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Eastern Donors and Western Soft Law: Towards a DAC Donor Peer Review of China and India?

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The international system is still governed by a normative framework designed mainly by OECD countries, especially with regard to soft-law standards in the field of development co-operation. However, the growing relevance of 'Eastern donors' is weakening its efficiency and raises the question of how compliance with these standards can be assured in a changing donor landscape. Despite efforts to integrate emerging countries into the traditional approach of the OECD Development Assistance Committee (DAC) to monitoring compliance through peer reviews, the aid architecture of the future might turn out to be a synthesis of established and new approaches.

Key words: Global aid architecture, development co-operation, emerging donors, soft law, DAC peer review

1 Introduction

Although the rise of large developing countries like China and India has considerably changed the face of the world economy, the international system is still governed by a normative framework designed by international institutions under the auspices of mainly OECD countries. Emerging countries still remain largely outside this established system, thereby calling into question the efficiency of the existing rules of the game. This is true, in particular, in the field of development co-operation and for standards guiding relations with developing countries.

The arrival (or resurgence) of important new players in the donor community has triggered concerns among the established donors. The list of potentially negative consequences (real or perceived) arising from increasing aid-giving by donors that are not part of the OECD's Development Assistance Committee (DAC) is long: from 'rogue aid' (Naim, 2007) through accusations of free-riding to simple concern about an ever increasing fragmentation of the donor landscape. Among many developing-country leaders, however, these alternative sources of finance are more than welcome and are perceived as an opportunity for more policy space. Whoever in this discussion is right, some kind of co-ordination and common understanding around standards becomes necessary with the growing role of non-DAC donors. It seems a prerequisite for putting

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the developing world into the position of fully benefiting from opportunities arising from the new donors.

The shift of economic power towards China, India and other emerging countries points to a fundamental question, not least with respect to the 'business model' on which the OECD is built: what does it take to establish global compliance with international soft law? Even before the 2007-9 global crisis it was apparent that the new official donors needed to become part of the governance of global development co-operation. Nevertheless, this was often seen as a matter of including them in the existing DAC and other Western arrangements. As a result of the crisis, the balance of international power has irrevocably shifted, with China becoming the world's biggest creditor; the G20 London summit symbolises that shift. The future governance of global development co-operation may well evolve to become a synthesis of new and existing approaches rather than merely incorporating the new official donors. This article examines the prospects of the DAC Peer Review mechanism becoming a tool for asserting international standards in a changing and growing donor community.

The article is structured as follows. Section 2 provides an overview of the recent (re-)emergence of non-DAC donors and argues that 'Eastern donors' (i.e. Asian development partners) are the most relevant of them. Section 3 outlines concerns often associated with the rise of new donors in the Western donor community. Section 4 deals with peer review as a compliance mechanism for international soft law. Section 5 sketches the current standards in the field of development co-operation, while Section 6 traces the efforts so far undertaken to integrate emerging countries into this framework. The article concludes by pointing out common ground and remaining obstacles confronting an integration of Eastern donors into a joint peer review mechanism.

2 The (re-)emergence of new official donors

In the past, aid giving has been very much the preserve of advanced countries. It still largely is. Traditionally, donor agencies have come together in the Development Assistance Committee at the OECD and developed standards and best practices in aid delivery. However, as another sign of 'Shifting Wealth', the number of non-DAC countries that today provide aid rose steeply to more than 30 during the first decade of the twenty-first century. That number includes emerging-market countries such as Brazil, China, India, Malaysia, the Russian Federation, Thailand, and a number of oil-rich countries (Saudi Arabia, Venezuela).[1] These donors now provide significant resources. According to the DAC, official development assistance (ODA) from non-DAC donors amounted to almost US$6 billion in 2007 (Table 1). This figure, however,

1. In an attempt to classify non-DAC donors, Manning (2006) identifies 4 groups: (i) OECD countries which are not members of the DAC (e.g. Mexico, Korea, Turkey); (ii) EU countries which are not members of the OECD (especially some Central and East European states) (for these two groups DAC standards are expected to be a key reference); (iii) Middle Eastern and OPEC donors (especially Saudi Arabia, Kuwait, United Arab Emirates); (iv) a disparate group of non-OECD countries not falling into groups (ii) or (iii) (e.g. China, India, Brazil, Israel, Chinese Taipei, South Africa, Malaysia, Thailand).

only includes non-DAC donors reporting their ODA to the DAC.[2] Middle Eastern countries provided US$2.5 bn in assistance in 2006, with Saudi Arabia contributing US$2.1 bn (as reported to the DAC). China is the second biggest (behind Saudi Arabia) and, arguably, the most influential non-DAC donor, but data transparency is difficult to establish as Chinese aid often comes on a barter basis. According to Qi (2007), China's aid more than doubled from 2001 to 2007, as in renminbi terms it rose from less than 5 to more than 10 bn.[3] The amount of India's development assistance is equally difficult to establish. India announced an annual expenditure of ca. US$1 bn for development co-operation in 2007.[4] As for Brazil, Brazilian officials estimated the country's aid programme at US$437 million in 2007. Russia and South Africa are considerably smaller players with US$210 m. and US$61 m. respectively in 2007 (OECD, 2009a: 139-41). Hence, development assistance from non-DAC donors could have been around US$9 bn for the year 2007 – bearing in mind the problem of obtaining reliable data for most of the emerging donors.

Table 1: ODA by non-DAC donors, current US$ bn

	2001	2002	2003	2004	2005	2006	2007
DAC donors	52.4	58.3	69.1	79.4	107.1	104.4	103.5
Non-DAC donors reporting to DAC	1.2	3.2	3.4	3.7	3.9	5.2	5.6
Arab donors	0.7	2.6	2.7	2.1	1.4	2.5	2.6
China	0.6	0.6	0.6	0.8	0.9	1.0	1.5

Source: OECD.Stat; China data are calculated from Qi (2007) by converting renminbi into US dollars at current exchange rates.

In terms of total amounts of aid provided, so-called emerging donors remain far behind the DAC which accounted for US$120 bn of aid in 2008. However, aid volumes of these donors are already comparable to those of some very active DAC members. Looking at the 2007 DAC data and estimates for non-DAC donor aid budgets, Saudi Arabia trumps Belgium and Austria; China's foreign aid is close to Switzerland's figures; India would be comparable to Finland or Ireland, and Brazil to Portugal or Greece.

Yet, the pure aid figures presented above clearly underestimate China's and India's financial presence in the developing world, as well as the Arab donors' aid

2. These are: 'Arab donors' (Kuwait, Saudi Arabia, United Arab Emirates), Chinese Taipei, Czech Republic, Estonia, Hungary, Iceland, Israel, Korea, Latvia, Lichtenstein, Lithuania, Poland, Slovak Republic, Slovenia, Thailand and Turkey.
3. China's figures cover aid in the form of grants, interest-free loans, preferential loans, co-operative and joint-venture funds for aid projects, science and technology co-operation, and medical assistance, on a bilateral basis. Note that Chinese aid figures do not include debt relief, unlike DAC donors' reported ODA.
4. The Indian budgets for 2006-7 and 2007-8 respectively register annual grants and loans to foreign governments at US$500 m. each. The Indian Technical and Economic Co-operation Division (ITEC) of the Ministry of External Affairs was responsible for an estimated 47% of the development co-operation budget. Other government agencies involved are the Ministry of Finance's Department of Economic Affairs (which delivered around 44% of India's development assistance) and the India EXIM Bank.

activities. As for the Middle Eastern donors, only a minor share of their development assistance is transparent and reported to the DAC. The major part is not provided by their official aid agencies, but through obscure channels of their national Ministries of Finance or secret funds (Villanger, 2007). Actual aid figures might thus be even higher. As for China and India, their particular modes of development co-operation – in which ODA is a component of a wider package of economic co-operation – have to be taken into consideration.[5]

Unlike traditional donors, the new bilaterals give little in the form of debt relief (as they have small outstanding liabilities), or technical co-operation (as the domestic consulting industry is small). Correspondingly, a greater fraction of their aid is in the form of projects and programmes (Kharas, 2007). One of the largest new donors, China, provides its assistance in the form of turnkey projects, providing planning, finance, manpower and training to implement projects completely.[6] The financing is channelled not through a development agency but through the Export-Import Bank of China. Exim Bank loans, not aid, account for the vast majority of China's infrastructure finance for Africa. Consistent with the rationale of promoting trade, the financial support is typically tied to the participation of Chinese contractors (Foster et al., 2008). The IMF has estimated China's financial assistance to Africa – loans and credit lines – to total about $19bn (Jacoby, 2007).[7]

Lack of transparency on the part of China's authorities has encouraged 'China bashing'. There is also confusion between the terms 'technical co-operation', 'investment' and 'aid'. The *China Statistical Yearbook* reports on a country level the value of revenues earned by these economic co-operation projects ('value of business fulfilled'), without specifying how they are financed. In Mauritius, for example, the figure for labour co-operation is the highest in Africa; this is because Chinese companies contract to provide Chinese labour for Mauritian (and Chinese) manufacturing firms in Mauritius. These are totally paid by the private-sector companies that hired Chinese work teams. A further difficulty arises from sloppy distinctions in press reports on China-Africa technical co-operation between 'proposed', 'agreed', 'under construction', 'concluded', 'realised', '(un)confirmed'.

As business is often operated on a barter basis, financial transparency is difficult to establish. Take the *Angola Mode*, where funds are not directly lent to the recipient country, but the Chinese government will mandate a Chinese construction company (which usually receives a support credit from China Exim) to undertake the construction works following the approval of the recipient country. Then, in exchange for the infrastructure provision, the borrowing government will give to a Chinese company operating in the field of natural resources (mostly oil or minerals) the right to mine natural resources through the acquisition of equity stakes in a national oil company or through acquiring licences for production.

5. It has been impossible, however, to identify a clear pattern in India's development co-operation.
6. A detailed overview of China-Africa co-operation is provided by Brautigam (2009).
7. IMF data are based on the countries covered by the IMF's African Department (sub-Saharan Africa, excluding Sudan, Mauritania and Somalia), which are different from those covered by the World Bank's African Department. This explains the absence of Sudan in the IMF list of main beneficiaries of Chinese loans.

Note the distinctive Chinese model of doing business for resource extraction: a package that bundles a component of aid, that is not individually priced, includes a commitment for investment in infrastructure and largely bypasses the local civil service. The Chinese approach can have distinct advantages (Collier, 2008): capture by special interests and diversion into consumption, implementation bottlenecks and corruption are problems with the unbundled Western approach to resource extraction. Moreover, China's diaspora in Africa, which approaches the figure of one million people (Asche and Schüller, 2008: 31), might be conducive to closer monitoring on the ground; all the more as Chinese aid workers live at local standards (or below), including in rural areas (Brautigam, 2009). Former President Festus Mogae of Botswana probably expressed the opinion of many African rulers when he stated: 'I find that the Chinese treat us as equals. The West treats us as former subjects.'[8] To be sure, low-income countries have enjoyed a wider range of financing options as aid has come from more diversified sources; small countries, in particular, have found that non-DAC bilateral aid can be significant. However, traditional donors have greeted the new aid providers with more scepticism.

3 Western policy concerns

Former DAC Chairman Richard Manning (2006) identified some key risks for low-income countries that arise from the (re-)emergence of new donors: they prejudice their debt situation by borrowing on inappropriate terms; they use low-conditionality aid to postpone necessary adjustment; and they waste resources on unproductive investments. Old-donor policy concerns arising from new donors do not locate the risks only with policy failures of receiving countries, to be sure. A collection of blames (Moss and Rose, 2006), sharply tapered in the term 'rogue aid' (Naim, 2007), produces the following:

- fragmentation of aid delivery (Frot and Santiso, 2008; OECD/DAC, 2009a)
- violation of corporate and national governance standards (Asche and Schüller, 2008)
- free riding on debt relief (World Bank, 2006)
- unfair company competition (US Exim Bank, 2007)
- scramble for extraction rights and resource curse (Collier, 2008)

Fragmentation: The proliferation of aid projects may overburden recipient governments with reporting requirements, donor visits, and other administrative overheads, siphoning off scarce domestic recipient resources, such as tax revenue or the time of skilled government officials, from directly productive use. While the simple addition of new donors may thus add to the problem of fragmentation,[9] China has built on its own strong history of infrastructure project management to focus its aid, and prides itself on short project-preparation and implementation periods compared with

8. Quoted in Woods (2008).
9. Fragmentation of aid delivery has increased not just because of the increased presence of emerging donors, but also as a result of multilateral donor proliferation (Reisen, 2009).

traditional donors (Kharas, 2007). Note, however, that the speed of deployment and delivery of Chinese aid comes at the cost of aid being tied to Chinese companies, although competitive international bidding might not reveal more cost-effective bidders than Chinese companies. Jan Cedergren, Chairman of the OECD-DAC Working Party on Aid Effectiveness, expressed his concern about aid effectiveness ahead of the 2008 Accra Third High-Level Forum on Aid Effectiveness: 'An issue for discussion at Accra is the changing development landscape: aid is not the same as it was in 2005 ... there are donors outside of the DAC circle, such as China, India, Brazil, Mexico, the Arab countries and others. They must be included in discussions on international co-operation.'

Governance: A further Western concern about emerging donors is that their supply of finance permits governments to turn down aid that is pegged to conditionality on good governance (Woods, 2008). The violation of corporate and national governance standards is often suspected with respect to labour, the environment, transparency and aid tying. In view of the extent of the new donors' economic activities, including mining, timber and construction, their impact on already precarious social standards, the preservation of tropical forests and corruption in Africa that may arise from breaches of corporate social responsibility (CSR) are a matter of great interest. Asche and Schüller (2008), in their exhaustive study of China's developmental role in Africa, recommend in their analysis for the German government starting a trilateral CSR dialogue on Africa and supporting the establishment of Chinese CSR reporting from Africa as a crucial part of bilateral and multilateral dialogue with China. However, as Woods (2008) points out, firstly, national standards in China (as probably in other emerging lenders) can be very low, so that companies will find it difficult to respect standards that meet advanced-country levels but are far beyond those required and complied with in the emerging donors themselves: examples are the use of highly polluting, coal-based technology or work safety standards in mining. Secondly, Woods questions the extent to which standards have been furthered on the ground in recipient countries by the conditionalities imposed by DAC donors and the multilateral donor agencies; if little had been achieved, little could be jeopardised.

Debt sustainability: As emerging creditors have increased their aid and lending to low-income countries (LICs), worries have been voiced that new official lenders may be undoing years of international efforts to rein in over-indebtedness in Africa, to reduce the continent's exposure to foreign currency-denominated debt and to encourage good governance by making loans conditional on political and economic reforms (World Bank, 2006). Furthermore, (Western) government-sponsored export credit agencies have added to the external-debt problems of developing countries in the past,[10] and there was concern about the lending conditions granted by China Exim Bank and other emerging-lender institutions (Manning, 2006). In 2007, the *G8 Action Plan for Good Financial Governance in Africa* declared its commitment to:

> … applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and

10. Before the recent debt-relief programmes, 30 to 40% of developing countries' debt was owed to or guaranteed by them.

> lending practices. The *debt sustainability framework*, developed by the IMF and the World Bank, provides an important guiding tool for decisions on new borrowing and lending and we encourage its broad use by all borrowers and creditors as a way to prevent new lend-and-forgive cycles.[11]

The G20 London Summit, by contrast, seems to have toned this down: '... we have agreed to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings'.

Unfair competition: A counterpart to the claim that emerging lenders increase the risk of imprudent lending is that they benefit from subsidised capital cost, hence destroying a level playing field for international bidding in low-income countries and gaining *unfair competitive advantage* to the detriment of unsubsidised bidders. To be sure, the major Chinese actors engaging in external assistance are state-owned enterprises, and assistance on the condition of being tied is equivalent to subsidies to Chinese firms expanding operations overseas. The drive abroad has a fundamental macroeconomic explanation: excessive capital formation has driven capital returns down so as to force Chinese companies to fight against the law of diminishing returns by deploying capital abroad. US industry has called on the United States and Africa 'to hold China accountable for levelling the playing field by observing WTO rules and maybe also the OECD rule' (i.e. presumably on export credits). There are fears that the Chinese do not lend according to the financial terms and conditions set by the OECD Arrangement for Officially Supported Export Credits. More precisely, Chinese export credits could belong to the 'forbidden loans' category under the Arrangement, namely, loans that are neither 'export credits' as defined by the Arrangement, nor sufficiently concessional but that are between these two categories. Also, such loans may, in principle, endanger debt sustainability in countries with low debt tolerance (Reisen and Ndoye, 2008).

Scramble for extraction rights: The integration of the Asian giants into the world economy has caused a strong rise in prices and trade volumes of fossil energy, industrial metals and soft commodities. This has triggered a new wave of resource prospecting, in particular in Africa where the low value of discovered natural assets may suggest, assuming random distribution over the earth, that the region has more left to be discovered than the global average (Collier, 2008). While this may in principle benefit poor resource-rich countries, these have had bad growth records and high poverty rates in the past, especially if the quality of institutions and the rule of law were low. The rise of China has added to perceived energy scarcity and intensified the scramble for extraction rights, fuelling resource rents and thus potentially corruption. Without good

11. Reisen and Ndoye (2008) cautioned against relying on the debt sustainability framework as a platform to integrate emerging lenders: 'The nature of emerging lender co-operation in Africa requires a broadening of the DSF concept of debt sustainability. The growth effects of more infrastructure, better terms of trade, higher exports have to be weighed against new lending, worsened grant elements and less export diversification ... The Asian giants lower debt ratios a little through debt relief, but more so through stimulating exports and growth.' To be sure, in the absence of sufficient tax efforts and of ample global liquidity that has pushed up raw material prices, there will always loom the danger of unsustainable debt in countries with low debt tolerance.

governance resource revenues are not harnessed for development, as higher resource rents tend to lead to higher public spending that tends to be locked in by bureaucratic inertia and by effective lobbies that benefit from that spending.

The Extractive Industries Transparency Initiative (EITI) has been highly promoted as a tool for increasing transparency and curbing corruption, as part of the international soft law on which the international community increasingly relies. Admittedly, its effectiveness in reducing corruptionhas yet to be demonstrated, but the initiative is still in its infancy (Ölcer, 2009). EITI calls for the full publication and verification of company payments and government revenues. With revenues from natural resources reaching all-time highs during 2007-8, EITI is one of the international soft-law tools most relied upon by the international community to curb corruption and help the 3.5 billion – often poor – people living in countries rich in oil, gas, and minerals to benefit from the revenues from their soil. However, the emerging giants (apart from Nigeria) remain so far aloof from this initiative. As for China's inclusion in EITI, Collier (2008) notes that the EITI principle of transparency is derived from the OECD model of participatory social democracy which is different from China's 'ethical foundations for its operations'.

Table 2: China's engagement in Africa

Strong engagement	Partial engagement	Low engagement
South Africa	Zimbabwe	Malawi
Namibia	Congo, DRC	Central African Republic
Nigeria	Madagascar	Benin
Egypt	Uganda	Chad
Algeria	Mali	Sierra Leone
Liberia	Angola	Mauritania
Tanzania	Mauritius	Guinea-Bissau
Cameroon	Gabon	Comoros
Morocco	Senegal	Burundi
Ethiopia	Ghana	Congo Republic
Zambia	Equatorial Guinea	São Tomé and Principe
Sudan	Eritrea	Somalia
Libya	Niger	Swaziland
Tunisia	Botswana	Côte d'Ivoire
Mozambique	Togo	The Gambia
Kenya	Rwanda	Burkina Faso
Seychelles	Guinea	Cape Verde
	Djibouti	

Source: Muzenda (2009: 25). The Index of Chinese engagement in Africa is built on the following indicators: Chinese outward FDI flows, China's trade volume, Chinese embassies, visits by Chinese leaders (president or prime minister), Chinese attachés.

Table 2 suggests that accusations of 'predatory rogue aid' in view of China's engagement with Africa might be overdone. The African countries strongly or partially engaged with China do not only include the most corrupt, dictatorial and/or resource-rich states. Though China has certainly strong ties with some of these countries, its broad engagement on the continent inspires a more nuanced appraisal of its presence in Africa.

4 International soft law, peer review and compliance

Most of the standards designed to guide activities in the field of development co-operation can be subsumed under the notion of soft law, which automatically raises the challenge of how to ensure effective compliance. International soft law is usually defined by a dichotomous reference to hard law, the latter having binding legal effect while the former is non-binding. Three elements of soft law stand out: first, soft law is mainly concerned with 'rules of conduct'; second, these rules are not legally binding, i.e. they cannot give rise to legal obligations in a strict sense; but, third, signatories of soft law should *feel* obligated to comply and cannot simply behave as if the rules do not exist (Cosma and Whish, 2003: 29). The range of rules and standards covered by the concept of soft law can be very wide, including norms close to 'hard law' as well as weakly formulated and policed declarations of intention.

International soft law offers more effective ways of dealing with situations of uncertainty and diversity where hard law would fail. Soft law is easier to achieve than hard law, less expensive and more flexible, especially when actors are jealous of their autonomy. States can exit from soft-law arrangements without suffering fully from the usual drawbacks of such an action, such as reputational costs or retaliation. Moreover, in some fields entailing a high degree of technicality and fast-moving progress and change, soft law may be preferable to rigid, inflexible hard law (Abbott and Snidal, 2000: 423). Furthermore, international organisations revert to soft law in order to resolve the deadlock that results from heterogeneity of interests (Schäfer, 2006). In this respect, soft law is a means of dealing with situations of diversity where common prescriptions would fail to do justice to heterogeneity. It facilitates compromise 'between actors with different interests and values, different time horizons and discount rates, and different degrees of power' (Abbott and Snidal, 2000: 423) and thus permits the co-responsibility of new official donors for the international aid architecture. While greater dispersion of power will aggravate the competition for imposing own standards, international soft law appears to be a good instrument for dealing with growing diversity. But only if a certain minimum of compliance is achieved.

The OECD and other international organisations have developed mechanisms to raise the compliance with soft law, the major instrument being the peer review. Whereas soft law concerns the substance of legally non-binding rules, peer review is essentially a compliance instrument used to put soft law into effect. Peer review in the OECD context is defined as 'the systematic examination and assessment of the performance of a state by other states, with the ultimate goal of helping the reviewed state improve its policy making, adopt best practices and comply with established standards and principles'. Peer pressure is 'the influence and persuasion exercised by the peers during the [peer review] process' (Pagani, 2002). The objective is to induce participating countries by 'soft persuasion' to apply the standards that have been identified as reflecting best practices. Instruments to achieve this kind of persuasion are formal recommendations, informal dialogue, public scrutiny, comparisons and rankings. Furthermore, poor performers are singled out by ‘naming and shaming’.

Under what conditions can peer review and peer pressure work in terms of bringing about compliance with a given set of standards? Pagani (2002) elaborates factors influencing the effectiveness of peer review:

- *Value sharing*: there must be a convergence among the participating countries on the standards and criteria against which performance is measured (a minimum degree of like-mindedness).
- *Adequate level of commitment*: there must be an adequate level of commitment by the participating countries, not only by supplying human and financial resources, but also by fully engaging in the process (as examiners, members of the collective body and subjects of examination).
- *Mutual trust*: peer review is a co-operative and non-adversarial process. The process itself can contribute to confidence-building, but a large degree of trust must exist from the beginning, thereby allowing disclosure of data, information and documentation essential to the process.
- *Credibility*: there is a strong link between the credibility of the process and its effectiveness. Reports must be objective, fair and consistent. The Secretariat must guarantee the independence, transparency and quality of the process.

A further factor that will determine the degree of compliance is how tightly policed a soft-law instrument is. Peer review looks across a wide area, with some elements being subject to genuine soft law but some reflecting merely good practice to which members aspire. In practice, peer reviews have often led to rather weak and incomplete compliance. DAC peer reviews are not excluded from this criticism. The DAC Peer Reviews of Italy have repeatedly called for untying aid, on which no meaningful action has been taken by the Italian authorities. The peer-review process in itself is no panacea, and fails if the reviewed state is not sufficiently committed to the process.

Shortcomings of peer reviews also become apparent in other organisations. The failure of IMF surveillance with respect to the US financial system in the run-up to the recent global crisis, for instance, may point to another requirement for soft-law effectiveness: limits on the degree of political influence. As documents from international organisations are often ‘vetted’ by the governments concerned before they are published, the unmitigated influence of superpowers in international organisations will undermine the effectiveness of peer pressure to establish compliance with best practices and standards.

We should bear in mind, however, that states and international organisations resort to peer reviews precisely because stronger instruments are not available or because stronger enforcement would discourage states from participating.

5 Current donor standards

Section 3 has highlighted Western policy concerns that have supposedly arisen from or are connected with the emergence of new donors. Many representatives of Western donor agencies and industry lobbies seem to conclude that these policy concerns can be fundamentally addressed by including China and other new donors in existing arrangements that the advanced countries have built since the Second World War.[12] It is thus assumed that the new Eastern donors can be assimilated to Western-built international soft law. This begs the question: what would an ideal aid agency look like from a Western perspective?

Easterly and Pfutze (2008) have recently discussed (and measured) 'best practice for an ideal aid agency'. They assume transparency as a prerequisite of best practice, since without transparency no evaluation is possible. They then consider four dimensions of best practice: *specialisation* measures the degree to which aid is not fragmented among too many donors, too many countries, and too many sectors for each donor; *selectivity* measures the extent to which aid rewards good policy performance (and thus avoids countries with high perceived corruption scores); *aid channel effectiveness* measures the extent to which aid is tied to political objectives but avoids tied aid, food aid and technical assistance that research has found to be ineffective channels; and *overhead cost*, measured as the fraction of an agency's administrative costs relative to the amount of aid disbursed. We have seen that, for China (and perhaps other new donors as well), the prerequisite of transparency is difficult to accomplish as it relies on a package in which resource rights are bartered directly for the build-up of infrastructure and the aid element is difficult to disentangle, isolate and value.

While academic research may tend to emphasise measurable parameters of donor performance, the DAC Peer Reviews[13] draw on standards contained in a multitude of key references against which performance is evaluated (for example, DAC good practice papers and guidelines, the Monterrey Consensus, the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action). The *DAC Peer Review Content Guide* (OECD/DAC, 2009b) summarises these standards by providing a set of priority questions to be kept in mind when conducting a DAC peer review on bilateral donor agencies:

- Its first section addresses the strategic orientations 'that shape and frame the content of the overall development co-operation system'. This concerns the overall philosophy, motivation and vision behind development assistance, with the organisation of a country's aid system, its historical and legal basis as well as the involvement of parliament and civil society.

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12. The semantic corollary of such thinking is reflected in the term 'outreach' for a while employed by the West when trying to establish a dialogue with the new donors. The term 'outreach' begs the question, in particular in view of the number of people represented in the emerging countries: who to whom? As recently as mid-2008, one can still read in OECD/DAC (2008): 'As emphasised in the DAC Outreach Strategy in 2005, outreach constitutes an essential element of the work of the DAC ... Enhanced Engagement aims to bring partners closer to the OECD and what it stands for by engaging them closely in OECD processes while supporting their own reform processes through the adoption of OECD practices, policies, guidelines or instruments.'
13. The DAC conducts reviews of the development assistance efforts of its members every four to five years. DAC peer reviews monitor the development co-operation policies of DAC members and assess their progress against internationally agreed standards. The objective is to improve aid performance of DAC members through mutual learning and to identify good practices and foster co-ordination.

- The second section on policy coherence evaluates the extent to which aid efforts are supported or undermined by other policies in donor and partner countries, and if co-ordination mechanisms to enhance coherence exist.
- The third section looks into 'aid volumes, channels and allocations'. Does the reviewed donor country fulfil its commitments? How is aid allocated? Through which channels (bilateral or multilateral) and what are the main instruments and modalities?
- In the 'Organisation and Management' section, the reviewer assesses whether the reviewed country's aid administration and organisation are appropriate to meet the goals and objectives. Questions in this section focus on principles of sound organisational management (adequate capacity, efficient and appropriate use of resources, careful monitoring and evaluation of results, etc.) and the devolution of authority to the field.
- The fifth section focuses on questions aimed at evaluating steps taken to meet the main principles and objectives agreed in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action: Ownership (i.e. the partner country exercises leadership over development policies), Alignment (donor countries align with partner countries' strategies and use local systems), Harmonisation (donors co-ordinate, simplify procedures and avoid duplication), Results (focus on development results and their evaluation) and Mutual Accountability (donors and partners are accountable for development results).

6 The limits of outreach and dialogue activities

The Western donor community has been trying hard to engage China and other emerging countries in a policy dialogue. The question of the inclusion of new actors in established frameworks of standards and best practices is of special interest for the OECD, whose business model is based on international soft law and peer review. Failing a global reach for such soft law, it becomes ineffective. The OECD Ministerial Council Meeting of May 2007 for Enlargement and Enhanced Engagement (EE) consequently decided to begin negotiations with five selected emerging countries.[14] Two years earlier, the Development Assistance Committee launched an outreach strategy in order to foster dialogue and co-operation with non-DAC donors, which was revised subsequent to the 2007 Ministerial Meeting (OECD/DAC, 2008). To be sure, compliance with DAC guidelines is not included in the roadmaps for the accession of enlargement countries, let alone the EE countries. Since the autumn of 2008, the OECD has been seeking to establish a China-DAC Study Group, with the objective of strengthening dialogue and mutual understanding between China (International Poverty Reduction Centre in China – IPRCC) and DAC donors. The Group has agreed two work themes: (i) a joint review of poverty reduction in China and the contribution of international development to those efforts; and (ii) a joint review of selected aspects of China's development co-operation in Africa and its impact on poverty reduction. This second theme may hold elements of a DAC Peer Review.

14. EE envisages intensified co-operation with Brazil, China, India, Indonesia and South Africa. At the same time, the OECD started an enlargement process (with Chile, Estonia, Israel, Russia and Slovenia).

The DAC outreach strategy contains some more peer-review instruments that can play a role in fostering co-operation and mutual learning with non-DAC donors. These instruments – such as observership in peer-review processes and special reviews (OECD/DAC, 2008:7/8) – have to be distinguished from full-fledged peer reviews which presuppose a clearly defined community of 'peers' with the willingness to examine and to be examined. However, like the DAC-China Study Group, these instruments can potentially serve as stepping stones towards closer co-operation. Eventually, the full participation of non-DAC donors in DAC Peer Reviews would require the redefinition of the community of 'peers' as well as of the standards on which the review is based.

The OECD has many further dialogue opportunities for new and old donors to meet. The OECD Global Forum on Development and the Heiligendamm Dialogue Process have been established with fostering new-old donor dialogue as a major mandate.

The OECD Global Forum on Development was launched in 2006 as a joint DAC/Development Centre initiative to improve dialogue between the OECD and non-member governments, as well as a variety of private-sector and civil-society actors. During the Forum's first thematic cycle (2006-9), participants were identifying options for more effective development finance. Four major themes have emerged for discussion: (i) understanding the present development-finance system; (ii) putting ownership into practice; (iii) matching instruments to needs; and (iv) reshaping international development finance.

At the Heiligendamm Summit in 2007, leaders of the G8 and the group of five countries (G5) – China, India, Brazil, Mexico and South Africa – decided to embark on a policy dialogue (subsequently called the Heiligendamm Dialogue Process) on four areas, including development, particularly in Africa.[15] The initial mandate ran to the summer of 2009. At the recent G8 summit in L'Aquila, Italy, it was decided to continue and strengthen the process, now under the name of Heiligendamm L'Aquila Process (HAP).

Table 3 shows that membership of major emerging non-OECD countries in OECD committees and subsidiary bodies has grown to a considerable number, in particular at sub-committee level. However, both the absolute numbers and the level of engagement vary significantly among the major emerging countries. Russia, South Africa and Brazil are well represented as both members and observers in various OECD dialogue activities, covering from 16% to 40% of all OECD committees and more than 20% of bodies at sub-committee level as members. India and, even more so, China have integrated to a lesser extent (so far) into OECD-led initiatives; they seem to prefer observer status at the working level, a way of tapping the extensive expertise and knowledge of the organisation while at the same time limiting political engagement.

15. The other three areas are cross-border investment, intellectual property rights, and energy efficiency.

Table 3: Membership and observership of Enhanced Engagement countries in OECD committees and subsidiary bodies

	Member committee	Member subsidiary body	Members total	Observer committee	Observer subsidiary body	Observers total	Total	% committees	% subsidiary
Russian Federation	1	11	12	17	58	75	87	41	32
South Africa[a]	1	13	14	8	38	46	60	20	23
Brazil[a]	1	11	12	6	35	41	53	16	21
China	0	2	2	2	27	29	31	5	13
India[a]	0	7	7	5	22	27	34	11	13
Indonesia[a]	0	2	2	1	2	3	5	2	2

Note: a) Member of the OECD Development Centre Governing Board.
Source: Online Guide on OECD Intergovernmental Activity, April 2009.

In their engagement emerging donors will probably also take into account the possible trade-off between the costs of standing apart from established international rules and institutions, on the one hand, and of joining them, on the other. Staying aloof from international standards exposes them to the criticisms of the Western donor community outlined in Section 3. However, in a context of Shifting Wealth, where non-Western countries gain in relative importance, joining Western policy instruments might also entail reputational costs for China, and even more so for India. Convergence with Western standards could irritate relations with traditional allies in international forums, such as the G77. When considering these trade-offs, Eastern donors will weigh the rise in relative economic and political weight of the traditional G77 partners. Such a calculation might endanger Western efforts to integrate Eastern donors into their soft-law framework.

An asymmetry is noteworthy here. Policy dialogue initiatives that have been started by major emerging countries do not seem to have included, engaged, or reached out to the advanced countries in turn. The IBSA Dialogue Forum,[16] started in 2003 by India, Brazil and South Africa with a view to a joint stance in trade policy negotiations, has increasingly focused on areas of South-South co-operation and global governance concerning areas such as climate change, the Millennium Development Goals (MDGs) and the Doha Development Round of the World Trade Organisation. The United Nations is presented as the preferred hub for global policy dialogue.

The UN Development Co-operation Forum (DCF) is sometimes presented as an alternative arena for global aid negotiations.

16. For further information on intent and joint declarations, refer to www.ibsa-trilateral.org

> The DCF could provide a forum where developing countries have a greater voice and feel they are on a more equal footing with donor governments than is the case in the OECD DAC. This proposal is already hinted at in the 'Official Summary' that the ECOSOC President released after the meeting. This is a strong reason why the G77 and several NGOs are calling upon governments to hold intergovernmental negotiations on aid at the DCF rather than the OECD DAC. (Molina, 2008)

The DCF is still in its infancy, however – the first sessions took place on 30 June and 1 July 2008 – and doubts are raised as to whether it really constitutes a feasible option. First, DAC donors would have to be persuaded to switch over to a forum in which they have less power. Secondly, a transfer of negotiations on aid to a UN organ might politicise issues which the DAC has so far tried to keep technical. Finally, the question is raised as to how an underfunded and understaffed UN organisation can take over a role which also involves a high degree of monitoring and analysis. In her Eurodad report, Nuria Molina warns: '… eventually the idea of the DCF may just fall between the cracks, as many other UN processes have done'.

7 Towards a DAC peer review for Eastern donors?

While the geopolitical considerations just outlined may provide barriers to a rapid integration of Eastern donors into Western soft law, Eastern and Western donors share common concerns about development and poverty reduction. How long the way still is towards new Eastern donors becoming subject to a DAC Peer Review and what major hurdles are on the way, will now be discussed. The DAC (www.oecd.org/development) defines its mission in two key areas: (i) how international development co-operation contributes to the capacity of developing countries to participate in the world economy, and (ii) the capacity of people to overcome poverty and to participate fully in their societies. Both China and India still refer to the Bandung principles of the Non-Alignment Movement (1955) for the main guidelines on South-South co-operation: mutual respect for territorial integrity and sovereignty; mutual non-aggression; non-interference in internal affairs; mutual equality and mutual benefit; and peaceful coexistence. Solidarity between developing countries is also the fundamental motivation of Arab aid, though with a special emphasis on Arab and Muslim solidarity. According to Collier (2008), the Chinese tradition of taking a long-term perspective and attaching high priority to avoiding disorder is also a defining characteristic of its ethical value system. Consequently, both the sense of solidarity and the long-term perspective thus seem common elements of value sharing on which a joint effective peer review can be built, with the prospect of successful compliance.

While Western aid is characterised by a culture of evaluation, monitoring of project aid is facilitated by the large Chinese presence in partner countries, including in rural areas. The most important conduit of Chinese aid – the China Exim Bank – is held to conduct a careful evaluation of loan performance, in order to avoid a high share of non-performing loans in its books. It would thus seem that evaluation is unlikely to be a stumbling block for trilateral co-operation and peer review. Monitoring and evaluation capacity is in principle also given in the case of Arab donors. Moreover, with their Co-ordination Group and Secretariat they are endowed with an infrastructure comparable to an 'Arab DAC'. Neumayer (2004: 299) notes that 'there is nothing inherent in aid-giving by Arab donors that makes them incompatible with Western donors'. Indeed, Saudi Arabia and Kuwait, as well as three of the big Arab multilaterals, adhere to the aid-effectiveness principles of the Paris Declaration. Arab donors are also usually closer to compliance with some of the DAC's key standards – such as untying aid – than are China or India.[17]

While value sharing and evaluation potential seem to provide a foundation for effective peer review and peer pressure, new Eastern donors do not attach a high value to transparency. Transparency is an essential ingredient of Western democracies that are based on accountability, checks and balances, and freedom of the press. And transparency is an essential ingredient of a meaningful DAC peer review. With respect to the opacity of a large part of the Arab aid programmes, Neymayer stresses the 'Arab unwillingness to succumb to the rules of transparency, peer review and open debate that characterise the OECD's DAC'. While India does share the transparency features of Western democracies, its development policy is not exactly transparent. As for China's aid, the Chinese practice of packaged deals in which aid cannot be isolated and computed with any precision makes transparency hard to establish; the components of the package are not individually priced and it is difficult to separate aid from economic co-operation in general. How to arrive at a joint peer review of China and Western donors without compromising the Chinese model of packaging aid will therefore need to overcome the transparency issue in more intelligent ways than just asking China to become a member of a joint transparency initiative as postulated by the G8 in the past.

Collier (2008: 4) argues that the proper way to generate transparency is not to resist the Chinese model of packaging but to embrace it, and thereby introduce competition, thus revealing value and thereby generating transparency as a by-product: 'This would, of course, require a major imaginative leap in the OECD aid agencies, essentially learning to imitate the Chinese model. But genuine synthesis of approaches, as opposed to the inclusion of China into existing approaches, will require such revolutionary changes in the behaviour of OECD actors'.

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17. China and India adhere to the Paris Declaration as recipients.

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