds, far beyond traditional ODA. The Communiqué states that ODA will support sustainable development while also catalysing the mobilisation of additional private funds.

The concept of Total Official Support for Sustainable Development (TOSSD) should be clarified further and include all official flows, even those that do not meet the strict ODA definition, and prepare statistical databases accordingly. These databases would facilitate monitoring of the provision of funds to developing countries. Furthermore, a strong case was built for so called blended finance where official sources catalyse private funds for development. The High-level meeting in October 2017 elaborated on the need to augment

[41] Copper (2016) details the broad approach in China's foreign assistance.
[42] DAC High Level Meeting Communiqué February 2016

funds for development to meet the financing needs of the SDGs. The progress on the TOSSD was noted, with the caveat that this complements ODA. In addition, the Blended Finance Principles for Unlocking Commercial Finance for SDGs have been adopted.[43]

The recognition of the role of other official flows and their contribution to development is interesting as it implies a broadening in the thinking of development and how that can be achieved, and the role that different types of finance have as well as the actors involved in supplying and using the funds. Furthermore, the recognition of the role and need for private finance, or at least the blended finance, and the expressed intention to better measure and monitor those flows is understandable. Figure 1 shows clearly that the traditional ODA and OOF flows are dwarfed by private flows (foreign direct investments and portfolio investments) and remittances. There is thus much private capital flowing to developing countries that can contribute to development. Private flows may contribute in formal ways through the investments that are made, whereas remittances contribute at an individual level. In addition, as noted earlier a number of philanthropic organisations provide plenty of funds for specific causes. It is clear that there is a lot of capital available for development cooperation and development purpose in a broad sense.

Furthermore, as the sections above have suggested, with many more non-DAC members providing development assistance in the broadest sense there is a recognition that the DAC approach to define and measure ODA is not necessarily being adopted by emerging donors who have a different approach and view of what development assistance and cooperation can mean. It seems now that DAC needs to adjust the definition of ODA.

### *Concluding Discussion – a Pivot to an Asian View of Aid?*

Changes are underway in the way that ODA is defined and specifically calculated. This will lead to far more types of funding being counted as ODA allowing donors to add flows. The grant element in the ODA formula certainly needs to be updated to the low interest environment of the early twenty-first century but as has been discussed there are other factors contributing as well. The efforts to collect additional data to calculate TOSSD suggests that there is a recognition that traditional ODA is far too narrow to focus on, both in view of financing the SDGs and more importantly in understanding and assessing total flows and their potential impact on development.

The discussion on calculations and data collection reflects also a changing approach in thinking about development finance, beyond ODA that seems to more mirror the Japanese

[43] DAC High Level Meeting Communiqué October 2017

approach. Japan has a long tradition of economic cooperation with an emphasis on cooperation as in mutually beneficial operations. Japan is still among the largest providers of ODA in absolute terms and makes significant contributions but the philosophy has been more oriented towards cooperation with recipient countries and a recognition of the role that the private sector can play. China is essentially following that lead with its emphasis on tangible projects preferably in infrastructure and a strict policy of providing aid without any political conditions attached to it. In South-South cooperation, the concept of mutually beneficial is stressed and this is also something that Japan and latterly China has promoted, practiced and recognised openly.

The changes within the DAC certainly reflects the emphasis placed on the SDGs by member governments but they also imply a shift towards a more pragmatic stance on development finance and that the objectives can be achieved through more channels that ODA.

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