



Development Assistance and Emerging Countries

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Concluding session of the DGCID / IDDRI series of seminars

Friday 13 June 2008

French Ministry of Foreign and European Affairs

20 rue Monsieur - Room 16

75007 Paris - France

Context:

Series of seminars on development assistance and emerging countries

In 2006 and 2007, IDDRI – with the support of the DGCID (French Directorate-General for International Cooperation and Development) – organised a series of seminars on Official Development Assistance (ODA) and emerging countries. This series of seminars was structured around 14 presentations, which first looked at the internal dynamics of change in these emerging countries (i.e. the presentations by Joël Ruet on Corporate Social Responsibility, and by Rolph Van der Hoeven and Ajit Singh on labour markets), then looked at their consequences on the world political, economic, social and environmental order (i.e. the presentations by Bertrand Château on energy, by Marcos Jank on agricultural negotiations and by Fabienne Orsi and Benjamin Coriat on intellectual property and pharmaceuticals), and finally examined how some aid agencies have taken hold of this new issue (i.e. the presentation by Ingrid-Gabriela Hoven on German cooperation with “anchor countries”)¹.

Since this series of seminars and the international conference “*Emerging Powers in Global Governance: New Challenges and Policy Options*” organized by IDDRI, IISD and SIPA in Paris on 6 and 7 July 2007², the issue of emerging countries has significantly shifted: it is no longer approached in the same academic or institutional terms. The forces behind the spectacular growth of emerging countries are better understood, along with their political, economic, social and environmental impacts on both OECD countries and Least Developed Countries (LDCs). Although many uncertainties remain, one thing is clear: the emergence of these new actors implies profound long-term changes on the objectives and practices of the French cooperation policy, and is an opportunity for urgent reform. This reappraisal concerns not only our cooperation with emerging countries, in a context in which their foreign aid expectations have changed, but also our cooperation with LDCs, in a context in which emerging countries are establishing themselves as donors, outside the framework of the OECD’s Development Assistance Committee (DAC). In both cases, it is no longer possible to maintain the status quo, and France must seize the opportunity of the emergence of these new players to reform its cooperation policy.

¹ The session summaries and papers (where the authors have agreed to put them online) are available on the IDDRI web site at: <http://www.iddri.org/Activites/Seminaires-reguliers/Seminaire-pays-emergents-et-aide-publique-au-developpement/>
<http://www.iddri.org/Activites/Conferences-internationales/Emerging-Powers-in-Global-Governance-New-Challenges-and-Policy-Options/>

On 13 June 2008, IDDRI will therefore organize a concluding session to this series of seminars on ODA and emerging countries, which will gather around 20 participants from academia, think tanks and field as well as high-level French cooperation policy-makers. This will lead to a set of practical recommendations for reforming our policy of cooperation with emerging countries, which will themselves result in the publication of a policy brief by IDDRI³. Given the specific nature of this exercise, and to direct the presentations as much as possible towards practical recommendations, the debates will be organised around three roundtables, during which the contributors will attempt to answer some major questions.

Observations:

Our cooperation policy needs a crucial reform

Emerging countries currently face exceptionally extensive and rapid growth and changes. This, in return, means that the objectives and practices of our cooperation in these countries have gradually become obsolete. In order to retain emerging countries as clients, our cooperation policy towards them must be different than towards the rest of the developing world. The new justifications for our presence in these countries are now clearly established. They revolve around a central axis: the interdependencies between OECD countries and emerging countries and their role in the production of global public goods (especially in environment and health). Two other justifications could be added to this: the persistence of pockets of poverty in emerging countries (in 2015 – and even in 2030 – most of the people surviving on less than two dollars per day will live in an emerging country), and their role as a regional leader for LDCs. But although these broad guidelines are now established, we still have a long way to go in order to ensure our cooperation with emerging countries is both better adapted to these countries' priorities⁴ and more effective, as aid agencies must strive to develop new skills in order to adjust to the demands of this new type of cooperation.

At present, the effects of the rise of emerging countries as donors, especially China in Africa, but also India, Brazil and South Africa, are largely uncertain. The “package deals” China is offering to Africa enable the continent to set up an infrastructure network that was sorely lacking until now; but at the same time, they allow China to purchase low-cost natural resources. The lack of conditionalities on Chinese aid may also reduce incentives to ensure good governance and reform. For the most part, these questions must be answered by Africans in order to maximize the opportunity of economic cooperation with emerging countries and to minimize the associated risks. But the arrival of these emerging players in the field of cooperation also presents us with a number of challenges. What sectoral and geographical specializations are required for our aid and which transmission channel (bilateral, European or multilateral) should be favoured in order to react to the emergence of these new actors? Or, more broadly speaking, what path should we follow in our collective efforts with other donors in this context (aid effectiveness or debt cancellation for HIPC)?

Objectives and organisation of the session:

The session will be structured around two subjects: our policy of cooperation with emerging countries, in a context in which their foreign aid expectations have changed; and our cooperation with LDCs, in a context in which emerging countries are establishing themselves as donors. To get the best of the discussions and in order to suggest specific paths for action, each debate will be centred on a small number of questions (see Annex).

³ In order to ensure the recommendations are completely unrestricted, they will reflect only IDDRI's views. However, to ensure French cooperation policy-makers adopt the document, it is to be hoped that certain people will agree to be directly associated with the drafting of the policy brief.

⁴ The concept of global public goods as such is disputed by some emerging countries, such as Brazil, which sees the Amazon forest as a land reserve for developing its agricultural activities.

Roundtables 1 & 2: **Policy of cooperation with emerging countries**

The debates will focus on the management of interdependencies first in the field of energy and climate, then in the field of natural resources. In order for our cooperation policy with emerging countries on the production of global public goods to be successful, two objectives must be reconciled: undertaking initiatives that are better suited to the current financial and expertise requirements of emerging countries, which now have better access to the market; and undertaking initiatives to create the conditions for a true change of development trajectory in emerging countries and then to accompany this change in order to ensure sustainable development.

The urgent need to combat climate change (a 25 to 40% reduction in the 1990 level of emissions must be reached by 2020) and the geography of world growth (China's contribution to world growth was 18% in nominal exchange rate and 34% in PPP in 2007) mean emerging countries must immediately launch initiatives for reducing their emissions. Financing for this change of development trajectory in emerging countries is based on two pillars: developed countries must agree to share some of the additional investment costs; and emerging countries must redirect their national investment capacities. The integration of these two dimensions means we must reconsider our cooperation policies. For example, the Clean Development Mechanism (CDM), originally developed as a mechanism for assisting Annex I countries in keeping their binding commitments, is not up to the challenge as it finances projects and therefore works on too small a scale: international cooperation must help to implement sectoral CDMs. And beyond its financial contributions, international cooperation must use its expertise to assist in implementing truly sectoral public policies (in energy, transport, construction, etc.).

Recognition of the growing weight of emerging countries in the global production and consumption of products that have a potential impact on natural resources also requires us to reconsider our cooperation policies in this field. For example, certain market-based initiatives such as certification, which are being applied to a growing number of sectors (forestry, fisheries, agricultural products, etc.), or measures aimed at combating the illegal exploitation of forest resources, will only be effective if they are drawn up in consultation with emerging countries. Furthermore, cooperation initiatives must face new challenges that mean climate mitigation policies should be better integrated into natural resources management policies, especially as regards the rise of biofuels and the inclusion of the "avoided deforestation" issue in climate negotiations.

Roundtables 3: **Policy of cooperation with LDCs**

Although the exact amount of Chinese economic cooperation in Africa is uncertain⁵, its sectoral specialization in infrastructure is clear⁶. Infrastructure is a central element of Chinese economic strategy in Africa: China has particularly launched a construction project for a vast infrastructure network (road, rail, port etc.) around the Special Economic Zones (SEZs) it has negotiated with several African states (Zambia, Mauritius and Tanzania). These initiatives and many others describe the contours of the changing economic situation in Africa, to which we must adapt our cooperation policy. Furthermore, Chinese aid is very attractive to African States not only because it has no conditionalities, but also – paradoxically – because it is self-interested, and therefore deemed to be less hypocritical. The emergence of a new and powerful player on the African continent therefore demands that we clearly lay our agenda on the table

⁵ If we consider the DAC's definition of ODA, which the Chinese do not recognize, Chinese aid to Africa is probably close to USD 2 billion.

⁶ Around 80% of China Exim Bank's loans: the construction of roads, railways, port infrastructure, dams and mines, etc.

(climate, energy, agriculture, migration, etc.) in terms of cooperation with African States (which must not imply a return to tied aid).

Program:

9.00 – 9.15: Introduction

Laurence Tubiana (IDDRI)
Jérôme Pasquier (DgCID)

9.15 – 11.00: Development, Energy and Climate

Michel Colombier (IDDRI)
Bernard Laponche (Global Chance)
Anoop Singh (Indian Institute of Technology)
Fernando Cavalcanti Walcacer (Pontifícia Universidade Católica do Rio de Janeiro)
Yanli Hou (Energy Foundation China)

Coffee Break

11.15 – 13.00: Natural Resources

Raphaël Billé (IDDRI)
Kerstin Canby (Forest Trends)
Joseph D’Cruz (UNDP-GEF)
Su Chin Teoh (Asian Development Bank)
Dorothea Groth (German Federal Ministry of Economic Cooperation and Development)

13.00 – 14.00: Buffet - Lunch

14.00 – 15.45: Cooperation with LDCs

Emmanuel Guérin (IDDRI)
Martyn Davies (Center for Chinese Studies at Stellenbosh University)
Helmut Reisen (OECD)
Uwe Wissenbach (European Commission)
Mary-Françoise Renard (CERDI)
Faustin Mwape (NEPAD)

Coffee Break

16.00 – 17.00: Experience sharing and possibilities for reform

ANNEX: Questions for the roundtables

Questions for roundtable 1:

French cooperation policy with emerging countries – climate

The urgent need to combat climate change (25 to 40% reduction in the 1990 level of emissions must be reached by 2020) and the geography of world growth (China's contribution to world growth was 18% in nominal exchange rate and 34% in PPP in 2007) imply that emerging countries must immediately take substantive actions to reduce their emissions. The main issue regarding these countries is to avoid lock in of carbon intensive investments in three key sectors: power sector, buildings and infrastructures for transport. For example in China, business as usual scenarios suggest that 70% of the 1260 GW of new power stations that will be built by 2030 will be coal fired (IEA). Given the lifespan of these investments, they will shape the future emission trajectory. Financing for this change of development trajectory in emerging countries is based on two pillars: developed countries must agree to share some of the additional investment costs; and emerging countries must redirect their national investment capacities. But beyond the need for financing, the implementation of sound public policies is key to success.

- How could international cooperation support the implementation of domestic policies with climate co benefits in emerging countries?
- What are the current barriers to the implementation of such policies in emerging countries? And what are their needs in terms of international assistance (finance technical assistance (capacity building...), expertise)?
- A report on Investment and Financial Flows to Address Climate Change to 2030 by the UNFCCC Secretariat finds that addressing climate change will require an overall net increase in global investment and financial flows of approximately US\$ 300 billion in 2030. Given the geography of world growth, emerging countries surely will represent an important share of this figure. Some of these investments can be financed by the private sector, others cannot. Equally some of them can be self-financed by emerging countries and others cannot. What kind of costs should international public money finance? And what are the appropriate instruments?
- The investment needs vary among sectors, from private (cement...) to public (infrastructure for transports...), while some regulated sectors will require some new forms of public private partnerships (power sector). Could and should ODA satisfy these different investments needs, partially or totally?
- What is the rationale behind the need for bilateral cooperation (and especially for the French cooperation) to provide this type of global public good, within the context of the multiplication of international funds and mechanisms? How can we coordinate these mechanisms? For example, should ODA do what other mechanisms (like the CDM) are unable to do, or should it pave the way for these mechanisms?

Questions for roundtable 2:

French cooperation policy with emerging countries – natural resources

Recognition of the growing weight of emerging countries in the global production and consumption of products that have a potential impact on natural resources requires us to reconsider our cooperation policy in this field. Emerging countries also now have a larger access to financing, which creates new challenges for development assistance. In order for our cooperation policy with these countries on the production of global public goods to be successful, two objectives must be reconciled: answering the current financial and expertise requirements of emerging countries; and proposing initiatives to create the conditions for a true change of development trajectory.

- What should be the overarching objective of the French development with emerging countries regarding the natural resources? Development (considering the synergies between the management of natural resources and development)? Provision of a regional/global public good?
- What strategy should the French development assistance adopt? Give more weight to the management of their natural resources? Encourage them to express their views in the international consultations?
- What are the needs of emerging countries in terms of assistance, both now and in the long term? And of what kind are they (financial, technical or scientific)?
- At what level would French assistance be most valuable? At the local, national, regional or continental level?
- How can France articulate its partnership with emerging countries and its protection of protecting natural resources in their “supplying” countries (e.g. forests in Africa)?

Questions for roundtable 3: French cooperation policy with LDCs

At present, the effects of the rise of emerging countries as donors, especially China in Africa, but also India, Brazil and South Africa, are largely uncertain. The “package deals” China is offering to Africa enable the continent to set up an infrastructure network that was sorely lacking until now; but at the same time, they allow China to purchase low-cost natural resources. The lack of conditionalities on Chinese aid may also reduce incentives to ensure good governance and reform. For the most part, these questions must be answered by Africans in order to maximize the opportunity of economic cooperation with emerging countries and to minimize the associated risks. But the arrival of these emerging players in the field of cooperation also presents us with a number of challenges. The economic and political reality is changing in Africa, and France needs to adapt its cooperation policy.

- What are the likely impacts of Chinese aid to Africa on donor coordination (Paris Declaration on aid efficiency...)?
- From an African development perspective, is such a “competition” between donors positive or negative (policy space vs. absence of coordination...)?
- Chinese aid is – most of the time – welcomed by African countries, maybe because it comes without conditionality. But also because it is often considered as less “hypocrite” than western aid, since it is linked to Chinese economic interests. We should probably clarify our interests in Africa. What is our African agenda?
- The absence of conditionality of Chinese aid also raises the issue of debt canceling (HPIC initiative...). What is the likely impact of Chinese loans to African resource-rich countries on international efforts to cancel the debt of HPIC (Paris club...)?
- On the mid term, the scaling up of Chinese aid flows to Africa represents the emergence of a new giant in the development assistance landscape. Which channel of transmission should France favour: the bilateral channel, a concerted European response, or the multilateral level?
- What should the consequences of this scaling up be on the progressive move of France to untie its aid?
- Chinese aid is specialised in infrastructure (around 80% of Exim Bank of China’s loans). Should France take into account this specialisation and revise its own? And what is the comparative advantage of French cooperation?