



The Asia Foundation

**The Changing Aid Landscape in East Asia:
The Rise of Non-DAC Providers**

Revision

May, 2014

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EXECUTIVE SUMMARY

Introduction

The international development landscape has changed dramatically over the past two decades. Asia has played no small part in this, and will continue to be a driving force in the years to come. With a number of Asia's aid recipients achieving higher levels of income and increasingly driving the global economy, traditional donors are reconfiguring their aid programs. Aid from traditional donors to Asia fell from \$45 billion in 2005 to \$25 billion in 2010 (Commonwealth of Australia 2012), and few Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) donors are currently expanding their aid programs at the global level. Global aid has fallen by six per cent since its high point in 2010 (OECD 2013). The OECD expects a further decline in aid levels through 2015 (OECD 2012). Meanwhile, the volume of development cooperation from non-DAC (particularly Southern) providers is increasing. Non-DAC contributions could account for at least \$50 billion in aid or aid-like flows by 2025. This is probably a conservative estimate. China and India are significant players. A number of the most visible programs are based in East Asia.

This paper summarizes research conducted by the Asia Foundation for the Australian Department of Foreign Affairs and Trade. The research was designed to provide development cooperation stakeholders with an understanding of four issues: (i) trends in the value and nature of aid to developing East Asia from non-DAC bilateral providers and the private sector; (ii) the objectives and strategies of non-DAC development partners; (iii) how non-DAC providers are changing the nature of development partner engagement in developing East Asia; and (iv) the implications for DAC aid. The research examined non-DAC flows to eight countries: Cambodia, Indonesia, Laos, Mongolia, Myanmar, Philippines, Timor Leste, and Vietnam. It addressed three kinds of providers: Arab, Asian Southern, and private.

Overview of Changing Aid Landscape

Any close analysis of non-DAC donors¹ in East Asia will quickly reveal that the way in which development cooperation is designed and delivered is changing the aid landscape significantly. In the face of this transformation, traditional donors are starting to take a closer look at the development cooperation market in which they are now operating. Non-DAC donors, as a whole, are explicit about using and offering 'aid' as one part of a larger set of foreign policy instruments that they bring to their engagement with partner countries. These instruments may encompass traditional grant aid, lines of credit, concessional loans, trade, investment, and technical cooperation. This blending has been controversial and has prompted questions about the boundaries of "aid." It has also made efforts to quantify aid, according to standard measures, difficult. Non-DAC donors are offering recipient countries a new way of doing business that places emphasis on notions of mutual benefit, respect for sovereignty, demand-driven, and "no strings attached" policies. These often translate into approaches that are considerably less normative and more 'hands-off' than traditional donor assistance.

At and since the Busan High Level Forum, there has been a growing sense among non-DAC donors that Southern development cooperation offers a new paradigm for partnership and therefore requires its own coordination and consultation mechanisms. India is likely to play a leadership role in this area. Korea can also play a significant role as a bridge between DAC and non-DAC providers.

¹ In the text the authors use the terms non-DAC donors as well as non-DAC providers to mean development partners that are not part of the OECD Development Assistance Committee (<http://www.oecd.org/dac/>).

Non-DAC Provider Analysis

The paper reviews the strategies and approaches of bilateral non-DAC donors that we have categorized as Asian Southern Providers² (China, India, Thailand, Indonesia) and Arab Providers (Kuwait and Saudi Arabia). For each of these, the research offers a brief summary of the institutional arrangements, the history of development cooperation and future trends. There are two common issues that stand out from this analysis relating to the types of instruments being used and the transparency of information.

For all the Asian Southern Providers, there is an increasing interest and support for lending instruments- concessional, lines of credit, and commercial- as the central instruments of development cooperation. This is especially true for China, but increasingly for India. Not all of these instruments are 'aid' but are seen as supporting the larger foreign policy framework and economic agenda of the providers.

Lack of transparency amongst the non-DAC donors is a key issue (and one that made much of the research in this analysis a challenge). The research suggests that the lack of transparency is not intended as subterfuge, but is instead a result of factors such as (i) complex institutional structures and human resource constraints for cooperation programs, ii) concerns about domestic accountability, and iii) the impacts public disclosure may have on partner countries. China, in particular, is clearly aware of the global scrutiny over its development cooperation activities and concerns about transparency. It is also mindful of managing critical domestic public opinion from a Chinese population that is still struggling with its own development challenges. The 2011 (and forthcoming 2013/14) White Papers on foreign aid demonstrate China's efforts to articulate its positions and activities to both external and domestic audiences. India faces similar challenges in demonstrating a clear and transparent approach to its development cooperation policies.

The research also looked at private sources of development cooperation. While this is an enormous and well-research subject in and of itself, the research presents an overview of some of the salient features of philanthropies and private donors, social enterprise and impact investing and corporate giving and corporate social responsibility. Within these, the research finds that philanthropies and private donors are most often targeting resources at specific issues and countries with a particular focus. Impact investing is a growing field, but is challenging to define precisely and not yet operating at scale (outside of the microfinance sector). Corporate social responsibility efforts are relatively limited in scope and size and appear to have limited impact on the development cooperation marketplace.

One common feature across all of the non-DAC development cooperation (with the exception of philanthropies and private donors) is the extent to which the rationale for cooperation with specific countries and the type of cooperation is linked more to geopolitical issues, shared economic and political interests, and recipient demand than to sector-based approaches relating to poverty and need.

Country Analysis

The country analysis focuses on the eight target countries (Cambodia, Indonesia, Laos, Mongolia, Myanmar, Philippines, Timor Leste, and Vietnam) and provides a summary of the way in which non-DAC development cooperation is being delivered, highlighting some of the unique local contextual issues that influence and are being influenced by the changing aid landscape. Efforts to

² This term is used to refer to non-DAC Asian Southern Providers. Discussions of the role of Korea and Japan (both DAC) as donors is well documented elsewhere.

quantify aid flows are presented in Annex 1, but should be seen as indicative, as it is difficult to access consistent and current data.

In the eight countries studied, China is by far the dominant non-DAC provider, although India and Thailand are also consistently present. Geopolitical issues are determinants of non-DAC providers' engagement. In the East Asia region these are played out between China, India, and Japan (Myanmar), China and the US (Philippines), and China and Vietnam (Cambodia and Laos), as these dominant powers compete for influence using a variety of soft and hard power tools.

The aid landscape in countries like Mongolia and Timor Leste are very much influenced by interests around resource extraction. Myanmar is particularly strategic at the moment and will likely see increasing aid flows from India because of its strategic role as an economic neighbour and buffer to China.

Within the focus countries, Indonesia is both a development cooperation provider and recipient with a particular interest in South-South and trilateral cooperation. Almost all of the recipient countries have some activities aimed at providing technical assistance to neighbouring countries, even if it only involves small symbolic activities.

At the country level, non-DAC providers are not active in traditional donor-led coordination mechanisms. They are more likely to participate in government-led meetings but prefer to negotiate and coordinate their assistance directly with partner governments.

Findings and Recommendations

The paper presents its main findings and offers some recommendations for the consideration of the Australian Department of Foreign Affairs and Trade and other development cooperation partners. The six key recommendations are summarized here.

1. **Stay the course in middle-income countries and look carefully at strategic programming opportunities.** Non-DAC donors will continue to be active in the arena -- influencing, investing, and shaping with soft power. Regional prosperity and inclusive growth pivots on the development trajectory of East Asia's middle-income countries.
2. **Look for opportunities to leverage 'aid' funds within a wider set of public and private instruments to achieve development outcomes.** One of the main findings of the report has been the complexity and interconnectedness of the instruments that non-DAC providers use to support recipient countries. Public and private instruments are often blended. There may be opportunities for Australian development cooperation to identify its own blended instruments in providing more responsive and creative financing tools.
3. **New partnerships with non-DAC providers are important, but require careful strategies for identifying entry points and influencing opportunities.** All of the non-DAC providers featured in this report rely heavily on their headquarters for decision-making and policy direction. If Australia is interested in fostering stronger collaborative relationships with non-DAC providers, there will be a need to identify ways to engage with decision makers in China, India and Thailand. Indirect approaches to collaboration and engagement are likely to be most successful.
4. **Review the development landscape and traditional partnerships and modalities. Regional forums are an increasingly important mechanism for collaboration in Asia on issues of greatest importance to countries in the region.** Re-examine engagement with multilateral institutions and see if there are new regional partners that may be more locally

effective at achieving development outcomes. In the context of a new aid landscape in middle-income Asian countries, there may be scope to review and reexamine relationships and modalities of development cooperation- notably with multilateral banks. Australia is in a unique position to capitalize on its role as an Asian neighbour and has the potential to help integrate development themes into the agendas of regional forums.

5. **Be proactive in seeking out opportunities to work with non-DAC donors to strengthen their knowledge, capacity, and partnerships.** There appears to be an appetite amongst non-DAC providers to learn and exchange approaches on development cooperation. In recent years, donors, like Korea, have undergone a significant shift in their development policy approaches- moving from hardware-focused approaches to a more nuanced and holistic approach to development cooperation. There appears to be a similar appetite in China, India, and Thailand. However, finding the right entry point and modality for effective learning is challenging. Indirect, track two approaches that build both on the expertise in the region as well as the expertise within academic and policy institutes operating in provider countries can be a successful but require long-term commitment and flexibility.
6. **Support genuine country ownership and work with recipient countries to make more informed decisions about their development investing and infrastructure.** Country level research indicates that with the increase in development lending, there is greater scope for partner decision-making practices that result in suboptimal infrastructure and financing decisions. There is a continued need to provide technical assistance and capacity-building to national government institutions- almost without regard for sectors- so that they can design, bid out, award, and supervise the implementation of projects. Strong projects that are honestly awarded will help the country, no matter where the financing comes from.

1. Introduction

In August 2013, AusAID (now DFAT (Australian Department of Foreign Affairs and Trade) commissioned The Asia Foundation³ to undertake a rapid research project to review the changing nature of the aid landscape in developing East Asia, with a particular focus on the role of non-DAC donors. The research was carried out between August-September 2013 based on secondary data and interviews.

1.1 Objectives, Methodology, Caveats, and Presentation of Aid Data

Objectives: The paper aims to provide stakeholders interested in Australian development cooperation with better data and understanding of (i) trends in the value and nature of aid to developing East Asia from non-DAC bilateral providers and the private sector- with a particular emphasis on southern providers such as China and India, (ii) the objectives and strategies of non-DAC development partners and how they align and differ from traditional or Western donors, (iii) how non-DAC providers are changing the nature of development partner engagement in developing East Asia and (iv) the implications for Australian aid.

This analysis was commissioned as part of a broader research agenda on the future of poverty and aid in developing East Asia, which AusAID planned to use to inform its strategic engagement with East Asia.

Methodology: The research relies primarily on secondary data, drawing heavily on The Asia Foundation's own work stream on 'Asian Approaches to Development Cooperation' (AADC)⁴. One of the major challenges in this research project is that there are no consolidated sources that provide data on non-DAC aid flows. The research team relied on secondary material from a range of sources.

Primary data sources included (i) interviews with Asia Foundation country teams in Mongolia, Cambodia, Laos, Philippines, Timor Leste, Vietnam, Indonesia and China (ii) interviews with individuals working directly with development cooperation agencies in China (MOFCOM), Thailand and India. Asia Foundation country teams also conducted selected interviews with key respondents in their countries.

Secondary data sources included (i) papers and presentations as part of The Asia Foundation's AADC work, and (ii) media and web sites in all countries, including local language scans.

Caveats: The research team encountered a number of challenges.

- Data from non-DAC providers is not widely available, particularly from China⁵, where development cooperation data is protected by the state. While aid transparency initiatives like Aid Data⁶ have been successful at capturing a wide range of DAC and non-DAC sources, they have been unable to capture data from China, which is a major limitation. Data that is available is not presented in a consistent format (abiding to common definitions of aid). The lack of clarity around what is considered to be aid also adds complexity with projects offering blended instruments that may include subsidy, grants, and investments. As a result, the research team has been unable to offer

³ Anthea Mulakala, Director, International Development Cooperation, The Asia Foundation, and Nina Schuler, Consultant, are the main authors of this research. The authors were supported by The Asia Foundation country offices which provided much of the country-specific information.

⁴ The research team was also able to draw information from two ongoing research initiatives that have been supported under the AADC work stream. In India, The Asia Foundation has been supporting the Indian Development Cooperation Research Centre at the Centre for Policy Research (IDCR/CPR), to develop and maintain a database on India's development cooperation. In Thailand, The Asia Foundation has supported a small research team at Thammasat University to analyze Thailand's development cooperation programs.

⁵ AidData has some limited information on aid flows from China, but this data is controversial and was therefore not used as a primary data source for this analysis.

⁶ <http://aiddata.org/>

statistics on aid trends, but has instead presented tables that highlight the types and volume of projects within each country. It has also relied on analysis from local partners to help identify potential trends.

- In some countries like Cambodia, Vietnam, Mongolia, and Indonesia, discussions of aid from non-DAC sources are highly politicized and there is limited public information available.
- The parameters of the research project (as defined by AusAID) included private development assistance as part of the analysis. However the research team recognizes that 'private development assistance' is a broad category that includes private philanthropy and private sector/social enterprise and as such would require a separate research endeavor to present a full and accurate picture. In order to manage this, the research team focused on philanthropic flows that may be considered 'significant' (more than \$1million dollars per year) focusing on some of the largest foundations i.e. Gates Foundation and GAVI. For the private sector, the research aimed to identify significant corporate social responsibility activities, but data on allocations was difficult to track down, particularly data disaggregated at country level.

Presentation of Aid Data: Data on aid flows from non-DAC countries is included in tables as Annex 1. The following points should be considered when reviewing the data.

- The data presented in the tables is indicative and not exhaustive.
- Data from 2008-2013 have been prioritized.
- Development cooperation contributions (or flows) from bilateral donors or private institutions less than \$1,000,000 per year have not been included.
- All of the data from India has been collected by IDCR/CPR from primary sources.
- Where possible, data has been collected from the Aid Data or OECD DAC websites directly.
- For China, data has been collected largely from media scans and scholarly articles.
- USD is used as much as possible. Where conversions are given, the approximate exchange rate at the time of the loan/grant is used.

Flows are categorized as follows:

- **Development Loans and Lines of Credit:** in this section we have aimed to capture large (mostly infrastructure) loans and projects that may ***be considered as aid by the provider country***. In some cases the terms of the loans may not be considered concessional by DAC standards. This includes loans which appear to be developmental in objective and offered at very competitive rates.
- **Grants and Technical Assistance:** refers to all grant programs and technical assistance above the \$1million/year threshold, but in some cases includes smaller initiatives to give a feel for the types of initiatives supported. This section has not systematically captured scholarship programs or South-South technical assistance programs.
- **Foundations and Private Sector:** aims to capture some of the largest programs. Focus was given to the Bill and Melinda Gates Foundation, GAVI, Ford Foundation, Rockefeller Foundation and where possible, regional philanthropies and Corporate Social Responsibility initiatives.
- **Aggregate:** captures some data that may be compiled from multiple loans, grants and other support.

2. Overview of Changing Aid Landscape in Asia

While the topic of a changing aid landscape has achieved considerable research attention in the last 3 years, much of the research highlights the same themes regarding transparency of aid flows, what counts as aid flows, and speculations on the fate of the aid landscape. This section will summarize this research with an eye to the following questions:

- a) Who are the emerging donors?
- b) Is there a 'Southern model' of development assistance and if so, what does it look like in terms of principles and modalities?
- c) To what extent is data about non-DAC donors available? And what are the implications of limited transparency?
- d) How effective are current coordination mechanisms for working with DAC and non-DAC donors?

Twenty years ago, Asia was home to more than 80 per cent of the "extreme poor" (defined as those living on less than \$1.25 a day)⁷ and the region was also the largest recipient of foreign aid in history—India alone received a total of \$55 billion from 1951 to 1992. Rapid economic development in Asia has resulted in a decrease in absolute levels of poverty with the MDG on 'halving extreme poverty' having been reached 5 years early, largely due to progress in East Asia.⁸ China alone has lifted more than 500 million people out of extreme poverty. Although South Asia as a sub-region has not had the same success in terms of reducing absolute poverty rates,⁹ India, like China, has emerged as one of the world's biggest economic players. Asia is on track to boast four of the 10 largest economies in the world (China, India, Japan, and Indonesia).¹⁰ The OECD estimates that China's GDP will reach 28 per cent of global GDP by 2030, and that India's will climb to 11 per cent.¹¹

At the same time, middle-income countries now account for around 70 per cent of the world's poor, compared with less than 10 per cent two decades ago.¹² This fact has prompted an increasing interest in inequality within countries, particularly in the context of the work of the UN High-Level Panel on the Post-2015 Development Framework—but it has also created some policy consternation among traditional donors, whose resource allocation policies are built around poor countries, not poor people.

2.1 Decreasing of OECD DAC donor assistance to Asia

In recent years, OECD Development Assistance Committee (DAC) donors have been facing increasing pressure and criticism about the efficacy and need for continuing and expanding aid programs—

⁷ United Nations. Department of Economic and Social Affairs. *Rethinking Poverty: Report on the World Social Situation 2010 - Chapter II: Poverty: The Official Numbers*. New York: United Nations, (2009): 19. Print.

⁸ World Bank. *World Development Indicators 2012*. Washington: World Bank, April 2012. Print.

⁹ Absolute poverty rates in South Asia actually increased from 1990 to 2005. See page 26 of the above United Nations report.

¹⁰ A PwC study projects that in PPP terms, global GDP rankings in 2050 will be as follows: China first, India second, Japan fifth, and Indonesia eighth. PricewaterhouseCoopers LLP. "[The World in 2050: The Accelerating Shift of Global Economic Power: Challenges and Opportunities](#)." PricewaterhouseCoopers January 2011: 9. Print.

¹¹ Greenhill, Romilly, and Annalisa Prizzon. "[Who foots the bill after 2015? What new trends in development finance mean for the post-MDGs](#)." *Overseas Development Institute Working Paper* 360, October 2012: 13. Print.

¹² Sumner, Andy. "[Global Poverty and the New Bottom Billion: What if Three-quarters of the World's Poor Live in Middle-income Countries?](#)" *Institute of Development Studies Working Paper* 349, December 2010. Print.

particularly in Asia where many aid recipient countries have been successful in increasing levels of income and taking on larger roles in the global economy. Following a protracted public debate, the United Kingdom is ending its aid program to India in 2015¹³ and has already ended aid to 16 countries that “no longer need it,”¹⁴ including China. Aid from traditional donors to Asia fell from \$45 billion in 2005 to \$25 billion in 2010,¹⁵ and only a handful of OECD Development Assistance Committee (DAC) donors, including the UK and Australia, are currently expanding their aid programs at the global level¹⁶. Global aid has fallen by six per cent since its high point in 2010.¹⁷ The OECD expects a further decline in aid levels through 2015.¹⁸

2.2 Increasing role of non-DAC development cooperation in Asia

Meanwhile, many non-DAC countries are rapidly scaling up their development assistance and cooperation activities, notably within East Asia. Assistance from non-DAC countries that report to the DAC has more than tripled over the past decade, from \$2.4 billion in 2000 to \$7.3 billion in 2010.¹⁹ On a conservative estimate, total aid from non-DAC sources is probably at least \$10 billion per annum, though it could be several times that amount.²⁰ These figures may appear small in comparison to aid from traditional sources, which peaked at more than \$128 billion in 2010. Yet non-DAC contributions are expected to increase very rapidly and could account for at least \$50 billion in aid or aid-like flows by 2025.²¹ Global attention is now on these non-DAC actors who are reshaping the development landscape. These include **Arab providers** such as Saudi Arabia and Kuwait, **Southern providers** like India, China, Thailand, Indonesia, Brazil²² and **private and philanthropic providers** such as the Bill and Melinda Gates Foundation. The terminology ‘providers’ is used here rather than ‘donors’ in keeping with the preference of many of the non-DAC development partners who deploy a range of development cooperation instruments- beyond grants- and who resist the connotation implicit in donor/recipient language.

Arab providers: Arab providers are well-established, generous donors that most often target their aid in the spirit of social solidarity and religious ties.²³ Between 1973 and 2008 Arab aid averaged 13% of DAC ODA, flowing predominantly to the Middle East, but increasingly to sub-Saharan Africa. In terms of modalities, bilateral assistance is preferred to multilateral support, with only 5% of Arab ODA going to

¹³ United Kingdom. “[India: Greening announces new development relationship.](#)” *Department for International Development* 9 November 2012. Web. August 2013.

¹⁴ United Kingdom. “[Aid commitments: Britain sets out pledges for UK aid.](#)” *Department for International Development* 7 January 2013. Web. August 2013.

¹⁵ Australia. “[Australia in the Asian Century.](#)” *Australian Government White Paper*, October 2012: 248. Print.

¹⁶ It should be noted that since the original research period (August 2013), Australia has indicated an intention to decrease its aid allocations.

¹⁷ “[Aid to poor countries slips further as governments tighten budgets.](#)” *OECD Development Cooperation Directorate* 3 April 2013. Web. August 2013.

¹⁸ “[2012 DAC Report on Aid Predictability: Survey on Donors’ Forward Spending Plans 2012-2015 and efforts since HLF-4.](#)” *OECD* (2012): 5. Print.

¹⁹ Greenhill, Romilly and Annalisa Prizzon. “[Who foots the bill after 2015? What new trends in development finance mean for the post-MDGS.](#)” *Overseas Development Institute Working Paper* 360, October 2012: 21. Print.

²⁰ Walz, Julie and Vijaya Ramachandran. “[Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance.](#)” *Centre for Global Development Working Paper* 273, November 2011. Print.

²¹ Kharas, Homi and Andrew Rogerson. “[Horizon 2025: Creative Destruction in the Aid Industry.](#)” *Overseas Development Institute* July 2012: 14. Print.

²² As this paper is focusing on only on Asia, we have focused the analysis on a subset of this larger group- Asian Southern Providers.

²³ Walz, Julie and Vijaya Ramachandran. “[Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance.](#)” *Centre for Global Development Working Paper* 273, November 2011: 12. Print.

multilateral institutions in 2009.²⁴ Arab multilateral organizations, such as the Islamic Development Bank or the Organization of Islamic Conference are preferred. Sectorally, Arab providers favour infrastructure projects in transport, energy and water supply. Aid is generally untied and with few conditionalities.²⁵

Asian Southern Providers: Within East Asia, India, China, Indonesia, and Thailand are the most visible Asian southern providers. It should be noted that all four of these countries are also recipients of development assistance and cooperation from DAC donors as well as from each other. This has raised considerable debate about the net flows of aid. In spite of ongoing international debate over what constitutes “aid,” China is now considered a net donor rather than a net recipient. According to the country’s first White Paper on the subject released in 2011, China’s financial resources dedicated to foreign aid increased by an average of 29.4 per cent per annum from 2004 to 2009. India and Indonesia are also expanding their assistance programs, with India launching its new agency, the Development Partnership Administration, in 2012.

Although each country and cooperation program has its own individual characteristics, emerging Asian Southern providers share an emphasis on mutual benefit and make explicit linkages between their development cooperation initiatives and foreign policy objectives. They are certainly not unique in this regard, as traditional donors are also facing increasing pressure to justify aid to their electorates by more clearly stating the connections between aid and national interests.²⁶ Southern providers will often express this mutual benefit in mercantile terms, notably through the blending of financing mechanisms, which encompass traditional grant aid, lines of credit, concessional loans, trade, investment, and technical cooperation. This blending has been controversial and has prompted questions about the boundaries of “aid.” Nevertheless, some suggest that by 2025 bilateral trade interests will be “powerful and transparent determinants of ‘development’ cooperation for most countries.”²⁷ Southern providers will have played an important role in this development.

Asian Southern providers are changing the nature of international cooperation relationships themselves. Typically referring to themselves as South-South cooperation partners or providers, they emphasize knowledge exchange and technical cooperation. They focus particularly on infrastructure for growth and on the productive sectors in partner countries, reflecting their own development trajectories and experience—and also maximising mutual benefits.

Private Providers: While aid from all sources has shown healthy growth over the last decade or so, at least up to 2010, private flows to developing countries grew much more in importance. According to UNCTAD, total foreign direct inflows to developing Asia – which includes East Asia (\$219 billion), South Asia (\$33 billion), South-East Asia (\$116 billion) and West Asia (\$ 38 billion) – as a whole amounted to an estimated US\$406 billion in 2013, at a level similar to 2012²⁸. By some estimates, private philanthropic flows have grown from a very low base in 1990 to more than \$50 billion per annum now²⁹. Against this background, traditional aid begins to look rather diminutive. For the purposes of this research, private providers have been categorized along the following three lines.

- **Philanthropies and private donors:** Often referred to as Private Development Assistance, these actors are an important component of the international aid architecture, but with the exception of

²⁴ [OECD-DAC 2009 Statistics](#). Web. 12 Aug. 2013.

²⁵ Walz, Julie and Vijaya Ramachandran. “[Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance](#).” *Centre for Global Development Working Paper 273*, November 2011: 12. Print.

²⁶ *ibid.*

²⁷ Kharas, Homi and Andrew Rogerson. “[Horizon 2025: Creative Destruction in the Aid Industry](#).” *Overseas Development Institute* July 2012: 14. Print.

²⁸ UNCTAD. “Global Investment Monitor”. January 28, 2014.

http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf

²⁹ *Ibid.*

some key sectors in some countries, such as health, their contributions and activities are not coordinated and significant enough in and of themselves to be seen a 'disruptive' to the larger scheme of development assistance. However, philanthropies and private donors have flexibility in their modality, sector and partnerships that allows them a potentially more significant impact with relatively less money.³⁰

- **Impact Investing** is an increasingly popular term that encompasses a range of financial instruments and approaches that leverage private financing (often combined with public financing) for investments in companies and sectors in emerging markets that have the potential to address development issues. These approaches are particularly relevant within certain sectors such as water, agriculture, forestry, health, and infrastructure.³¹
- **Corporate giving and corporate social responsibility** is relevant insofar as it is a function of how firms operate within emerging markets. This is reflected by the extent to which firms are seen to be adding value to the development process in the country or seen to be purely extracting revenue from countries. Corporate behaviour and contributions do not themselves add significant amounts of funding to the development landscape but reflect a way in which countries like Australia and others can influence and support certain business norms and practices that illustrate good practice and shared value.

This growth in private flows and in aid from “emerging” donors is already creating tangible shifts in global thinking about the nature, objectives, and utility of traditional aid models. The developments described above have been met with mixed reactions. On the one hand, an expanded array of financing and cooperation mechanisms gives more latitude to countries in need of assistance. Also, many applaud emerging Asian Southern providers’ faster response time, often a result of fewer conditionalities, and note that the opportunity for developing countries to share knowledge and experience greatly amplifies the value of any associated financial transactions.

2.3 Issues of transparency and measurability dominate discussions of non-DAC providers

An important feature of these emerging development cooperation partners is their resistance to engage or partake in the norms and standards of aid effectiveness that have been established over time by the DAC. Critics are concerned that this will have deleterious effects in areas such as governance, transparency, participation, efficiency, and sustainability. For example, China’s political non-interference policy has sparked controversy over aid it has provided to “rogue” regimes in the Pacific and Africa. Furthermore, some question whether South-South cooperation partnerships are truly horizontal, suggesting that emerging donors are simply entering into new vertical relationships, either in competition with, or in the absence, of traditional donors.

Non-DAC providers structure and manage their assistance differently from most DAC donors and this has a considerable impact on the ability to measure aid flows and share data. Non-DAC providers do not necessarily use DAC measures and definitions of their assistance, and are resistant to the term “aid” itself (which forms the basis of DAC measurement systems). Boundaries between ODA and Other Official Flows (OOF) are drawn through the “grey areas” such as military aid, peacekeeping contributions, debt relief, and foreign direct investment. This further complicates quantitative analysis between donors because it is almost impossible to compare the same pools of money between the DAC and non-DAC providers. It is also one of the reasons for the extreme differences in estimations of non-DAC donor aid

³⁰ Worthington, Samuel A. and Tony Pipa. “Private Development Assistance: The Importance of International NGOs and Foundations in a New Aid Architecture.” *Catalyzing Development – A New Vision for Aid*. Ed. Homi Kharas, et al. Washington: Brookings, 2011. 61. Print.

³¹ Nelson, Jane. “The Private Sector and Aid Effectiveness: Toward New Models of Engagement.” *Catalyzing Development – A New Vision for Aid*. Ed. Homi Kharas, et al. Washington: Brookings, 2011. 83. Print.

flows; the \$25 billion estimate for China may include flows of money that more closely resemble foreign direct investment (FDI).³²

2.4 Opportunities for collaboration amongst the various forms of providers are possible but these are unlikely to emerge through the DAC mechanisms.

For decades, Arab countries have worked closely with each other and through various Arab multinational organizations. Forty years of their own coordination has not compelled Arab providers to join the DAC thus far. Similarly, Asian Southern providers, many of whom signed the Paris Declaration as recipient countries, have not signed as “donors” arguing that the principles do not match their cooperation philosophy. Asian Southern providers also have concerns about the Busan Global Partnership for Effective Development Cooperation indicators, fearing a DAC style normative framework may emerge.³³ At the same time, amidst a changing development landscape and as South-South cooperation grows in importance as a modality of cooperation, southern providers recognize the need for platforms to coordinate on policy, strategy and operations. What they want to avoid however is a “southern DAC.”³⁴

At country level, donor coordination forums are rarely attended by Indian, Chinese or Arab representatives and this is unlikely to change, for the reasons stated above, and because southern providers in particular prefer to negotiate and coordinate bilaterally with host governments and partners, rather than with other providers. Furthermore, non-DAC providers, especially southern providers tend to work in different sectors than DAC donors, preferring productive sectors and infrastructure to social sectors like health and education, which are generally preferred by DAC donors. This further limits opportunities for dialogue.

³² Walz, Julie and Vijaya Ramachandran. “[Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance](#).” *Centre for Global Development Working Paper 273*, November 2011: 6. Print.

³³ Research and Information System for Developing Countries. “[South-South Cooperation: Issues and Emerging Challenges](#).” *Conference of Southern Providers Report* April 2013. New Delhi: RIS, 2013. 7. Print.

³⁴ *ibid.*

3. Non-DAC Providers

This section looks in greater detail at the non-DAC providers- divided into Asian Southern Providers, Arab Providers and Private Sector. In this section we look at the development assistance of Asian Southern Providers (China, India, Indonesia, and Thailand), and Arab Providers (Saudi Arabia and Kuwait). We also highlight some of the trends and experience from private sector providers.

For each of the Southern and Arab providers, we present a summary that covers the history of their development cooperation, their institutional structure for development assistance, the objectives of their development assistance programming, and modalities. We also present a discussion of their transparency and data sources and their engagement-formally or informally- with the international development aid architecture.

2.1 ASIAN SOUTHERN PROVIDERS

2.1.1 China

While often erroneously referred to as an emerging donor, China has been providing development assistance since **the 1950s**. The 2011 White Paper on Chinese Foreign Aid (the first of its kind) describes **three historical phases of its development assistance**.

- From the 1950s-1978 China's support began with its immediate neighbours, Vietnam and Democratic People's Republic of Korea (DPRK), and after the Asian-Africa Conference in Bandung in 1955 it began playing a larger role in supporting countries in Africa and Asia in an effort to encourage solidarity among developing countries.
- After the political reforms of 1978, China expanded its instruments and approaches from purely economic aid to 'multi-form and mutually beneficial cooperation.'³⁵ As China shifted from a planned economy to a socialist market economy in the 1990s, its development assistance programming expanded the scale and reach of its concessional loans, through the Export-Import Bank of China, and increased its efforts to provide training and technical assistance to recipient countries.
- The third stage in China's aid history began in 2000 when it rapidly increased its aid volume, averaging an annual increase of 29.4% from 2004 to 2009.

China's institutional arrangements for foreign assistance are complex and not particularly well understood. China does not have an independent agency responsible for all forms of the country's foreign aid. A labyrinthine network of bureaucratic ministries and agencies collectively make up China's development finance apparatus. First, the State Council plays an important role in shaping China's overseas assistance, including determining China's annual development assistance budget, reviewing grants that exceed a certain financial threshold, and setting government strategy and policy vis-à-vis "politically sensitive" aid recipients. Second, the Ministry of Commerce (MOFCOM) manages the bulk of the operations, as it works on behalf of the State Council and proposes foreign aid policies, regulations, overall and annual plans, review said projects, as well as coordinates with China Exim Bank on concessional loans. MOFCOM further manages project implementation through the Foreign Aid Department (responsible for the foreign aid policies, planning, and programming), the International Economic Cooperation Affairs Bureau (responsible for whole set projects and technical cooperation), China International Centre for Economic and Technical Cooperation (responsible for material

³⁵ China. Information Office of the State Council. [China's Foreign Aid](#). Chinese Government's Official Web Portal. Beijing, 2011: 3. Web. August 2013.

procurements), and the Training College of MOFCOM.³⁶ Third, China Exim Bank and the China Development Bank provide concessional and non-concessional loans and export credits. Fourth, the Ministry of Finance (MOF) is responsible for debt relief issues and contributions to multilateral institutions. Fifth, the Ministry of Foreign Affairs (MOFA) has a role in reviewing project proposals from recipient countries, coordinating with MOFCOM to set annual aid levels and work plans, and organizing Forum on China-Africa Cooperation summits. **While MOFCOM, MOFA and MOF are the primary actors, China's foreign assistance is administered through a multi-tiered system that includes participation from 23 ministries and commissions as well as provincial departments of commerce.** Other institutions that may be involved are China Agricultural Development Bank, and state-owned policy banks (responsible for financing state-invested projects, as distinct from the private and commercial financing provided by the 'big four': Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and the Agricultural Bank of China).³⁷ As China's aid program grows, this fragmented and complex organizational structure, coupled with insufficient human resource capacity, constrains both efficiency and effectiveness.³⁸

In defining its approach to foreign aid, China is keen to differentiate itself from traditional DAC donors by emphasizing its South-South Cooperation approach. The following five principles are well articulated in the 2011 White Paper:

- Unremittingly helping recipient countries **build up their self-development capacity**. Local personnel and technical forces will be fostered, as well as the development of domestic infrastructure and resources to lay the foundations for self-reliance.
- Imposing **no political conditions**. China respects recipient countries' right to independently select their paths of development, and never uses foreign aid as a means to interfere in internal affairs or seek political privileges for itself.
- Adhering to **equality, mutual benefit and common development**. China maintains that foreign aid is of mutual help between developing countries, and focuses on practical effects and the promotion of friendly bilateral relations.
- Remaining realistic while striving for the best. China provides **foreign aid within the reach of its abilities**, while doing its utmost to tailor aid to the actual needs of recipient countries.
- **Keeping pace with the times and paying attention to reform and innovation**. China adapts its foreign aid to the development of both domestic and international situations, constantly reforming and improving its aid.

³⁶ Xiaoyun, Li and Wu Jin. "China's Foreign Aid: Historical Evolution, Architecture and Challenges." *Emerging Asian Approaches to Development Cooperation*, 2011. 33. Print.

³⁷ Brant, Philippa. "No Strings Attached? Chinese Foreign Aid and Its Implications for the International Aid Regime." *School of Social and Political Sciences, University of Melbourne* (2012): 92. Print.

³⁸ Xiaoyun, Li and Wu Jin. "China's Foreign Aid: Historical Evolution, Architecture and Challenges." *Emerging Asian Approaches to Development Cooperation*, 2011. 33. Print.

Defining Chinese National Interest

Chinese foreign assistance, like that of ‘traditional donors,’ also pursues specific Chinese national interests and objectives. However, while many of the DAC donors may share relatively common ideological interests with their foreign assistance, i.e. liberal democratic values, China’s definition of national interest does not necessarily follow this path. One scholar, who has conducted extensive analysis of Chinese foreign assistance, has identified the following key interests driving Chinese aid:

- **Economic development:** To encourage economic growth and development in other developing countries, as well as in China.
- **Political and strategic factors:** To reward countries that are supportive of Chinese geo-political interests, namely the “One China” policy, in addition to expanding its access to energy and resource rich markets.
- **Role as a ‘responsible great power’:** To deliver foreign assistance in a ‘responsible’ way, in keeping with its role as an important and influential member of the international community.¹

Chinese aid to Africa (45% of total flows) surpasses its assistance to Asia (33% of total flows) and there is indication of a growing Chinese presence (trade and aid) in the Pacific.¹ Economic infrastructure, agriculture and industry projects account for over 60% of complete projects and over 80% of concessional loans. Other sectors include education, medicine and public health, clean energy and coping with climate change, humanitarian assistance and debt relief.¹ At the 2010 Foreign Aid Conference held in Beijing, the Chinese government stated that it was shifting its strategy to focus more on livelihoods, but it is unclear what is explicitly meant by this. In part this is due to the recognition that while large-scale prestige projects may please partner governments, it is also important to meet the needs of people at the local level.¹

REFERENCE: Brant, Philippa. “No Strings Attached? Chinese Foreign Aid and Its Implications for the International Aid Regime.” *School of Social and Political Sciences, The University of Melbourne* (2012): 88. Print.

China defines at least **nine kinds of aid modalities including medical teams, training and scholarships, humanitarian aid, budget support, youth volunteers, debt relief, turn-key or complete projects, aid-in-kind, and technical assistance** that are delivered through three primary financing instruments:

- **Grants (aid grants):** Managed by the Ministry of Commerce, these are mainly used to help recipient countries build hospitals, schools, and low-cost houses, and to support well-digging or water supply projects, human resources development cooperation, and technical cooperation.
- **Interest-free loans:** Managed by the Ministry of Commerce, these are mainly used to construct public facilities and launch projects to improve people’s livelihood. The tenure of loans is usually 20 years.
- **Concessional loans:** Managed by the China Exim Bank, these are mainly used for projects generating both economic and social benefits and large and medium-sized infrastructure projects. 61% of these loans are used to help developing countries construct transportation, communications, and electricity facilities, and mechanical and electrical products. The difference in interest rate from the benchmark rate of the People’s Bank of China is made up by the State as financial subsidies. By the end of 2009, China had provided concessional loans to 76 foreign countries, mostly supporting infrastructure with 8.9% used for the development of energy and resources such as oil and minerals.³⁹

³⁹ China. Information Office of the State Council. [China’s Foreign Aid](#). Chinese Government’s Official Web Portal. Beijing, 2011: 4. Web. August 2013.

Grants and zero-interest loans primarily finance diplomatic investments (stadiums, ministry buildings, irrigation systems, hospitals and schools, bridges, and roads); concessional loans usually finance projects with potential for a clear economic return (telecoms, energy, public utilities). China's delivery mechanisms place a premium on the political relationships with partner countries. In an effort to demonstrate commitment to government ownership, Chinese development assistance may respond positively to requests that other traditional donors would refuse- such as new stadiums or a presidential residence⁴⁰. ***Chinese aid is generally free of conditionalities- with the exception of the requirement to recognize the One China Policy.***

Though China's lack of transparency on aid is slowly changing, the Chinese government still does not disclose detailed, country and project-level financial information about its foreign assistance activities. Possible reasons for keeping this information private include concerns about upsetting relations with some recipient countries as publishing country-level data will draw attention to which countries are the largest recipients, and the risk of facing domestic public opinion backlash from a Chinese population that is still struggling with its own development.⁴¹

Estimates of the volume of Chinese assistance vary enormously as analysts, researchers and journalists try to unpack and quantify the various forms of Chinese flows.⁴² The White Paper (2011) indicates that from the early 1950s until the end of 2009 China provided a total of RMB 256.29 billion (close to \$38 billion) of which RMB 106.2 billion (about \$16 billion) in grants, RMB 76.45 billion (\$11 billion) in the form of interest-free loans and RMB 73.55 billion (\$11 billion) in concessional foreign aid loans. By the end of 2009 China had cancelled RMB 25.58 billion in debts from forty-nine HIPC's.⁴³ Over the past sixty years, China has embarked on two thousand aid supported projects in more than one hundred countries.⁴⁴

In addition to the secrecy of the basic figures, there are also technical challenges in accessing information on China's foreign assistance. First, China uses a mixed portfolio of instruments (preferential export buyer's credit, concessional loans, as well as mixed credits combining concessional loans, seller's and buyer's credits) to provide support to other partner countries and these instruments are not always comparable to ODA aid definitions. China's many instruments of 'mutually beneficial cooperation' need to be "disentangled from the official aid program, and viewed as part of the portfolio of tools used by an activist, developmental government with a clear vision of what it needs to do to promote its national goals overseas."⁴⁵ It is these other instruments that are often misconstrued by outside observers as aid. More specifically, the kinds of large-scale natural resource investments by Chinese firms that have attracted media attention are almost never supported by China's relatively small foreign aid budget.

As a matter of principle, ***China coordinates and cooperates bilaterally with the host government rather than with other donors.*** China has been reluctant to coordinate or 'harmonize' its aid with aid from

⁴⁰ Bräutigam, Deborah. "The Dragon's Gift: The Real Story of China in Africa." *Oxford University Press*, 2009: 160. Print.

⁴¹ Taidong, Zhou. "[Engaging China in International Development Cooperation](#)." *The Asia Foundation* 21 August 2013. Web.

⁴² For example, the Center for Global Development recently used a media-based approach to data collection and reported that China has committed \$75 billion to Africa between 2000 and 2011.

⁴³ Strange, Austin, et al. "[China's Development Finance to Africa: A Media-Based Approach to Data Collection](#)." *Center for Global Development Working Paper* 323, April 2013. Web. August 2013.

⁴⁴ Hong, Zhou. "China's Evolving Aid Landscape: Crossing the River by Feeling the Stones." *Development Cooperation and Emerging Powers*. Zed Press, 2012.134. Print.

⁴⁵ *ibid.*

⁴⁶ Bräutigam, Deborah. "[Using Official Chinese Development Aid to Support Investment](#)." *East Asia Forum* 9 July 2012. Web. August 2013.

other donors. Though China was in both Paris and Busan Aid Effectiveness meetings, China insisted that its 'South-South cooperation' activities are qualitatively different from Western aid and should not be governed by traditional aid principles. Recently however, as more and more DAC donors and multilateral agencies approach China to collaborate, there may be more opportunities for trilateral cooperation.⁴⁶ For example, on April 9, 2013 a Memorandum of Understanding (MoU) on Development Cooperation Partnership was signed between Australia and China to strengthen South-South cooperation and collaboration between the two countries in the delivery of aid in the Asia Pacific.

Since the 1990s, China has become more active in the international aid fora, participating in the UN High-Level Meeting on Financing for Development, UN High-Level Meeting on the Millennium Development Goals, Forum on China-Africa Cooperation, Shanghai Cooperation Organization, China-ASEAN Leaders Meeting, China-Caribbean Economic & Trade Cooperation Forum, China-Pacific Island Countries Economic Development & Cooperation Forum, and Forum on Economic and Trade Cooperation between China and Portuguese-Speaking Countries.⁴⁷ In Southeast Asia, China has been an active participant in Mekong cooperation since the early 1992.⁴⁸ The 2011 White Paper represents a clear effort on the part of the Chinese government to provide the international community with a clearer picture of the rationale and objectives of Chinese development cooperation and where and China has engaged with the international community. A second White Paper was expected to be released in will be released in late 2013.

2.1.2 India

India has been a provider of development assistance and committed to South-South cooperation since its independence in 1947⁴⁹. ***India's commitment to South- South cooperation has its historical roots in the Non-Aligned Movement which provided an instrument through which national governments could assert their sovereignty and that of others outside of the cold war power blocs.*** For decades the Indian Technical and Economic Cooperation (ITEC) initiative has been the flagship program of the Ministry of External Affairs, providing over \$2 billion in technical assistance and training for developing countries to overcome limitations in science and technology.⁵⁰ Early initiatives focused on cultural relations and service delivery and included educational scholarships for African and Asian students, and technical assistance by Indian doctors to establish health services in Myanmar. In the post- independence period, India used programme-based aid to support Nepal, Bhutan, and Bangladesh's national development plans, and used trilateral cooperation with the USA and Canada to facilitate the establishment of a road network, telecommunications system, and wheat production for Nepal.⁵¹

The **Ministry of External Affairs (MEA)** is the key agency for extending bilateral and technical assistance, including ITEC, through its various missions. The Department of Economic Affairs of the Ministry of

⁴⁶ Source: Anthea Mulakala's Interview with a Senior Official at China's Ministry of Commerce, August 2013.

⁴⁷ China. Information Office of the State Council. [China's Foreign Aid](#). Chinese Government's Official Web Portal. Beijing, 2011: 3. Web. August 2013.

⁴⁸ Zhu, Zhenming. "China's Economic Aid to CLMV and Its Economic Cooperation with Them." A China-Japan Comparison of Economic Relationships with the Mekong River Basin Countries. *Bangkok Research Centre Research Report No. 1*. (2009): 76. Web.

⁴⁹ Chaturvedi, Sachin. "India and Development Cooperation: Expressing Southern Solidarity." *Emerging Asian Approaches to Development Cooperation* 2012. 171. Print.

⁵⁰ *ibid.*

⁵¹ Chaturvedi, Sachin. "India and Development Cooperation Policy." *Emerging Asian Approaches to Development Cooperation* 2011. Print.

⁵¹ Chaturvedi, Sachin. "India and Development Cooperation: Expressing Southern Solidarity." *Emerging Asian Approaches to Development Cooperation* 2012. Print.

Finance is normally approached by MEA with country specific disbursements.⁵² The **Export-Import Bank of India (EXIM Bank)** administers Lines of Credit to developing countries. In general, however, India has managed its development assistance support through a decentralized structure. To streamline India's growing development cooperation program, the Indian government established the **Development Partnership Administration (DPA)** under the Economic Relations Division of the MEA in January 2012. Over the next five years, the DPA will have around \$15 billion in its aid portfolio to support over 60 countries.⁵³ Though beset with challenges, the aim of the DPA is to coordinate all of the agencies involved with foreign aid in order to fast-track implementation. The DPA is comprised of three divisions: DPA I, in charge of project appraisal and Lines of Credit; DPA II, in charge of capacity building, disaster relief, and ITEC; and DPA III, in charge of project implementation.⁵⁴

*"Our engagement is demand-driven and responds to the developmental priorities of our partner countries. We do not attach conditionalities, we do not prescribe policies and we do not challenge national sovereignty. We promote a mutually beneficial exchange of development experiences and resources."*⁵⁵ This recent statement by India's Foreign Minister is a clear articulation of India's approach to South-South cooperation.

As with most non-DAC providers, India is reluctant to be termed a 'donor' and follows a demand-driven approach that requires potential recipient countries to be very specific in articulating their development assistance requirements. **India has prioritized its immediate geographic neighbours, with an emphasis on Bhutan, Bangladesh, Nepal, and Sri Lanka. However, in the last five years there has been a noticeable increase in aid to Afghanistan and Myanmar.** Between 2008-2010, 89.7% of total aid provided by MEA went to these and other neighboring countries.⁵⁶ For the purposes of this research, Myanmar is the country that is most likely to see increasing aid flows from India because of its strategic role as an economic neighbour and buffer to China.

India's focus has been primarily geographic, and there is no indication of specific thematic priorities. However India's history of development cooperation indicates a particular emphasis on technical training and skill development, institutional development, health and medical facility strengthening, and SME development.⁵⁷ Historically the two main instruments for Indian development assistance have been **bilateral grants** and **Indian Technical and Economic Cooperation programs (ITEC)**. As such, most Indian development cooperation has been channeled to human resource development and institution building in the education and health sectors. Since 2003, recognizing that its external development budget remained inadequate and constrained by the government budget, India created a third modality of development assistance funding, namely the **Lines of Credit (LOC)** managed by the Exim Bank. Going through the Exim Bank enabled India to raise more resources through the private market and subsidize the interest rate through its Ministry of Finance. LOCS have been prominent in India's Africa portfolio (where it is said that India may be following China's lead in creating more commercially oriented development assistance relationships). In 2011/12, 42% of Indian LOCS went to Asia, while 53% went to Africa.⁵⁸ At least 75% of these loans are usually tied to the use of Indian companies and experts and

⁵² Chaturvedi, Sachin. "India and Development Cooperation: Expressing Southern Solidarity." *Emerging Asian Approaches to Development Cooperation* 2012. Print.

⁵³ Taneja, Kabir. "[India sets up global aid agency.](#)" *The Sunday Guardian* 1 July 2012. Web. August 2013.

⁵⁴ Government of India. "[Development Partnership Administration.](#)" *Ministry of External Affairs*. Web. August 2013.

⁵⁵ Research and Information System for Developing Countries. "[South-South Cooperation: Issues and Emerging Challenges.](#)" Conference of Southern Providers Report April 2013. New Delhi: RIS, 2013. 7. Print.

⁵⁶ Fuchs, Andreas and Krishna Chaitanya Vadlamannati. "[India – The Needy Donor.](#)" *Aid Data* 6 Feb. 2013. Web. August 2013.

⁵⁷ *ibid.*, p.44.

⁵⁸ Mullen, Rani D. "[Holding Back on Soft Power.](#)" *The Indian Express* 4 March 2013. Web. August 2013.

there is some question as to whether they are to be considered ODA. However, the Indian government considers LOCs development assistance and formally reports the portion of the credit's interest rate that is subsidized compared to market rates as part of its development budget.

With the establishment of the DPA, India took a large step in terms of the coordination and streamlining of its assistance. This should lead in time to greater transparency and availability of data.

Currently, the Indian Development Cooperation Research Project at the Centre for Policy Research in New Delhi is in the process of developing a comprehensive database of Indian development assistance and publicly disseminating narratives on Indian bilateral development partnerships.⁵⁹ The database project is supported by The Asia Foundation and provided much of the data on Indian flows to East Asia contained in this report. A similar effort is underway by the MEA-affiliated think tank Research and Information System for Developing Countries (RIS), although its data is not yet available to the public.

While India's **development assistance has increased markedly since 2000**, it remains moderate in relation to the country's size and growing stature. Between 2003-2004 and the new 2013-14 budget, India's development assistance increased fourfold, from INR 17,490 million to INR 70,190 million⁶⁰ annually. Over the past two years, development assistance as a percentage of total government expenditures has grown from 0.27 per cent to 0.42 per cent. At less than half a percent of the budget, this soft power tool of foreign assistance is dwarfed when compared to spending on hard power, as defence accounts for over 12 per cent of the estimated government spending in this year.⁶¹ The ITEC program has a budget of about INR 2000 million annually (approximately \$37 million) and to date has trained more than 8,500 civilians from 161 countries. Lines of Credit (LOC) have increased the development cooperation resources at the disposal of the Indian government and thereby the government's ability to use these funds as instruments in support of their larger foreign policy goals. Moreover, the Government of India only reports the actual interest rate subsidy (of the LOC) as part of its overall development assistance, however, the overall volume of the LOC is large and has grown greatly in volume, reaching over \$9 billion by the end of fiscal year 2012, over half of which is being channeled to African countries⁶². India's 2013-14 budget allocation for development assistance is about INR 70,000 million (\$1 billion) and the current open Lines of Credit total around INR 500,000 million (\$7.7 billion)⁶³.

India has maintained a position that the intentions, concepts and modalities of its development cooperation differ widely from those of traditional DAC or "northern" donors. Although India signed the Global Partnership for Effective Development, it is wary of attempts to harmonize north-south cooperation and south-south cooperation within a set of universal norms for all forms of development assistance. India's Foreign Minister has suggested that such a framework could dilute the richness and diversity of development experience sharing between developing countries and undermine the core premises and sentiments of south-south cooperation⁶⁴. To encourage informed debate on this, in April 2013, India's Research and Information System for Developing Countries (RIS) hosted a conference of southern providers titled "South-South Cooperation: Issues and Emerging Challenges." During this conference, **India took the lead in encouraging the development of a distinctly southern development**

⁵⁹ "[Indian Development Cooperation Research](#)." Centre for Policy Research 2013. Web. August 2013.

⁶⁰ The exchange rate for the INR/USD was 47:1 in 2004/4 and is 63:1 in 2013.

⁶¹ Mullen, Rani D. "[Holding Back on Soft Power](#)." *The Indian Express* 4 March 2013. Web. August 2013.

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Research and Information System for Developing Countries. "[South-South Cooperation: Issues and Emerging Challenges](#)." Conference of Southern Providers Report April 2013. New Delhi: RIS, 2013. 7. Print.

*discourse through more regular and sustained interactions among countries of the south. India does not want to be a rule taker, when it can be a rule maker.*⁶⁵

India has helped to create global public goods and supports regional organizations. In 2004, India co-founded the India-Brazil-South Africa (IBSA) Fund for the improvement of medical clinics in Africa. India also hosts institutions under the UN umbrella, including the International Center for Genetic Engineering and Biotechnology, the International Crops Research Institute for the Semi-Arid Tropics, and the Asia-Pacific Centre for Transfer of Technology to support region-wide research in medicine, agriculture, and technology. India is the second largest contributor to the UN Democracy Fund.⁶⁶

2.1.3 Indonesia

Indonesia has promoted **Technical Cooperation among Developing Countries (TCDC)** through the Indonesian Technical Cooperation Programs (ITCP) since 1981.⁶⁷ The program, which cuts across a number of ministries, has provided technical cooperation in select special fields, such as population planning and urban management.⁶⁸ With membership in G20 and its newfound status as a **middle-income country in 2008, Indonesia has been increasing its development cooperation efforts with a greater emphasis on South-South and Triangular Cooperation (SSTC)** as part of its foreign policy and national development agenda. Indonesia is also still an aid recipient, receiving a decreasing but still significant amount of ODA- from \$1.04 billion in 2009 to \$67,800,000 in 2012.⁶⁹

Indonesia's cooperation initiatives have been primarily focused on education, planning and budgeting, agriculture, poverty reduction, disaster management, and democracy and justice.⁷⁰ In 2012, the Vice President declared Indonesia's resolve to **systematize and enhance its cooperative efforts and build knowledge hubs in the following three sectors: development issues (poverty alleviation, disaster management and climate change, human development), governance (good governance and peace building democracy, law enforcement and peace-keeping), and economic issues (macro-economic management, public finance and micro-finance).**⁷¹

Many government ministries are involved in implementing Indonesia's development cooperation agendas. The **Ministry of National Development Planning (Bappenas)** is domestically responsible for formulating national development plans, and internationally responsible for leading and coordinating development cooperation with other countries. The **Ministry of Foreign Affairs** is intimately involved in this process, and the heads of the two ministries serve as the co-chairs of the **national steering committee on development cooperation.**⁷² The **Ministry of Finance** assists with budgeting, and the

⁶⁵ Mullen, Rani D. "The rise of Asia and the future of aid." *The Future of International Development in Asia and the Pacific (FIDAP) Conference* 10 May 2013. Presentation.

⁶⁶ Chaturvedi, Sachin. "India and Development Cooperation Policy." *Emerging Asian Approaches to Development Cooperation*, 2011. Print.

⁶⁷ The Republic of Indonesia. State Secretariat. "[Indonesian Technical Cooperation Programs](#)." Indonesia South-South Technical Cooperation. Web. August 2013.

⁶⁸ United Nations. High-Level Committee on The Review Of Technical Cooperation Among Developing Countries. [New Directions for Technical Cooperation among Developing Countries](#). New York: United Nations, 1995. Print.

⁶⁹ World Bank website.

⁷⁰ Siliwanti, Raden. "Indonesia South-South and Triangular Cooperation." *Ministry of National Development Planning*. Presentation.

⁷¹ South-South Cooperation. "[High Level Meeting – Towards Country-Led Knowledge Hubs](#)," 10-12 July 2012. Conference.

⁷² Fachir, Abdurrahman M. [Director General of Information and Public Diplomacy](#), Ministry of Foreign Affairs of the Republic of Indonesia. Interview. August 2013.

State Secretariat provides support for facilitation in addition to operating the ITCP under its Bureau for Technical Cooperation.⁷³

While it has been carrying out **South-South** and **Triangular Cooperation (SSTC)** since 1955, in 2011 **these approaches began to take on a significant strategic role in Indonesian development cooperation. Since 2000, Indonesia has allocated close to \$50million to support SSTC activities.** In charting out a 14-year strategy (2011 to 2025), Indonesia aims to strengthen its role as a “new emerging partner in innovative development cooperation” and has identified a SSTC Coordinating Team as well as a “Grand Design and Blue Print of Indonesia SSTC ” document⁷⁴. SSTC is also integrated into Indonesia’s foreign policy Medium Term Development Plan 2010-2014, demonstrating that Indonesia intends to utilize technical assistance as a tool for diplomacy, but also that the goal of development cooperation is to enhance national development.⁷⁵ ASEAN integration is a top foreign policy priority, so cooperation in this area is expected to grow.

While data on the overall scale of development cooperation as a percentage of national budget is unavailable, there is some limited data on specific programme volumes. For example, Indonesia has contributed approximately \$49.8 million toward South-South and Triangular Cooperation from 2000 to 2013. It has also provided more than \$7 million in humanitarian assistance in the past two years alone. In symbolic efforts of goodwill, Indonesia extended aid to Japan after the 2011 earthquake and tsunami, to Australia following the Queensland floods, to New Zealand after the Christchurch earthquake, as well as to Haiti, Pakistan, Turkey and others. Within ASEAN, Indonesia also recently provided a combined \$3.1 million of grants to six flood-affected countries.⁷⁶

To support transparency and coordination, Indonesia hosts a web portal⁷⁷ on its South-South cooperation activities. While this site provides information for prospective partners as well as donors and government, it does not provide budget figures.

Indonesia’s engagement with the international aid architecture is based primarily on its history as an aid recipient country. It collaborates with bilateral and multilateral partners for South-South and Triangular Cooperation initiatives.⁷⁸ In July 2012 Indonesia hosted a **high-level forum on knowledge exchange involving more than 300 policy-makers and practitioners from 46 countries.** To further signal to its commitment on South-South and Triangular Cooperation, Indonesia also agreed to contribute \$1.5 million to the World Bank’s South-South Exchange Facility, a multi-donor trust fund executed by the World Bank Institute⁷⁹. Indonesia has given strong support to ASEAN initiatives and actively cooperates in other regional cooperation projects. Indonesia is an active member of G77 and the Non Aligned Movement, which are seen as the origins of South-South Cooperation.

⁷³ Siliwanti, Raden. “Indonesia South-South and Triangular Cooperation.” *Ministry of National Development Planning*. Presentation.

⁷³ The Republic of Indonesia. StateSecretariat. “[Indonesian Technical Cooperation Programs](#).” Indonesia South-South Technical Cooperation. Web. August 2013.

⁷⁴ Siliwanti, Raden and Priyanto Rohmattullah . “Indonesia South-South and Triangular Cooperation.” *Ministry of National Development Planning*. Presentation.

⁷⁵ Ibid.

⁷⁶ Hatch, David. “[Indonesia, Emerging Aid Donor](#).” *The Interpreter* 25 July 2012. Web. August 2013.

⁷⁷ <http://www.ssc-indonesia.org/>.

⁷⁸ Siliwanti, Raden. “Indonesia South-South and Triangular Cooperation.” *Ministry of National Development Planning*. Presentation.

⁷⁹ Hatch, David. “[Indonesia, Emerging Aid Donor](#).” *The Interpreter* 25 July 2012. Web. August 2013.

2.1.4 Thailand

Thailand began providing aid to neighbouring developing countries in the **1990s** when its economy reached the middle-income level. It rapidly enhanced its aid efforts in 2003, when former Prime Minister Thaksin Shinawatra put forth 'being a donor' as a priority in Thailand's foreign policy⁸⁰. Most Thai assistance has been earmarked for neighbouring countries, especially Cambodia, Laos, Myanmar, and Vietnam (CLMV).

In 2004, the **Thailand International Cooperation Agency (TICA)** was established under the **Ministry of Foreign Affairs (MFA)** to coordinate outgoing foreign aid, particularly grants and technical assistance programs. TICA is a successor of the Department of Technical and Economic Cooperation (DTEC), which was established in the 1960s (and dissolved in 2002) to manage incoming foreign aid. The **Neighbouring Countries Economic Development Cooperation Agency (NEDA)** was established in 2005 under the **Ministry of Finance** to provide financial support, mostly in the form of loans, for neighbouring countries in the Mekong region. ***TICA aims to provide high-level expertise in managing international development cooperation with other countries, while NEDA acts as a partner for economic development cooperation for countries in the Mekong subregion, its mandate spanning public development assistance and linkages to private sector investment***⁸¹. In addition to TICA and NEDA, several ministries are involved in aid provision, mostly in the form of in-kind training and technical assistance.

Thailand has both political and economic objectives for its development cooperation. Politically, Thailand's development cooperation policies have been designed to ***strengthen and promote a cordial relationship between Thailand and its immediate ASEAN neighbours***. Economically, Thailand aims to ***bridge the economic gap, eradicate poverty and expand trade and investment in neighbouring countries***. Principles of self-help, mutual benefit, and trust underpin Thailand's relationship with partner countries⁸².

In 2011 Thailand provided Thai Baht 330.2 million (\$10,547,800) in grants and technical cooperation and Thai Baht 384.67 million (\$12,287,800) in loans. Aid increased steadily from 2005 to 2009, but dropped sharply in 2011. This reduction is largely attributable to budget allocation rather than policy change, in a year in which the Thai economy faced a number of shocks, including a national flooding emergency⁸³.

Sixty percent of TICA's assistance from 2001-2010 went to CLMV, and most of NEDA's loans are earmarked for the same countries. Laos in particular, has received the most assistance among CLMV, due to its geographical proximity, historical background, economic and development circumstances, and kinship of language, religion, and other cultural elements with Thailand. Seventy percent of loans (2002-2009) and 100% of technical assistance (2009-2010) from NEDA to CLMV countries were allocated to Laos.⁸⁴ Additional target countries and regions include other ASEAN members and developing countries

⁸⁰ Siriporn, Wajjwalku. "Thailand: An Emerging Donor?" *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute, 2011. 80. Print.

⁸¹ Siriporn, Wajjwalku. "Thailand: An Emerging Donor?" *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute, 2011. 80. Print.

⁸² *ibid.*, p.82.

⁸³ [Thailand International Development Cooperation Agency](#) (TICA) and [Neighbouring Countries Economic Cooperation Agency](#) (NEDA) Statistics 2013.

⁸⁴ Siriporn, Wajjwalku. "Thailand: An Emerging Donor?" *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute 2011. 83. Print.

in South Asia, as well as the recent expansion of Thai aid to Central Asia and Africa. Development cooperation is also utilized as a tool to support the ASEAN regional integration processes, especially in light of the move toward an ASEAN Economic Community 2015.⁸⁵ Sectorally, a high proportion of aid provided by TICA is concentrated in four sectors: agriculture, education, public health, and social development and welfare, which according to TICA reflect Thailand's expertise. NEDA's loans focus on infrastructure and promoting ASEAN connectivity through road construction.

While **TICA** largely operates in a **bilateral capacity**, it also works **under trilateral and regional cooperation frameworks**. Under the trilateral framework, Thailand serves as a 'partnership hub' for transferring technical knowledge to third parties. Recently, TICA has engaged in partnerships with USAID and with the government of Myanmar to combat malaria (2012) along the Thai-Myanmar border⁸⁶. **TICA's aid is untied and is project-based**, largely focusing on human resource capacity building, which encompasses dispatching experts, providing fellowships, and allocating technical equipment, in three main areas: education, health, and agriculture.

In contrast, **NEDA** generally only operates under a bilateral framework, providing concessional loans, together with grants and select technical assistance, for larger development projects. Priority is placed on supporting connectivity and transportation networks in the Greater Mekong Subregion (GMS). **NEDA aid is tied, with no less than 50% of the total value of goods and services for each project bound to originate from Thailand.**⁸⁷

Little data exists on Thailand's development aid as a donor, reflecting the fact that Thai aid was only systematized through specialized institutions less than a decade ago. However, Thailand has been **providing the DAC with aggregate aid data since 2006**, and it is one of only 20 non-DAC members to do so. While Thai development assistance policy has begun to be more clearly articulated in public documents, coordination of aid among different public agencies is sometimes poorly managed, raising questions of duplication. It is currently debated among Thai aid officials and specialist observers whether all aid agencies should be consolidated to increase efficiency.⁸⁸ Even though both TICA and NEDA publish their aid data, confusion arises as both agencies use different definitions for grants and technical assistance, which leads to unclear reporting.⁸⁹

Thailand is a **signatory to the Paris Declaration in a recipient capacity only and not as a donor**. Although there are discussions within TICA to join the international development aid regime, Thailand has tended to focus its efforts on South-South Cooperation models.⁹⁰ For Thailand, it is not a question of readiness but rather of principle. Reflecting its own experience and transition, Thailand could propose an alternative policy and method of aid delivery and management, which might be more suitable for developing partners in the region. It also expresses a moral obligation to help neighbouring countries

⁸⁵ *ibid.*

⁸⁶ "USAID and TICA Visit Myanmar to Launch Trilateral Malaria Control Activities." Lower Mekong Initiative. July 2013. Web. <http://lowermekong.org/news/usaids-and-tica-visit-myanmar-launch-trilateral-malaria-control-activities#sthash.ZzEWt81j.dpuf>

⁸⁷ *ibid.*

⁸⁸ Siriporn, Wajjwalku. "Thailand: An Emerging Donor?" *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute 2011. 92. Print.

⁸⁹ [Thailand International Development Cooperation Agency](#) (TICA) and [Neighbouring Countries Economic Cooperation Agency](#) (NEDA) Statistics 2013.

⁹⁰ Siriporn, Wajjwalku. "Thailand: An Emerging Donor?" *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute 2011. 92. Print.

escape poverty and a commitment to develop a regional cooperation policy for the benefit of the region, with a particular interest in brokering dialogue among Southern Asian providers.⁹¹

2.2 ARAB PROVIDERS

2.2.1 Kuwait

Kuwaiti development is largely implemented through the **Kuwait Fund** that is largely financially and administratively independent, although it operates under the overall supervision of the Prime Minister, who delegates his power to the Minister of Finance.

The Kuwait Fund for Arab Economic Development (the Kuwait Fund) was established at independence in **1961**, to utilize its oil revenue to provide assistance to Arab countries. In **1974**, operations were extended to developing countries in general and funds were enlarged five-fold (200 to 1000 million KWD), which were then doubled in 1981 (2 billion KWD, or about \$6.6 billion in 2012).⁹²

The objective of the Kuwait Fund is to “*assist Arab and other developing countries in developing their economies.*”⁹³ Arab countries are the primary beneficiaries of Kuwaiti development cooperation, but in the last decade Kuwait has supported specific projects in six (Laos, Vietnam, Mongolia, Myanmar, Cambodia, Indonesia) of the eight target countries in this report.⁹⁴

The Kuwaiti Fund focuses primarily on agriculture, irrigation, transportation and communications, energy, industry, water, and sewage.

The Kuwait Fund makes ***concessional loans and provides guarantees, gives grants and technical assistance, and contributes to the capital stocks of international and regional development institutions*** (such as the Arab Fund for Economic and Social Development, the African Development Bank, etc.).

The Kuwait Fund publishes annual reports in several languages and provides up-to-date data on its website. Kuwait is also one of 20 non-DAC donors ***voluntarily reporting aggregate aid data, and it has been doing so for decades longer than some DAC donors.***⁹⁵

As of March 2012, the Kuwait Fund has ***given 815 loans to 102 countries in excess of \$13 billion (KWD 3.87 billion), and 188 grants to 92 countries amounting to \$332 million (KWD 98 million).***⁹⁶ During the 2011~2012 fiscal year, the Kuwait Fund provided \$738 million (KWD 210 million) in loans, and \$7.1 million (KWD 2.02 million) for technical assistance and grants.⁹⁷

⁹¹ Siriporn, Wajjwalku. “Thailand: An Emerging Donor?” *Emerging Asian Approaches to Development Cooperation*. Ed. Korea Development Institute 2011. 79-93. Print.

⁹² “[Historical Background](#).” *Kuwait Fund for Arab Economic Development*. Web. August 2013.

⁹³ “[General Information](#).” *Kuwait Fund for Arab Economic Development* December 2009. Web. August 2013.

⁹⁴ [AidData](#). Web. 12 Aug. 2013.

⁹⁵ Smith, Kerry. “[Non-DAC Donors and Humanitarian Aid – Shifting Structures, Changing Trends](#).” *Global Humanitarian Assistance* Briefing Paper Version 1, July 2011: 20. Print.

⁹⁶ Kuwait Fund for Arab Economic Development. [2011-2012 Annual Report](#), 2013: 19. Web. August 2013.

⁹⁷ Kuwait Fund for Arab Economic Development. [2011-2012 Annual Report](#), 2013: 45. Web. August 2013.

Kuwait is a signatory to the Paris Declaration and adheres to the Busan Partnership for Effective Development Cooperation. The Kuwait Fund contributes to development institutions including the Arab Fund for Economic and Social Development, African Development Fund, and International Development Association, in addition to providing grants and technical assistance to numerous institutions.

2.2.2 Saudi Arabi

Between **1975** and 2005, Saudi Arabia provided an estimated \$90 billion in aid, or **3.7% of its GDP**, to more than 80 countries. It has emerged as the largest donor of humanitarian aid outside of the DAC, and it is the clear leader in development cooperation to the Arab and Muslim world. In the last decade, Saudi Arabia has been expanding its aid to non-Muslim countries in Asia and Africa, and its aid for many disasters has been significant, sometimes far exceeding those of traditional donors.⁹⁸ Cambodia was the recipient of Saudi Arabia's first official aid to a non-Muslim country after the region's 2005 tsunami.⁹⁹

The **Saudi Fund for Development (SFD)**, established in 1974 and chaired by the **Minister of Finance**, is the Saudi equivalent of the ministry of development and cooperation. The SFD mainly focuses on giving loans for development projects, but the government is increasingly relying on it to implement disaster relief projects. The Royal Court (the Office of the King) is the highest authority in making major decisions and donations by the government, and it is advised by ambassadors who raise issues of humanitarian needs throughout the world. The **Foreign Affairs Ministry** often coordinates bilateral aid implementation, and the Ministry of Interior acts as the "gate-keeper" for humanitarian assistance by organizing and supervising overseas aid. The Ministry of Finance allocates funds to regional and international organizations like the Saudi Red Crescent and organizes delivery of in-kind relief.

The stated objectives of SFD are to *"participate in financing of development projects in developing countries through granting of loans to said countries and to encourage national non-crude-oil exports by providing finance and insurance in support of such exports."* **Religious and cultural norms are a powerful motivator for humanitarian aid, and Saudi Arabia is keen on maintaining its role as a leader of the Islamic World and building solidarity with poorer Muslim nations.** More recently, Saudi Arabia has become very conscious of its leadership position as a member of the G20, and is keen on increasing its international influence through the provision of aid. It further regards aid as part of the post-9/11 strategy to promote dialogue among religions and cultures.¹⁰⁰ Although there is no provision in the charter of the SFD that allows it to give discretionary funds, Saudi Arabia is known for giving large contributions for humanitarian aid purposes, such as disaster relief.¹⁰¹ There are no well-established policy frameworks for these contributions, which are given both directly and through international organizations.

In 2012, the Saudi Fund for Development extended approximately \$1 billion (SAR 4.11 billion) in loans, and an additional \$907 million (SAR 3.4 billion) in loans for co-financing efforts. The amount of humanitarian aid given is difficult to estimate.

The SFD prioritizes large **infrastructure projects in transportation and communication** (such as roads, railways, and seaports), which constituted a third of its loans in 2012. Other sectors include energy, agriculture, and social infrastructure (such as education, water and sewerage, health, and housing and urban development). The **majority of these loans go to Africa**, with some going to Asia.

⁹⁸ Al-Yahya, Khalid and Nathalie Fustier. "[Saudi Arabia as a Humanitarian Donor: High Potential, Little Institutionalization.](#)" *Global Public Policy Institute* Research Paper No.14, March 2011. Print.

⁹⁹ Barton, Jack. "[Saudi's Donate Aid to Non-Muslims.](#)" *The Telegraph* 26 March 2006. Web. August 2013.

¹⁰⁰ Al-Yahya, Khalid and Nathalie Fustier. "[Saudi Arabia as a Humanitarian Donor: High Potential, Little Institutionalization.](#)" *Global Public Policy Institute* Research Paper No.14, March 2011. Print.

¹⁰¹ United States. The Library of Congress. [Regulation of Foreign Aid in Selected Countries 2011/2012](#). Global Legal Research Centre. Washington, 2011. Print.

Saudi Arabia delivers most of its aid through **bilateral channels** because of its respect for the sovereignty and territorial integrity of states, desire to strengthen bilateral ties, and preference for providing in-kind aid. The SDF finances development projects through **loans**, most of which are un-tied¹⁰² and 60% of which are supporting infrastructure projects. However, more recently, Saudi Arabia has made substantial **multilateral contributions**; it is one of the largest contributors to the **UN Reliefs and Works Agency for Palestine Refugees in the Near East**, has made the largest cash contribution in **World Food Program's history (\$500 million in 2008)**, and has made significant contributions to disaster relief in Haiti and Pakistan, among others.

Saudi Arabia is one of 20 non-DAC donors **voluntarily reporting aggregate aid data**, and it has been doing so for decades longer than some DAC donors.¹⁰³ However, the Saudi traditions of discretion and modesty about giving have hindered the establishment of a more comprehensive system to track and assess all types of aid (including donations). In 2005, the Saudi Financial Investigation Unit (FIU) was established as part of the Ministry of Interior to monitor overseas aid transactions. However, the FIU does not maintain a permanent registry because the goal is mostly financial monitoring.

Saudi Arabia prefers to directly implement humanitarian aid because of the desire for oversight and feedback. Although a signatory to the Paris Declaration and the Busan Partnership for Effective Development Cooperation, there is an underlying sense that DAC donor countries dominate the humanitarian system and its standards and norms, and organizations such as the UN are considered to be unnecessary middlemen with high overhead costs.¹⁰⁴

2.3 PRIVATE DEVELOPMENT ASSISTANCE

As presented in the introduction, private providers are active across all sectors and in all of the focus countries. This section illustrates some of the trends in the provision of private development assistance in developing East Asia, but is not exhaustive in its analysis of the many forms of private development assistance. For the purposes of this research 'private development assistance' includes private philanthropic foundations, impact investing (and social enterprise) and corporate social responsibility activities.

Like other forms of non-DAC assistance, private flows are difficult to categorize and measure. Estimates suggest the volume is between \$56 and \$75 billion a year, which amounts to roughly one third of ODA.¹⁰⁵ Kharas and Rogerson suggest that private financial flows have the potential to serve as a 'disruptor' to the traditional aid industry.¹⁰⁶ The Center for Global Philanthropy (CGP) suggests that new forms of private philanthropy present an "arc of innovation."¹⁰⁷ While the impacts of these disruptive innovations are not yet fully realized in the current aid landscape, the rate of growth and the diversification of modalities warrant closer attention by traditional aid actors.

¹⁰² Ramady, Mohamed. "[Saudi Foreign Aid- Untied and Praiseworthy.](#)" *The National* 31 Oct. 2009. Web. August 2013.

¹⁰³ Smith, Kerry. "[Non-DAC Donors and Humanitarian Aid – Shifting Structures, Changing Trends.](#)" *Global Humanitarian Assistance Briefing Paper* Version 1, July 2011: 20. Print.

¹⁰⁴ Ibid.

¹⁰⁵ Kharas, Homi and Andrew Rogerson. "[Horizon 2025: Creative Destruction in the Aid Industry.](#)" Overseas Development Institute July 2012: 14. Print.

¹⁰⁶ Ibid.

¹⁰⁷ Spantchak, Yulya, et al. "[The Index of Global Philanthropy and Remittances 2012.](#)" *Hudson Institute, Center for Global Prosperity* 2012. Print.

Philanthropies and private donors are incredibly diverse in size, scale and sectoral focus.

- **Global Private Foundations** like the Bill and Melinda Gates Foundation continue to provide significant funds to support poverty related issues in Southeast Asia- with an emphasis on global health issues. The Bill and Melinda Gates Foundation is the only foundation that reports its aid flows to the DAC. Foundations like Rockefeller and Ford Foundation are relatively much smaller in scale. Global public foundations that pool resources from a range of sources like the GAVI alliance provide significant funding to vaccinations and child health.
- **Private donors and local foundations** are becoming more active in the East Asia region, building on long traditions of family philanthropy. They are often focused on domestic issues. A recent UBS-INSEAD study found that educational causes receive the most philanthropic giving (36% in 2010), followed by poverty alleviation and development (10%) and health (9%)¹⁰⁸. Local foundations are largely focused on domestic issues and usually not actively engaged with bilateral and multilateral development cooperation. In some countries, like the Philippines, family foundations will have limited endowments but will instead serve as a channel for traditional donor resources¹⁰⁹. In Indonesia, foundations like the Sampoerna Foundation and the Chairul Tanjung Foundation have amassed \$150 million (over ten years) and \$100 million (over five years), respectively, which are provided by their namesake patrons.¹¹⁰ The Ramon Aboitiz foundation in the Philippines uses an integrated approach to development in its vast projects, which combine education, microfinance and entrepreneurship, culture and heritage, and leadership and citizenship.¹¹¹ The Cambodia Children's Fund, which has offices in five countries, provides education and healthcare, with their program services totaling \$4.8million in 2011.¹¹² In some cases, local philanthropists collaborate with larger global foundations- like the partnership between the Tahir Foundation of Indonesia and the Bill and Melinda Gates Foundation to channel resources to address MDG 6 on Polio eradication. Some analysts suggest that as the economy in the region continues to expand, there will be considerable opportunities to scale up local philanthropy.¹¹³

Social Enterprise and Impact Investing is a potentially valuable new source of responsible financing and is lauded by some experts as the next frontier.¹¹⁴ However, this sector is still in early days and has not yet achieved scale. An optimistic 2010 report by J.P. Morgan and the Rockefeller Foundation suggests a range of \$400 billion to \$1 trillion of potential impact investment capital globally over the next ten years¹¹⁵. However, the major obstacle to scaling up in the sector is not the lack of investable capital, but instead is the lack of investing opportunities in countries that are of an appropriate size and quality¹¹⁶.

However, there have been some market leaders like Accion, Bamboo Finance and FMO (the Netherlands Development Finance Company) that have launched some innovative projects and funding mechanisms

¹⁰⁸ Santi, Jenny, et al. "[UBS-INSEAD Study on Family Philanthropy in Asia](#)." *UBS Philanthropy Services-INSEAD* 2011. Print.

¹⁰⁹ PBSP (the Philippine Business for Social Progress)- which aims to be a collection of corporate giving- won the contract to implement the Global Fund's TB initiative in the Philippines

¹¹⁰ Nam, Suzanne. "[Education is the Foundation](#)." *Forbes* 29 Feb. 2008. Web. August 2013.

¹¹⁰ CT Foundation. "[Foundation Overview](#)." Web. August 2013.

¹¹¹ [Ramon Aboitiz Foundation Inc.](#) Web. August 2013.

¹¹² [Cambodian Children's Fund Annual Report 2011](#). Web. August 2013.

¹¹³ One study suggests that giving in Asia will continue to grow. In India and China, philanthropic contributions constituted only 0.6% and 0.1% of their GDP (as compared to 2.2% in the United States). (ibid)

¹¹⁴ Brandenburg, Margot. "[Southeast Asia is the Next Hub for Impact Investing](#)." *Rockefeller Foundation* 22 March 2013. Web. August 2013.

¹¹⁵ "[Impact investments An Emerging Asset Class](#)." JP Morgan and Rockefeller Foundation. 29 November 2010.

¹¹⁶ Alto, Philo. "[Impact Investing in Asia: From Definition to Pathways to Scale via Impact Giving](#)." *Asia Value Advisors Research Brief No.1*, September 2011. Web. August 2013.

in the region. In the Philippines, The Bridge Fund (\$24.2 million) (funded by a number of investors and entrepreneurs) builds Filipino banking in provincial areas.¹¹⁷ SME finance is a popular area for investment with funds like Cambodia-Laos Development Fund S.C.A and Vietnam Technological and Commercial Joint Stock Bank (Techcombank) targetting small business development.¹¹⁸ Investments in microfinance can be considerable, and recently PRASAC, a leading micro finance institution in Cambodia (with support from a number of large impact investors) raised \$60.5 million for a syndicated loan facility¹¹⁹. Some funds have been established with a strong regional focus, like Insitor Fund that is based in Cambodia and invests exclusively in the region.¹²⁰

Corporate giving and corporate social responsibility offers ways for private businesses to provide social returns in the communities where they work. While there is a wide range of literature on the subject, this research is interested in the extent to which corporate social giving is of a scale that may have an impact on the development landscape, and to what extent companies operating in the focus countries may be engaging in responsible business practices that have a positive impact on the economies and communities within which they work. Local CSR initiatives are small in scale and the main proponents for spreading CSR are transnational corporations, which usually focus on environmental conservation or education.¹²¹ There are strong movements among various organizations (chambers of commerce, international organizations, business associations, etc.) to promote and organize a system or culture of CSR in Vietnam, Timor-Leste, and Cambodia.¹²² One strong example of CSR activities operating at scale is Rio Tinto. In 2012, Rio Tinto spent an estimated \$292 million on their global community programmes and payments into trusts set up in directly negotiated community agreements. They frame much of their community work explicitly around the MDGs¹²³.

¹¹⁷ ["The Philippines."](#) Accion International. Web. August 2013.

¹¹⁸ ["FMO commits USD 4 million to the Cambodia-Laos Development Fund."](#) FMO. Web. August 2013.

¹¹⁹ ["FMO arranges a USD 60.5 million syndicated loan for PRASAC."](#) FMO 1 July 2013. Web. August 2013.

¹²⁰ John, Rob, Pauline Tan, and Ken Ito. ["Innovation in Asian Philanthropy: Entrepreneurial Social Finance."](#) *Asia Centre for Social Entrepreneurship and Philanthropy*, NUS Business School Working Paper No. 2 (April 2013): 58. Print.

¹²¹ Hamm, Brigitte. ["Corporate Social Responsibility in Vietnam: Integration or Mere Adaptation?"](#) *Pacific News* Issue No.38 (July/August 2012). Print.

¹²² Chi, Pham Vu Thuy. ["CSR Activities in Vietnam."](#) *Eco-CSR Japan*. Web. August 2013.

¹²² ["CAMFEBA Plan of Action on the Elimination of Child Labor in Cambodia."](#) *Cambodian Federation of Employers & Business Associations* August 2012. Print.

¹²² ["Best Corporate Social Responsibility Project."](#) *International Chamber of Commerce*. Web. August 2013.

¹²³ ["Millenium Development Goals."](#) *Rio Tinto* March 2013. Web. August 2013.

4. Aid Trends in developing East Asia

This section provides an overview of the aid trends in developing East Asia. For each of the eight target countries- Cambodia, Vietnam, Myanmar, Mongolia, Indonesia, Philippines, Timor Leste, and Laos, the analysis provides (to the extent possible) the following:

- Summary of the main bilateral non-DAC donors (defined as those with development assistance packages of more than \$1 million/year), and the main private and philanthropic development assistance partners (defined as major foundations, impact investors, and private companies (with CSR activities)).
- Overview of main modalities of aid by non-DAC donors (including grants, technical assistance, concessional loans), with examples of sample projects.
- Analysis of particular relationships and issues that may affect the current and future trend for development assistance.
- Perceptions and issues raised in-country about the potential risks and opportunities associated with non-DAC donors.

4.1 Cambodia

Overview: While Cambodia has halved its poverty rate in the last ten years, it is still one of the poorest countries in the region (alongside Laos and Myanmar). While traditional donors (with the exception of the World Bank, ADB, and JICA) continue to play an important role in supporting social services like health and education, non-DAC development partners –notably China- and foreign investors are actively supporting the Cambodian government with infrastructure development- a division of labour actively supported by the Cambodian government. At the same time, there are significant concerns about the political regime in Cambodia, with particular scrutiny and criticism of the recent 2013 election (which was seen by most observers to have been seriously flawed).

China has been and continues to be an important ally to Cambodia, providing development assistance since 1953. Historically, Chinese assistance has shifted from military aid, to a strategy of ‘mutual benefit,’ and most recently to concessional loans, with a significant emphasis on the transport sector. Conservative estimates suggest that from 1997 to 2005, China’s investment and aid to Cambodia reached \$600 million, while more inclusive estimates suggest that since 1982 Beijing has provided up to \$2.7 billion in development assistance, soft loans and grants (excluding military aid) and is now the country’s top bilateral provider and main political ally in the region¹²⁴.

India’s development support increased following a 2010 state visit from India to Cambodia that resulted in an increase in concessional loans made available to Cambodia for key infrastructure initiatives (notably \$15million for the Stung Tassal Water Development Project). India has also been expanding its lines of credit (LOC) modality to support power and water infrastructure projects. In 2012, Cambodian Prime Minister Hun Sen requested a \$57 million concessional loan from India for two development

¹²⁴ Santamaria, Carlos. “[Aid to Cambodia after the elections : Business as usual.](#)” Devex 25 July 2013. Web. August 2013.

projects (an electricity transmission line from Kratie province to Stung Treng province with an estimated cost of \$20 million, and the Sva Slab River irrigation system for \$37 million).¹²⁵

Unique Features and Issues: The nature of non-DAC assistance and the relationship between Asian Southern providers and The Cambodian government has shaped the operating environment for DAC donors in the Cambodian context.

- **Diminishing bargaining power:** In the run up to the July 2013 election the US government threatened to reduce its aid allocation to Cambodia if the election was not free and fair. This was intended to incentivize good behaviour. However, with the increasing amount of assistance from China and the private sector, the impact of any such sanction involving aid remains to be seen. On the one hand, the Cambodian government is increasingly seeking development partners that can demonstrate “ownership, alignment and speed”, while on the other hand, the Cambodian government depends on good relations with powerful development partners that hold the key to a more global membership.
- **Crowded playing field:** To meet its considerable infrastructure needs, Cambodia has attracted significant potential investors and lenders. China and India are increasing their lines of credit and concessional loans alongside an increase in FDI. A recent ODI study¹²⁶ reviewing these issues in Cambodia found that the Cambodian government explicitly welcomes non-DAC lenders because they are able to finance projects with lower ERR (economic rates of return) thresholds. The World Bank, which has recently restarted operations in Cambodia, may find the lending environment increasingly crowded and competitive in the face of other lenders who are able to respond more rapidly and flexibly to the Cambodian government’s requests.
- **NGOs as implementers:** While Asian Southern non-DAC providers maintain and manage their assistance with the Cambodian government, DAC donors have struggled with their relationship with the regime and hence moved away from budget-support toward support for NGOS. Although the Cambodian government has a tense relationship with local and international NGOs, the majority of basic service delivery depends on them. NGOs have become the default implementation modality for much of DAC assistance. Because NGOs receive funding from a wide range of sources and do not participate in aid coordination mechanisms, their significant presence and activities contribute to a complex, and sometimes uncoordinated, aid delivery environment.

“An example raised by government officials in Cambodia was that of provincial roads, which are key to the country’s development strategy but would not meet the 12% ERR threshold the ADB requires. China has lower requirements, so is reportedly able to build these roads instead. However, while the government may welcome such an approach in the short run, it does bring long-run risks around debt sustainability if the country is unable to generate sufficient revenues to repay loans made.” (ODI 2012)

Perceptions: Public and press perceptions in and outside Cambodia suggest other geopolitical dynamics at play that could influence the aid landscape. First, Cambodia’s non-aligned voting stance on security issues within ASEAN has raised questions as to whether China’s aid may double as a soft power

¹²⁵ <http://www.opendevdevelopmentcambodia.net/cambodia-seeks-57m-indian-loan/>

¹²⁶ Greenhill, Romilly, Annalisa Prizzon and Andrew Rogerson. “The age of choice: developing countries in the new aid landscape” Overseas Development Institute Working Paper 364, January 2013. Print.
<http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8188.pdf>

tool to woo an ASEAN ally. Second, Cambodia may benefit aid-wise from other donors, like Japan, who, cautious of China's increasing influence in the region, are trying to increase their own footprint.

Coordination and Transparency: Cambodia's Development Effectiveness Report and Rectangular Strategy both express the need to integrate non-DAC donors into aid coordination fora. To the contrary however, Asian Southern providers like China, India, and Thailand do not engage in donor coordination mechanisms, nor does the Cambodian government encourage them to do so. Rather as a 2013 ODI study reports, the Cambodian government sees no advantage in integrating non-DAC providers in aid coordination and prefers to negotiate bilaterally with these partners. As the ODI study notes *"When probed, it appeared that the pressure to include NTPs (non-traditional partners) in such mechanisms was coming largely from the traditional donor community. Government officials themselves indicated that China responded directly to government requests and therefore did not need to engage in policy dialogue and coordination"*.¹²⁷ Similarly, Cambodia has an Open Data portal (supported by USAID) but this facility does not capture aid flows from non-DAC providers. This inconsistent approach has caused considerable frustration amongst the traditional donors.

4.2 Indonesia (as a recipient of development cooperation)

Overview: In the last decade Indonesia has emerged as an important middle-income country in the region. Indonesia has developed its natural resources while building an economy and a strong and vibrant middle class. As the world's largest Muslim-majority country, a leading actor in ASEAN, and a close neighbour to Australia, Indonesia also has significant geopolitical influence in the region.

Indonesia has been a longstanding recipient of development assistance from traditional bilateral donors-most notably from Australia, Japan, and the United States. In addition, Indonesia receives significant loans funding from the ADB and the World Bank for infrastructure and public spending. Analysis of aid data (from DAC donors and large foundations) suggests that foreign aid from DAC sources more than doubled from 2010-2012, with the country receiving \$4.21 billion of development cooperation (which still accounts for less than 1% of GDP) in 2012.¹²⁸ Australia has become a leading donor with a portfolio of over \$600 million in 2013-2014.

China is an increasingly important partner to Indonesia, providing concessional loans for infrastructure. In recent years these include: \$99.7 million for a 1000 km rail project (2011), \$93.5 million for a coal steam power plant (2009), \$250 million for a 'population administration information system - SIAK' (2009), 3 bridges (\$68 million in 2008, \$60 million & \$87 million in 2011), and 2 toll road projects (\$100 million & \$137.73 million in 2011).¹²⁹

China also provides smaller grant and TA aid for capacity development in trade and small business development (including training in Chinese language for government officials) as well as a grant for a maritime surveillance satellite system (2011) and replacement of lighthouses and beacons in the

¹²⁷ Greenhill, Romilly, Annalisa Prizzon and Andrew Rogerson. "The age of choice: developing countries in the new aid landscape" Overseas Development Institute Working Paper 364, January 2013. Print.

¹²⁸ "Indonesia's top 10 donors: Responding to the promise of transformation." <https://www.devex.com/news/indonesias-top-10-donors-responding-to-the-promise-of-transformation-78905> Web. August 2012.

¹²⁹ Republic of Indonesia. *List of Planned Priority External Loans and Grants*. Ministry of National Development Planning (Bappenas), 2011. Print.

Malacca Straits damaged in the 2004 Tsunami (2011). China sent rescue teams after the Tsunami and a PLA Medical Mission was part of the ASEAN Regional Forum Disaster Relief Exercise in 2011.¹³⁰

Following the 2004 Indian Ocean Tsunami, Indonesia, and Aceh in particular, received significant humanitarian aid from DAC and non-DAC providers. Donors such as Kuwait, Turkey, and Saudi Arabia were active, but did not necessarily have the infrastructure or the experience to be as effective as other donors¹³¹. Turkey in particular provided considerable support for school, hospital, and home rehabilitation.¹³²

Unique Features and Issues: Indonesia is one of the few countries that is both an important aid recipient and donor. It also demonstrates significant disparities in development levels across its geography. Relevant features of the Indonesian aid landscape include:

- **Regional Differences and Decentralization:** Indonesia is a diverse archipelago with significant variations in resources and development. Indonesia is also significantly decentralized and with strong sense of local autonomy amongst its provinces. Two provinces- Aceh and West Papua- are designated as Special Autonomy Zones and have the ability to engage directly with potential investment and development cooperation partners without going through the central government, unless investments relate to matters of national importance (i.e. defense). As a result, investments and development cooperation from DAC and non-DAC providers may be targeted to these regions without being integrated through central aid coordination mechanisms.¹³³ China, for example, appears to have supported natural resource rich Papuan transport and agriculture.¹³⁴ In the education sector, China and Papua are discussing Chinese scholarships for Indonesians and the construction of a local university in Papua.
- **Islamic Aid:** Within the eight target countries, Indonesia has the only majority Muslim population. For Arab providers, like Kuwait and Saudi Arabia, support to Indonesia aims to foster better relations between Islamic countries and to bolster good relations with an important source country for migrant workers. In addition, there are strong historical and cultural ties between Aceh Province and Turkey.
- **Investment and Aid- a sense of perspective:** In an emerging economy like Indonesia, the total amount of aid is a relatively insignificant in comparison with the amount of FDI. (FDI was just under \$19 billion in 2012¹³⁵). In 2011, China provided a package of more than \$9 billion of loans and buyer's credits, including \$1 billion of buyer's credit and \$8 billion of financing contracts for investors in Indonesia's infrastructure and industries¹³⁶. This was the largest package received by any country¹³⁷.

Coordination and Transparency: As in other countries, non-DAC providers, especially southern providers, generally do not attend donor-led coordination meetings. Indonesia however has strong

¹³⁰ *ibid.*

¹³¹ Masrafah, Harry and Jock MJA McKeon. "[Post-Tsunami Aid Effectiveness in Aceh – Proliferation & Coordination in Reconstruction](#)." *Wolfensohn Center for Development at Brookings Working Paper* 6, Nov. 2008. Print.

¹³² "[Turkish Aid in Indonesia Leaves Lasting Impression](#)." *Today's Zaman* 3 December 2009. Web. August 2013.

¹³³ Aceh Investment Coordinating Board. [Regulation](#). Web. Aug. 2013.

¹³⁴ One estimate suggests that the Chinese are planning to commit around \$4 billion in investments in Papua.

¹³⁵ "[Foreign Direct Investment, Net Inflows \(BoP, Current US\\$\)](#)." The World Bank. Web. August 2013.

¹³⁶ Jize, Qin and Li Xiaokun. "[Indonesia Wins Loans & Deals](#)." *China Daily* 30 April 2011. Web. August 2013.

¹³⁷ The Indonesian Ambassador to China, Imron Cotan, was quoted as saying that: "*China is very eager to invest and do business with us and I believe this country puts no preconditions on its economic offers. Moreover, different from other countries, they are willing to transfer their technology to us while building businesses in Indonesia.*" (*ibid*)

government-led coordination mechanisms particularly around the National Community Empowerment Programme (PNPM). The Ministry of Planning, Bappenas, also provides an Aid Information Management System¹³⁸, which in theory should provide data on grants, loans, and projects from all sources. In practice, the site is not easy to navigate. Bappenas also publishes a “blue book” or list of Medium Term Planned External Loans and Grants, a “green book,” or “List of Planned Priority External Loans and Grants” once projects have met readiness criteria. These lists contain loans and grants from non-DAC providers, such as China.

Activities as a donor: As described in Section 2, Indonesia is also a provider of South-South cooperation, and participates in trilateral cooperation. Its growing portfolio includes activities in governance, and economic issues (macro-economic management, public finance and micro-finance).¹³⁹ This is discussed in section 3.

¹³⁸ <http://aims.bappenas.go.id/>

¹³⁹ Siliwanti, Raden. “Indonesia South-South and Triangular Cooperation.” *Ministry of National Development Planning*. Presentation.

4.3 Laos

Overview: Laos is a single-party state with tight controls on information. After the 1975-1986 period of a Communist controlled economy, the country began to open up its economic and diplomatic relations. This has resulted in consistent growth rates rising to 7 and 8 % per annum over the last five years, making Laos one of the fastest growing economies in the world. The country continues to seek international engagement and has just joined the WTO in 2013. At the same time, the regime keeps a tight hold on power so the country's business and economic aspirations sometimes conflict with DAC donors' conditions on investment and aid.

Laos has only very recently become a lower middle-income country but is considered one of the poorest countries in the region with estimates of between 70 and 80% of the country still earning a living through subsistence agriculture.¹⁴⁰ Laos has had a long history of aid relationships with DAC and non-DAC providers and aid still factors significantly in its GDP.

Laos has significant natural resources -gold, copper, water, and land (which are being appropriated and cultivated for rubber, rice¹⁴¹ and other food crops, and hardwoods). As a mountainous, landlocked country with relatively poor transport infrastructure, facilitating the movement of goods and reducing transportation costs are seen as critical components for future economic development¹⁴². Geopolitically, Laos views China as its big brother. The communist connection plays an important role in the Laos relationship with both China and Vietnam. Laos party officials maintain strong ties with counterparts in China and Vietnam, with all rising public sector officials still enjoying a period of political training in either Hanoi or Beijing.

Since 2011, China's influence on the development landscape in Laos has grown, as it has increased its direct investment and concessional loans to support infrastructure (both productive as well as symbolic). There is some development cooperation from Thailand, largely in the form of technical assistance and South-South exchanges (facilitated by the fact that the languages are quite similar), with an emphasis on health, education, and agricultural development. Thailand is also a major investor in Laos, often investing in key infrastructure and providing loans with some concessions (although perhaps not meeting the ODA standard of aid).

Unique Features and Issues: In Laos, there have been a number of high profile investments, representing both private and public flows, from China and Thailand, that have raised questions about the way in which these investment decisions are made and how projects are implemented.

- **Tradeoffs between efficient delivery and effective outcomes:** In Laos, the Nam Theun 2 hydropower project was constructed with arduous environmental and social standards required by the lenders consortium (in which World Bank has played a leading role). Currently another hydropower project- Xayabourly- the first on the Lower Mekong River mainstream is being constructed in partnership between the Laos government and Thai investors (as a private venture). The electricity generated from the dam is for export to Thailand. This Xayaboury project has been the source of considerable controversy in the Mekong Region and internationally, because of concerns about sediment passage and fisheries damage, inadequate impact assessment, and the muted role of the Mekong River Commission. Civil society organizations and neighbouring

¹⁴⁰ Laos is ranked 138 out of 187 countries in the 2013 Human Development Report.

¹⁴¹ Some sources have suggested that Kuwait has established an embassy in Laos explicitly to facilitate activities to support rice production.

¹⁴² Campbell, Charlie. "[Laos' Mammoth Train Project a Fast Track to Debt and Despair.](#)" *Time* 15 April 2013. Web. August 2013.

governments (Cambodia and Vietnam, which are both downstream from the dam and poised to be negatively affected) have voiced their irritation. Another mooted project in southern Laos on the Lower Mekong mainstream, involving a Malaysian developer in partnership with the Lao government is creating similar regional and international noise. This controversy has raised the issue of the value of environmental and social safeguard assessments in such projects.

- **Unserviceable infrastructure debt is not a gift:** Another example of a controversial project in Laos was the proposed \$7.2 billion loan offered by China to support a massive transport infrastructure project including 420-km of railway track (with 76 tunnels and 152 bridges). The loan, which represented 86% of Laos GDP, was widely criticized and the project was purportedly cancelled after Chinese feasibility studies indicated that the project was not viable¹⁴³. The scale of the potential investment, which included funding from China's EXIM bank, has raised questions about the way in which the Lao government vets projects and how it considers the long term implications of offered financing¹⁴⁴.
- **Natural resource management:** Laos has significant natural resources -gold, copper, water (largest percentage of the Mekong), and undeveloped land (which can be cultivated for rubber, rice¹⁴⁵ and other food crops, and hardwoods). The geography and water access of Laos also makes it a strategic transport hub for the region, notably for China. According to one analyst "it is cheaper and easier to build transportation links through Laos than through neighbouring countries". Many of these resources are not developed or extracted and hence are attractive to external investors and developers, yet they face numerous challenges such as a weak rule of law, corruption, and a small and poorly skilled workforce. This environment fosters international competition for access to these resources, and raises environmental, land rights, and corruption issues, which may accompany this process¹⁴⁶. The lack of transparency around project vetting or feasibility, has raised concerns that the Laos government may be collaborating with new investors (from China and elsewhere) to take advantage of weak land policies and encourage land-grabbing, particularly in agri-business.

Perceptions: In Laos there is a clear sense that different actors play by different rules. Asian southern providers do not impose conditionalities or insist on policy reforms in the provision of their assistance. DAC donors however have used their development assistance to 'incentivise' certain reforms and behaviours, often governance related. Traditional donors are concerned that the rise in 'no strings attached' lending from China and Thailand has weakened this incentive system and hence their influence with the Laos government.

Though China is perceived as the big brother to Laos and is portrayed in the press as contributing to national development, the presence of a large number of Chinese workers to supplement the small and poorly skilled local labour force has created some social unrest and fear over the Chinese crowding out small business.

Coordination and Transparency:

While Laos does appear to have an Aid Management Portal, it is not active nor does it include data from non-DAC providers.

¹⁴³ Some sources suggest that the project is back on the table, but this is not confirmed.

¹⁴⁴ Campbell, Charlie. "[Laos' Mammoth Train Project a Fast Track to Debt and Despair.](#)" *Time* 15 April 2013. Web. August 2013.

¹⁴⁵ Some sources have suggested that Kuwait has established an embassy in Laos explicitly to facilitate activities to support rice production.

¹⁴⁶ Laos is often one of the worst performing countries in the World Bank's Ease of Doing Business Reports and it has been suggested that investors attracted to investment in Laos are often willing to accept high levels of corruption.

4.4 Mongolia

Overview: Over the last 20 years, Mongolia has undergone a significant political and economic transformation, and has the potential in the next decade to be one of the wealthiest countries in the region through the exploitation of its vast mineral deposits. Growth rates for 2013 are estimated at 12.5% and GDP is expected to grow at a double-digit rate in the next 3 years and poverty rates are rapidly decreasing –already down from 38.7% in 2010 to 27.4% in 2012¹⁴⁷. Mongolia is already a centre for international economic interest with mining firms from Australia, China, and Russia proactively undertaking exploration and at the same time building relationships with the Mongolian government. While there is a diversity of economic actors in Mongolia, China is the dominant player- receiving 91% of Mongolia's exports and providing 32% of its imports in 2011^{148 149}. This relationship is politically and economically critical and has major implications for the aid landscape in Mongolia.

In addition to vast flows of FDI, China also provides concessional loans for infrastructure and grants, targeted mostly in the education sector. Since the new Mongolian government came into power in July 2012, there have been several visits of senior Chinese and Mongolian officials. Both nations seem keen to intensify cooperation in the areas of mining, animal husbandry, infrastructure construction, finance, and transit transport.¹⁵⁰ From 1991 to 2010, China provided grants of about \$47 million to Mongolia and concessional loans of about \$315 million. The most recent concessional loan agreement for \$300 million was signed when China's former president Hu Jintao visited Mongolia in 2006 and covers a large railway project that started in 2010. A preferential buyer's credit agreement was signed in 2011.^{151 152}

Kuwait, and India are also active development cooperation partners but their activities and programs are significantly smaller than those of China. Kuwait has supported some hospital and health services development and has a considerable portfolio of concessional loans for power and roads. In July 2011, India and Mongolia signed a 'Comprehensive Partnership' involving technical training and a grant of \$20 million Line of Credit for a Joint Information Technology Education and Outsourcing Centre.¹⁵³

Unique Features and Issues: Within this landscape, the situation in Mongolia raises a number of interesting issues.

- **Relevance of 'aid':** As Mongolia has one of the fastest growing economies (due entirely to its mining sector), the value and necessity of external aid will gradually become less significant in the long term. Foreign investment will continue to grow and the Government has the potential to avoid the 'resource curse'. However, to ensure sustainable and inclusive growth, Mongolia will continue to require external technical assistance to help build professional capacity and to help strengthen a diversified economy. With a largely new bureaucracy (an estimated 80% of bureaucrats are new in their jobs) the Mongolian government has capacity needs in public administration and policy reforms. This area appeals both to traditional donors who see the potential for influencing key

¹⁴⁷ <http://www.worldbank.org/en/country/mongolia/overview>

¹⁴⁸ China accounted for 51% of all FDI into Mongolia in 2010 (US\$596.7 million of 1.76 billion), up from just 24% in 1994 (FIFTA, 2012) and Chinese companies make up 50% of total foreign-owned and operated companies in Mongolia at (FIFTA, 2012).

¹⁴⁹ [National Statistical Office of Mongolia](#) 2011. Web. August 2013.

¹⁵⁰ Reeves, Jeffrey and Pardo, Ramon Pacheco. "[Parsing China's Power: Sino-Mongolian and Sino-DPRK relations in comparative perspective.](#)" *International Relations of the Asia Pacific* May 2013. Print.

¹⁵¹ People's Republic of China. Ministry of Commerce. "[China will provide preferential loans to Mongolia to buy locomotive.](#)" *Erlian Municipal Bureau of Commerce* 21 June 2010. Web. August 2013.

¹⁵² 21st Century Business Herald. "[Premier Wen's First Visit to Mongolia.](#)" *Net Ease Inc.* 25 May 2010. Web. August 2013.

¹⁵³ India. Embassy of India in Mongolia. [India-Mongolia Relations](#), June 2013. Web. August 2013.

institutional structures and reforms and non-DAC donors, such as India who can support governance capacity building through South-South cooperation. The India-Mongolia Joint Committee on Cooperation (IMJCC), headed by Minister of State for External Affairs of India and Mongolian Minister of Education and Science is providing South-South cooperation on education.

- **Influencing business practices:** Mining firms are big players in Mongolia and the way in which these foreign firms operate can have significant impact on communities and the environment. For example, companies like Rio Tinto, have designed the Oyu Tolgoi copper mine (in which it is the main partner) to be one of the most water-efficient mines of its kind in the world. As well as only using water from a previously-undiscovered, deep and saline aquifer that is unconnected to surface water, the operation will continuously recycle 80 per cent of the water used in operations and all of the water used for domestic purposes. Rio Tinto is also actively engaging in 'corporate social responsibility', which has influenced the way they conduct business. Rio Tinto has demonstrated an awareness of the risks to the human rights of local communities in mining-affected areas in Mongolia, and released an environmental and social impact assessment, which was met with a mixed response.¹⁵⁴ Rio Tinto also stated it was embarking on a community health and safety and security program around the OT mine.¹⁵⁵ Centerra Gold, a Canadian-based mining company, has initiated some CSR in Mongolia focusing on a reforestation project in Boroo, in addition to enhancing its waste management and recycling processes.¹⁵⁶ Centerra also has a Social Development Fund that promotes community development.¹⁵⁷

Perceptions and Transparency: Mongolia's economic interconnectedness to China is both an economic opportunity and a political challenge. Within public opinion in Mongolia there is a concern about the overreliance on China and the resulting power imbalance. Furthermore Chinese workers, who have a significant presence in the infrastructure sector, increase the visibility of the Chinese footprint for the Mongolian public. Mongolian politicians must carefully maintain good relations with their main investor while managing critical public opinion. Maintaining this balance may contribute to a culture of limited transparency on the extent and nature of Chinese activity in Mongolia. It also creates an increased interest and appetite for countervailing influences from other countries like Russia and India.

Activities as a donor: Mongolia has recently initiated activities to become a donor- with an emphasis on supporting North Korea, Myanmar and Kyrgyzstan. In the case of North Korea, Mongolia has been requested to provide food aid, but the exact scope of support still needs to be determined. In the case of Myanmar, Mongolia is expected to provide support in the area of democratization and civil society strengthening.

¹⁵⁴ Rogers, Amy. "[Australia's Overseas Mining Operations – A 'Hard' Regulatory Role for the Australian Government in Mongolia.](#)" *Right Now* 2 August 2013. Web. August 2013.

¹⁵⁵ Dan. "[Business Opportunities with OyuTolgoi – 2010.](#)" *Mongolia Web* 25 February 2010. Web. August 2013.

¹⁵⁶ "[Responsible Mining Everywhere We Work - 2010 Corporate Responsibility Report.](#)" *Centerra Gold Inc.* 2010. Web. August 2013.

¹⁵⁷ Centerra Gold Inc. "[Mongolia.](#)" Web. August 2013.

4.5 Myanmar

Introduction: In March 2011, U Thein Sein initiated a series of historic reforms that has started the process of bringing Myanmar out of decades of isolation. Myanmar has both vast potential and great needs and is operating in an environment with limited experience with development cooperation and a political regime undergoing rapid transformation. It has a population of 60 million people (more than 70% of whom are rural and rely on agriculture), is rich in natural resources that have been only partially exploited, sits at the crossroads between China and India (and Thailand), and has a legacy of conflict and instability.

The demand for development cooperation in Myanmar is great in all sectors, particularly health, education, transport, and infrastructure. According to a McKinsey report, Myanmar will need \$650 billion of investment by 2030 to support its growth and development- of which \$320 billion is required in infrastructure alone.¹⁵⁸ China is by far the largest non-DAC provider in Myanmar, but India and Thailand are increasingly active. Vietnam, Mongolia, Qatar, and Saudi Arabia are also demonstrating interest.

Unique Features and Issues: Despite data limitations, there are a number of unique features of the aid landscape in Myanmar. There is a European Union supported initiative underway to collect data on aid flows but this data will not be available until after September 2013.

- **New engagement:** Within the region, and globally, there is a sense that the world is watching what unfolds in Myanmar, economically, and politically. Donors who were largely unable to provide assistance to Myanmar under the military regime (with the exception of relief efforts during Cyclone Nargis in 2008) are only now able to ramp up their levels of support. In contrast, less constrained non-DAC providers, particularly China¹⁵⁹ and Thailand were active in Myanmar in the pre-reform era. India is also an important development partner, and although it was reluctant to engage with the military regime, the scale and pace of its activity has increased dramatically in the last two years. In this crowded and complex aid environment, development actors also have the opportunity to apply and test the Busan principles of effective development partnership.
- **Regional geopolitical dynamics:** Myanmar's geostrategic importance, whether over its natural resources, its proximity to large regional powers (including China, India, Thailand), or its assumption of the ASEAN chair in 2014, has attracted political and economic investments from a wide range of partners. Japan, who has been a prominent donor and partner, is well aware of these dynamics and

A recent study, "Too much, too soon? The dilemma of foreign aid in Myanmar" (2012), highlighted eight challenges that underpin the potential for successful development and aid effectiveness in Myanmar including the peace process, the fractional political system, the need to have macroeconomic discipline, the potential overflow of private capital investment, the challenges of managing natural resource extraction in an environmentally and financially sustainable way, addressing land reform issues and land grabbing, agricultural development and the need to reform education. (Nathan 2013)

¹⁵⁸ Rieffel, Lex and James W. Fox. "[Too Much, Too Soon? The Dilemma of Foreign Aid to Myanmar/ Burma.](#)" Nathan Associates Inc. March 2013. Web. August 2013.

¹⁵⁹ *ibid.*, p.49. One conservative estimate suggest that Chinese aid to Myanmar's government between 1997 and 2006 added up to \$24 million in grants and \$483 million in loans (with a number of these loans financed the sale of Chinese equipment to Myanmar's state-owned enterprises.)

the costs and opportunities of a successful or failed Myanmar. In 2012, JICA allocated \$700¹⁶⁰ million out of \$1 billion in loans to Myanmar. India also considers Myanmar as an important “land-bridge” on its path to the consolidating ties with Southeast and East Asia, and countering the influence of China¹⁶¹. In 2012 India extended \$ 41.4 million in lines of credit to Myanmar¹⁶².

Perceptions: The Myanmar government wants to retain autonomy in managing and balancing its foreign development assistance and investment. China, generally perceived as a dominant player, appears to have diversified its activities to include “softer,” more people-oriented and more transparent forms of aid, including greater engagement of Chinese NGOs, projects to stem human trafficking, CSR activities, and a process of building relations with civil society and the political opposition.¹⁶³

Coordination and Transparency: Responding to the new inflow of development assistance partners- from DAC and non-DAC countries - the government of Myanmar has been proactive in establishing an aid coordination mechanism. In January 2013, Myanmar hosted its first Myanmar Development Cooperation Forum and agreed on the “Naypitaw Accord for Effective Development Cooperation” - a non-binding agreement that sets out guidelines on government-donor cooperation and encourages alignment with the government’s Framework for Economic and Social Reforms¹⁶⁴. In the new aid coordination structures there is consistent representation from traditional DAC donors but limited engagement from non-DAC providers with the exception of Thailand and Vietnam¹⁶⁵. India is largely absent, while China has participated nominally.

The Foreign Economic Relations Department in the NPED Ministry, with support from the European Union, is creating a Foreign Aid Information Management System to support the monitoring and evaluation process. It will also be interesting to see if non-DAC providers (and their Government of Myanmar partners) share their information with this new aid data collection initiative.

¹⁶⁰ Of the \$700 million assistance in 2012-13, \$500 million was a concessional loan at an interest rate of 0.01% over a period of 40 years for electricity generation in the Yangon area, development of Thilawa port, and road transportation projects. The remaining \$200 million was aid meant for rural areas in electrification, transportation, sanitation and safe drinking water programmes. (Bhaskar, Utpal. “[Japan, India bet on aid, loans to boost influence in Myanmar](#).” *Live Mint* 10 June 2013.)

¹⁶¹ Yhome, K. “India-Myanmar Relations (1998-2008): A Decade of Redefining Bilateral Ties.” Observer Research Foundation Occasional Paper No. 10 (January 2009): 25. Print.

¹⁶² Mullen, Rani D. “India’s Development Assistance & the Rise of Asia: Changing Paradigms and Trajectories.” *The Future of International Development in Asia & the Pacific Conference* 10 May 2013. Presentation.

¹⁶³ Rieffel, Lex and James W. Fox. “[Too Much, Too Soon? The Dilemma of Foreign Aid to Myanmar/ Burma](#).” *Nathan Associates Inc.* March 2013. Web. August 2013.

¹⁶⁴ The FESR includes 10 priority reform areas including finance and revenue, relaxation of restrictions on trade and foreign investment, development of the private sector, education and health sectors, food security and development of the agricultural sector, transparency in government, the mobile phone and internet systems, and development of the basic infrastructure.

¹⁶⁵ Interview with DFID Official, 2013.

4.6 Philippines

Overview: The Philippines is a lower middle-income country that has struggled to define and follow a sustained and consistent path to growth. The Philippines does not have a natural resource based economy, like its neighbours Indonesia and Timor Leste, but has strong human capital (most recently forming part of the global outsourcing of call centres) and has had an active, if flawed, democratic system and open press. It also plays a strategic role in the region, with solid historical ties to the United States, an important role in ASEAN, and strong (if not always smooth) relationships with China.

In 2012, the total ODA portfolio amounted to \$11.72 billion. Seventy five percent or \$8.82 billion was in the form of loans, while the remaining \$2.9 billion was in grants. Of the loans, the majority are project loans (70 project loans amounting to \$6.89 billion) with some large program loans (10 loans worth \$1.93 billion). Concessional loans are predominantly used for infrastructure investments, while grants are used, to a limited degree, for technical assistance (notably in agriculture) and disaster relief¹⁶⁶.

In terms of non-DAC donors, up until the early 2000's, China was contributing on average about 5% of the ODA to Philippines, lagging far behind larger players like Japan (with a historical 53% of ODA support to the Philippines).¹⁶⁷ In 2003, China was providing only \$60 million, increasing to \$400 million by 2004 and \$1.1 billion in 2007, making China the fourth largest development lender after Japan, ADB and the World Bank. Since 2009 China has been contributing more than 10% of ODA, with a package of primarily concessional loans amounting to around \$1.1 billion per year. Saudi Arabia has provided some assistance in the majority Muslim areas of the country, such as Mindanao.

The Philippines has a CSR culture that began with the establishment of the Philippine Business for Social Progress in 1970, and includes Philippine Business for the Environment, Philippine Business for Education, Corporate Network for Disaster Response, and the umbrella League of Corporate Foundations, including family foundations started by the dominant business families that control much of the Philippine economy. Such entities can become quite professional and become channels for ODA rather than for the wealth of the family or corporation.

Unique Features and Issues: The dynamics of non-DAC flows in the Philippines highlight a number of sensitive issues.

- **Appetite for risk and corruption:** In the Philippines, as elsewhere, China has been seen to be a development partner willing to take on 'risky' infrastructure projects that might be difficult for DAC development partners to partake in- such as dams and railroads. The North Luzon Railway (Northrail) project is a notable example of such a risky project. Designed in the mid-1990s and initiated in 2004, the project intended to construct an 80km high-speed railway to provide a rapid mass transport system to connect Metro Manila with Central Luzon (and with former US Clark Air Base [now a commercial airport]). The project, with an estimated budget of anywhere between \$500 million and upwards of \$1.1 billion, was awarded to the Chinese contractor Sinomach Corp under a concessional loan arrangement with the Chinese government. To date however, less than 1km of railway has been built due to a range of challenges including issues of land rights, resettlements, incompetence, and mismanagement. Perhaps most importantly however, is that in

¹⁶⁶ Philippines. "[CY 2012 ODA Portfolio Review](#)." *National Economic & Development Authority* 2012. Web. August 2013.

¹⁶⁷ Troilo, Pete. "[Top 10 Foreign Aid Donors to the Philippines](#)." *Devex* 7 Nov. 2011. Web. August 2013.

2012^{168 169}, after considerable backlash¹⁷⁰ from public interest groups, the Philippine government cancelled the project and began negotiating repayment¹⁷¹ with China. Issues of corruption continue to be a major concern in the interaction between China and the Philippines, but are often oversimplified and perhaps blame is directed wrongly at the Chinese government- whereas the bulk of the corruption is likely directly between the Philippines' and the Chinese contracting companies.

- **Active shopping:** Non-DAC assistance from non-DAC providers is often positioned as being more responsive and demand-driven. In the Philippines, the support from Saudi Arabia for the Cotabato Circumferential Road is a perfect example. After the US government (USAID) backed out of its agreement to fund the road in 2005, the government approached Saudi Arabia and requested support for the project. Assistance was rapidly agreed upon and the road construction commenced. In this case, the Saudi Arabian government was able to present itself as a responsive partner in light of the US perceived lack of transparency and follow through.

Perceptions: The media in the Philippines is notoriously strong and persistent in its coverage of politics, corruption, and development. Aid and aid-like flows from DAC and non-DAC providers are often reviewed and debated publicly-particularly in relation to 'Public Private Partnerships' which are a preferred modality for large infrastructure projects with concessional loans. Considerable effort has been made in recent years by the Philippines and some DAC donors to ensure standard procedures for the implementation of these projects and when DAC donors are involved (usually through the multilateral development agencies), it is generally considered to be a 'clean' process that conforms to high standards. If and when the government seeks out non-DAC support (aid and/or investment), particularly from China, there is a sense that the process may be less clean and open to corruption. In this way DAC aid has been seen to have a "seal of approval" and is therefore desirable for administrations and politicians wishing to project a clean, anti-corrupt image.

The South China Sea dispute has been escalating in the last two years and threatens to undermine the spirit of collaboration and mutual assistance that is at the heart of Chinese development assistance to the Philippines. Recent reports have indicated that the Philippines is spending \$1.8 billion to modernize its military in the face of perceived regional threats. This geopolitical tension creates another layer of general public distrust and suspicion of Chinese aid and investments in the Philippines.¹⁷²

Coordination and Transparency: The Philippines makes data available through the NEDA ODA Portfolio Review documents, which are published annually and provide a detailed overview of the state of ODA management in the Philippines. While projects from China and other non-DAC donors are integrated into the data presented, there is no explicit discussion of their engagement in and responsiveness to coordination mechanisms like the Philippine Development Forum.

¹⁶⁸ Calica, Aurea. "[Phi, China drop North Rail](#)." *The Philippine Star* 26 Sept. 2012. Web. August 2013.

¹⁶⁹ "[Philippines Agrees to Repay Chinese Loan](#)." *China-Wire* 26 Sept. 2012. Web. August 2013.

¹⁷⁰ The move to stop the North Rail project was instigated by a taxpayer lawsuit that claimed that former president Gloria Macapagal-Arroyo had agreed for North Rail to renegotiate the entire contract with Sinomach upwards (from \$1.18 billion to \$1.3 billion) despite a reduction in Sinomach's civil works and also that the entire bidding process was not consistent with national procurement laws for public works.

¹⁷¹ Robles, Raissa. "[Manila, China inked rail loan payment deal amid row over contract's legality](#)." *South China Morning Post* 1 February 2013. Web. August 2013.

¹⁷² [Esplanada](#), Jerry E. "[Coast Guard to acquire 10 patrol ships from Japan](#)." *Philippine Daily Inquirer* 4 July 2013. Web. August 2013.

4.7 Timor Leste

Overview: Since independence in 2002 Timor Leste has received considerable donor assistance from DAC and non-DAC providers to support all aspects of state building.¹⁷³ At the same time, Timor Leste has seen a considerable growth in national income as a result of natural resources (oil and gas). Timor Leste is faced with a unique balancing act in building its nascent democracy while managing the complexity of trying to sustainably manage its natural resources. An added challenge is that there is a limited indigenous private sector in Timor Leste, so most contracts for infrastructure are subcontracted to and implemented by foreign companies (often from Indonesia, China, India, and Malaysia), creating a whole set of vested interests and complex relationships.

China has been an active player in Timor Leste, with considerable aid support to the financing and implementation of infrastructure projects for major government buildings (i.e. presidential palace, the foreign ministry building, the defense headquarters, and staff quarters for the Timorese military officers). Indonesia, which despite its troubled history with Timor Leste, remains an important strategic partner, and provides ad hoc technical assistance on issues like decentralization and foreign affairs. India's support to 'nation-building' has largely been focused on grant support for socioeconomic activities, and education support (in the form of scholarships for diplomats and students).

Brazil and Cuba have also been active in Timor Leste, building on linguistic and socio-political affinities. Brazil has provided grant and technical support to vocational training, as well as leveraging its commonality in language and legal systems to provide technical assistance in areas like education and justice. Cuba supports medical training for Timorese (approximately 500) and has sent Cuban doctors (300) to Timor Leste, though these programs are funded by the Timorese government.

Unique Features and Issues: Timor Leste presents an interesting aid landscape, given its considerable wealth garnered through natural resources alongside its persistent development challenges.

- **Competing for extractive rights and making room for new friends:** Australia is the dominant player in Timor Leste's extractive sector and holds various bilateral treaties with the country. Japan is the primary importer of these resources. Recent disagreements between the Timorese government and an Australian joint venture over the exploration of new oil fields have led to speculation that Timor Leste may welcome more competition in its extractive sector. China is a prominent player in the resource sectors of other countries in the region but is noticeably absent in Timor Leste. Instead, the Chinese government has been very responsive to Timor Leste's requests for high prestige 'demand-driven' infrastructure. China, if provided the opportunity, may wish to follow these grants with concessional lending for extractive industries. Both China and India may be watching the Timor Leste situation closely to see if the government will make room for more friends in the oil and gas sector.
- **Sustainability and long term development cooperation planning:** The entire economy of Timor Leste is built on the oil and gas industry (95% of government revenue) and presently the government has significant resources to cover its development needs. In this context, the influence

¹⁷³ Pai, Nitin. "[Touching Timor-Leste](#)." *Seminar* February 2012. Web. August 2013.

¹⁷³ Pai, Nitin. "[Developing India-Timor Leste Relations](#)." Financial Technical Report (Mar 2011): 13. Web. 12 August 2013.

¹⁷³ [Timor Leste Aid Transparency Portal](#). Web. August 2013.

of traditional donors and multilaterals that may wish to use development assistance to incentivise governance reforms is severely limited, and there is a sense that the Timor Leste government can “take it or leave it”. However, current predictions suggest that there is no more than 10 years of oil and gas available unless new fields are developed. This creates serious questions about economic sustainability. This will also have implications for the importance of development assistance over time.

Perceptions: Within Timor Leste there are negative views of Chinese business practices, and as an extension, concerns about its development assistance. While China has responded to Timor Leste government’s request for construction of prominent ministry buildings (e.g. President’s Palace), concerns have been raised in the media about the use of Chinese-only labour on these projects. Corruption issues- and perception of corruption- also loom over many projects that involve Chinese companies and contractors. Most notable was the recent purchase of two (used) generators from China that were not competitively tendered and seen to be vastly overpriced (at over \$1 billion).

Coordination and Transparency: Timor Leste has developed the Timor Leste Government’s Aid Transparency Portal¹⁷⁴, which aims to improve transparency and accountability. China and Brazil have in recent years been increasingly cooperative in providing information to the portal. However, India and Cuba have to date not provided information.

Activities as a donor: Timor Leste provides some limited development assistance as well. Notably it provided \$500,000 to China to support relief efforts after a 2008 earthquake. Timor Leste also provides some assistance to Guinea Bissau.

4.8 Vietnam

Overview: In 1985 average per capita income in Vietnam was \$130, making it one of the five poorest countries in the world. Rapid market-based development over the past two decades has transformed the country, and there have been significant achievements in poverty reduction - from 58 percent in 1993 to less than 10 percent in 2010. By 2010 average per capita income was more than \$1,000, making it a middle-income country. Vietnam has benefited from steady flows of FDI and ODA since the 1990s.

Access to information is a persistent challenge in Vietnam. With a government that is often accused of operating in silos and the absence of a free media probing these issues it is challenging to put together a comprehensive picture of non-DAC flows in Vietnam.

China and Vietnam have a long and complex relationship; extensive trade and cultural influence, but also suspicion and on-going territorial disputes. While the public discourse on China can be extremely negative there are strong bilateral links. As the Vietnamese president recently remarked on a state visit to China, *“The friendship between Vietnam and China is a common precious asset of the two peoples. It was fostered by the older generations of leaders and peoples of the two countries. All of us are responsible for preserving, inheriting and promoting our friendship”*¹⁷⁵. On the same visit the two countries set a target of \$60 billion of bilateral trade by 2015.

Since the early 1990s there has been a rapid increase in economic cooperation between China and Vietnam with significant pledges towards infrastructure development, heavy industry, natural mineral

¹⁷⁴ Timor Leste Aid Transparency Portal (<http://www.aidtransparency.gov.tl/>). Web. August 2013.

¹⁷⁵ “Vietnam and China Ink Bilateral Trade and Investment Initiatives.” *Asia Briefing* 21 June 2013. Web. August 2013.

exploitation, railways, textile and garment, chemicals, and infrastructure.¹⁷⁶ Most of these efforts are targeted at economic development and the dividing line between development cooperation and commercial investment is blurry. China offers loans (concessional and commercial) and preferential credit to infrastructure companies in Vietnam. A comprehensive picture is difficult to obtain but the examples that reach the press demonstrate that the amounts are significant. In 2009, one source cited that China had provided \$1.6 billion in loans to assist infrastructure and commerce development in Vietnam, and had provided \$45 million in buyer's credit for a Urea Plant as well as \$50 million for railway improvements¹⁷⁷. Buyer's credits however are not considered aid by China, even though the loans may be on favourable terms.

India is becoming an increasingly significant partner for Vietnam. India's development co-operation with Vietnam, which includes concessional credit, grant assistance, and capacity building programs, dates back to the 1970s and continues to be an important element of the two countries' strategic partnership. Commercial links have built steadily since the 1990s with a rapid increase following the signing of the ASEAN-India Free Trade Agreement in 2010. Starting in 2013, the Indian government formally launched an annual grant assistance program to fund small-scale, short-gestation projects that will directly benefit small communities in various parts of Vietnam.¹⁷⁸

While Thailand is primarily an economic partner, it also provides some development cooperation in agriculture, rural development, healthcare, human resource development, and state management. The Kuwait Fund for Arab Economic Development has been active in Vietnam since 1997, and has supported Vietnam through concessional loans for rural infrastructure and transport - over \$100 million since 2008.

Private and corporate foundations are active but still relatively small in Vietnam. Although the Ford Foundation had a long presence, it withdrew in 2010. More than 700 INGOs are registered but many are very small scale/inactive. There are some development initiatives by private companies emerging but still relatively small in the grand scheme of things.

Unique Features and Issues: Although there are challenges accessing accurate data and information on non-DAC flows to Vietnam, some relevant themes have emerged from the available analysis- particularly about the relationship with China.

- **South-South Cooperation:** China and Vietnam also have a history of party to party, government to government, and military exchange. There appears to be a strong relationship between China and Vietnam in terms of south-south cooperation on crime reduction.¹⁷⁹ India's development cooperation has also followed a thematic focus, with explicit support for ICT related activities- building on India's experience and expertise in the sector.
- **Friendship projects:** There is also a tradition of "friendship" projects that combine limited development cooperation with public relations objectives. For example, China and Vietnam are working collaboratively on a 'China-Vietnam Youth Gala' to *"broaden cooperation in the areas of culture and education, and to set up a cultural centre in each other's country as soon as possible. To increase publicity for China-Vietnam friendship and to create a good environment for the*

¹⁷⁶ McCarty, Adam, et al. "The Developmental Effectiveness of Untied Aid: Evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation on Untying ODA to the LDCs – Vietnam Country Study." *Mekong Economics* December 2009: 19. Print.

¹⁷⁷ *ibid.*

¹⁷⁸ "India-Viet Nam ties reach new heights." *Viet Nam News* 15 August 2013. Web. August 2013.

¹⁷⁹ Trung, Bảo. "Vietnam and Thailand Increase Cooperation Against Crime." *Vietnam Plus* 13 August 2013. Web. August 2013.

*development of bilateral relations*¹⁸⁰". There are apparently more than 13500 Vietnamese students enrolled in Chinese universities, most of them majoring in linguistics, tourism, and business.¹⁸¹

Perceptions: Similar to other countries in the region, there is concern domestically and regionally about the significant economic and political influence of China in Vietnam.¹⁸² Vietnamese public opinion toward China has historical roots based on a long history of invasions, cold war conflicts, plus economic fears, ongoing territorial disputes, and consumer issues with Chinese goods (e.g. food scares, dumping of low grade products). Consequently even though the Vietnamese government's relationship with China is important to secure its national development, public cynicism persists. Issues like the importation of Chinese workers to implement Chinese investment projects are perceived poorly and create public distrust.

Coordination and Transparency: Vietnam holds official Consultative Group Meetings for Vietnam of donors every year to effectively mobilize and utilize ODA. It brings bilateral, multilateral, and related NGOs as observers- however non-DAC providers are generally not active participants in these forums.

¹⁸⁰ The People's Republic of China. "[President Xi Jinping Holds Talks with President Truong Tan Sang of Vietnam, Stressing China and Vietnam Should Unswervingly March along Path of Friendly Cooperation](#)." *Ministry of Foreign Affairs* 19 June 2013. Web. August 2013.

¹⁸¹ Hồng Điệp, Nguyễn. "[Tiếp tục đưa quan hệ Việt Nam-Trung Quốc phát triển](#)." *Báo Bình Thuận Online*. Web. August 2013.

¹⁸² Hong Hiep, Le. "[Vietnam: Under the weight of China](#)." *East Asia Forum* 27 August 2011. Web. August 2013.

5. Key findings and implications

The preceding sections have provided an overview of the changing aid landscape, a summary of the strategies and modalities of some of the larger non-DAC providers operating in East Asia, and an analysis of the unique dynamics in each of the eight focus countries. In this section, the authors compile some of the key findings and implications (in bullets) for the Australian aid program in East Asia. These are further summarized into Recommendations in section 6.

Aid is only one instrument among many. For non-DAC providers, “aid” represents one instrument within a much broader set of foreign policy instruments that are leveraged to engage with a partner country. Development cooperation is often regarded as a soft power tool that strengthens non-DAC providers’ relationships and influence with other countries. Concessional loans often leverage mutually beneficial economic interests.

- What is traditionally considered “aid” represents a fraction of the financial inflows to most countries in the emerging East Asia region. Recipient countries in the region are actively engaging with large portfolios of concessional lending, competitive market rate lending, FDI and a range of development cooperation assistance- and as a result are less interested in discourse on what falls within the narrow definition of “aid.”
- Non-DAC providers, particularly Asian Southern providers, are explicit about the principle of mutual benefit, and are comfortable articulating the value that they derive from development cooperation relationships. In fact, this aspect of mutual benefit is critical for their domestic public relations in justifying their development cooperation programs. Traditional donors that may have shied away from this language may wish to reconsider their positions in light of their own domestic constituencies as well.
- Education is a compelling soft power instrument to strengthen diplomacy and long term cooperation between countries. All of the non-DAC providers offer programs through which individuals and institutions in recipient countries are able to access training and higher education in the provider country. These types of programs appear to be growing and although the financial volume may be relatively small (in comparison to infrastructure investment), these programs have significant impact in creating a cadre of future leaders in recipient countries that have personal and linguistic ties to China, India, and the Middle East.¹⁸³

Non-DAC providers are principle-driven and do not necessarily use tools like MDGs to guide aid allocation. Non-DAC providers prioritize certain principles - notably to be demand-driven, to be responsive, and to deliver with speed. As a result, non-DAC providers often do not define sectoral or country allocations, but instead allocate resources in response to bilateral relationships and requests. The development cooperation objectives and outcomes from bilateral non-DAC providers do not necessarily support the MDGs with their explicit focus on poverty and social justice. While providers certainly target poor countries, their demand-driven programs may not always deliver pro-poor outcomes. While private flows from philanthropies and impact investors may continue to focus their

¹⁸³ In 2004, according to Georgetown’s Southeast Asia Survey, the number of Indonesians getting visas for study in China was double the number obtaining visas to study in the United States.

¹⁸³ Joshua Kurlantzick. “[China’s Charm: Implications of Chinese Soft Power.](#)” *Carnegie Endowment Policy Brief No.47* (June 2006).

efforts in areas targeting poverty issues, they are likely to be allocated more opportunistically and not necessarily harmonized with larger planning processes.

- Within a more responsive, demand-driven bilateral relationship, there is greater scope for recipient countries to set their own priorities and pitch their own projects to potential donors rather than relying on larger national planning processes or donor-driven planning processes.
- Without clear country and sectoral allocations, it is harder for traditional donors and traditional aid coordination mechanisms to plan for and account for contributions from non-DAC and private providers.
- Issues of poverty, inequality, gender, and social safety nets have the potential to become less central in the larger development discussion and landscape- particularly with increasing focus on economic development as the primary catalyst for achieving development outcomes.

With more providers, countries have greater choice and bargaining power. The changing aid landscape provides recipient countries with more choice in terms of funding sources and instruments- particularly in the area of lending- and they are becoming more active in the way in which they choose projects and partners.

- Multilateral (and bilateral) lending institutions like the World Bank and the Asian Development Bank are already facing increasing competition from non-DAC financial institutions with fewer loan requirements, lower interest rates, and quicker financing. The World Bank and ADB are seeking new ways to add value. While some recipient countries may seek alternative financing for projects that may appear to have too many requirements, other countries may place greater value on the quality of the technical assistance and knowledge that accompanies current multilateral lending.
- With an increase in funding sources available, the ability for donors to effectively leverage aid as an 'incentive' for good behaviour, or to tie the provision of aid to certain conditionalities may be diminishing. For example, most recently the United States tried and failed to leverage its aid portfolio as an incentive to encourage free and fair elections in Cambodia.
- More choice allows recipients' governments to fund their own priorities- which may or may not be aligned with the views of the international community and may or may not demonstrate the best value for money. In the best-case scenario- it may mean that recipient countries can prioritize projects and strategies that they believe are critical to their long-term development but may not have a high rate of return. In other cases, it may allow pet projects or white elephant projects to be developed, even when they may appear or have been proven to be a poor use of resources.
- With an increasing number of development actors, recipient countries can run the risk of developing fragmented aid portfolios, with more individual projects to manage creating an increased burden on partner governments and systems to manage their resources. Non-DAC providers tend to prefer project-based support which can result in a proliferation of small-scale technical assistance and South-South cooperation projects that can leave partner government authorities unable to cope.
- With greater choice and greater flows of money comes greater potential for corruption. This is particularly true in countries where there may be limited public oversight of government spending.

Asian Southern providers and Arab providers often have centralized institutions that make decisions about development cooperation –and there is openness for learning about new and different approaches to development cooperation. There is considerable variation in the institutional arrangements for development cooperation amongst non-DAC providers, but they are similar in that none of them mirror the kinds of institutions set up by donors like DFID or USAID with a single client-facing agency and strong on-the-ground presence. Some common themes though are a relatively

centralized decision making process and limited field staff (with decision-making authority). The senior leadership within these non-DAC providers has demonstrated an appetite to learn more about development policy and practice from others. However, direct support from DAC donors may not be welcome.

- Where non-DAC providers have limited field staff, they simply may not be available or able to engage effectively with the larger aid community.
- This desire for capacity building may present opportunities for DAC-donors to share their knowledge and experience and support indirect capacity building of non-DAC providers. Strategic partnership with track two organizations and facilitators will be key.

Confusion arising from differing definitions of aid and ways of collecting and sharing information may create an unintentional perception of opacity and secrecy. While most non-DAC providers do not appear to have transparent and easily accessible information about their development cooperation, this practice does not appear to stem from an actual desire to be secretive or non-transparent. Some of the issues that appear to affect the transparency of non-DAC donors are; (i) the categorization of aid is different and more complex and may not be readily differentiated, (ii) because of complex institutional arrangements, the data on aid-like flows may be kept across multiple agencies and may not be easy to capture- even by provider countries (iii) some recipient countries may wish to limit the availability of information about the kinds and sources of their development cooperation, and (iv) there may be some concern about how the reporting on development cooperation may be received by the public in provider countries. Recent efforts by China to publish a White Paper to highlight its development cooperation thinking and activities reflect a desire for greater openness, if still not transparency. At the same time in India, a recent effort by the Centre for Policy Research to collect aid data has been remarkably well received by the Indian government, demonstrating openness to transparency.

- The recent shift towards greater openness suggests that there may be a window of opportunity to support efforts at greater transparency, through collaborative and supportive mechanisms like supporting provider country research institutes to play a greater role in data collection and dissemination.

Non-DAC providers do not actively engage in existing donor-led coordination mechanisms however regional forums provide opportunities for collaboration. Within the eight target countries there was limited evidence of non-DAC providers actively engaging in traditional aid coordination, harmonization, or measurement mechanisms. However, non-DAC providers are active in other types of coordination efforts that speak more to their economic, political, and security needs and priorities. These regional platforms bring together the eight focus countries, China, Thailand, and India, as well as other Asian countries like Japan and Korea for substantive issue-based collaboration. Similarly, on the issue of development cooperation itself there is an increasing interest among non-DAC providers to establish mechanisms that provide a stronger ‘Southern’ voice.

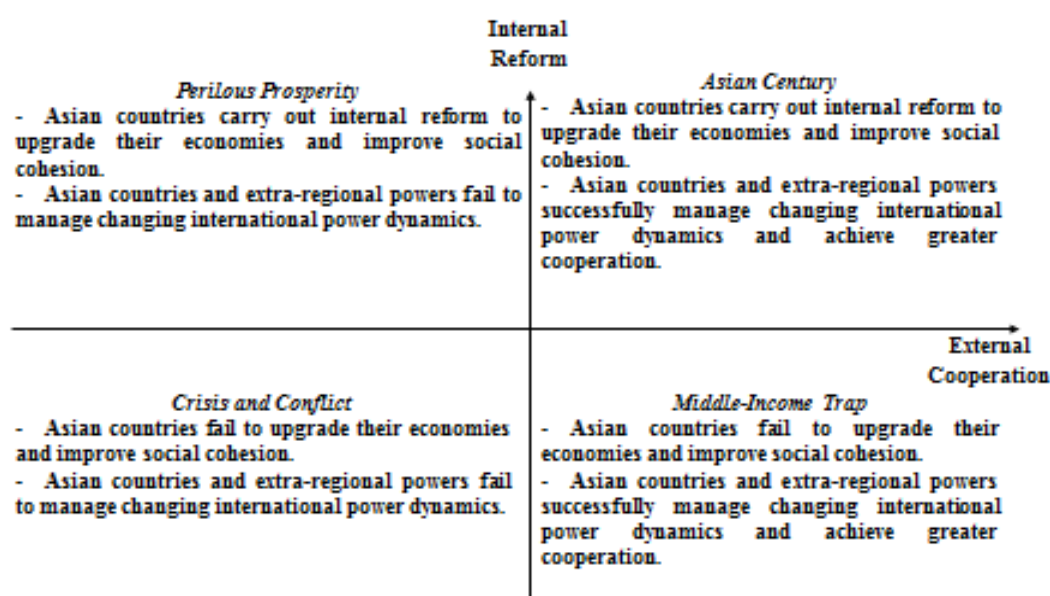
- Traditional donor efforts that focus solely on DAC coordination mechanisms will likely be misguided and miss a large part of the conversation on the changing aid landscape in Asia. The DAC, or DAC-like, coordination mechanisms within recipient countries are potentially becoming irrelevant as they focus on an ever-decreasing portion of what constitutes development cooperation.
- As a result, data flows about development cooperation – which currently rely on the reporting from DAC donors- paint a partial or inaccurate picture, and may impact the quality of global commitments and negotiations about development cooperation.

- Regional platforms and fora such as ASEAN+3, or AADC, offer a valuable and tangible way to engage with Asian partners in meaningful discourse on issues of mutual importance and relevance to a development cooperation agenda.
- Japan and Korea (both DAC donors) offer an Asian approach to development cooperation that may be more effective in some contexts. Opportunities to collaborate and work with these donors may offer ways to engage more effectively with other Asian non-DAC providers (India, China, Thailand, and Indonesia).

Middle income countries are at a pivotal moment. Middle-income countries in Asia present a challenge to the aid community. While the overall region is becoming wealthier, there are still large pockets of poverty and need. This is a critical stage of development and with the right mix of policies and regional and international cooperation, the region could become the global centre of growth and development in the next three decades. There is also risk of increased fragility, escalating geopolitical tensions, and the middle-income trap. The table below has been used to outline the various ‘alternative futures’ for Asia and advocates for the potential of the Asian Century (top right).¹⁸⁴

- While traditional donors are starting to reconsider their aid allocations to these countries, non-DAC providers are actively pursuing their development cooperation relationships in the region--influencing, investing, and shaping with soft power. Regional prosperity and inclusive growth pivots on the development trajectory of East Asia’s middle-income countries.

Asia’s Alternative Futures



Chapter 2 ¹⁸⁴ Asian Development Bank. *Asia 2050: Realizing the Asian Century*. Singapore: Asian Development Bank, 2011. Print.

The local context varies considerably across the East Asia region and creates unique and important local aid landscapes. The local aid landscape in each of the eight ‘receiver’ countries is influenced by unique set of economic, political and social dynamics, which influence their development trajectories. Critical factors emerging from the analysis include: natural resource endowment, state capacity and fragile conditions, political systems, the role of the press and civil society, geography and geopolitical significance. International geostrategic issues also play out in the region.

- Non-DAC providers (like DAC donors) will pursue different priorities and strategies for different countries. While this may be obvious, it suggests that some general inferences made about non-DAC providers (e.g. solely interested in resource extraction) are a misrepresentation of their intent.
- In some countries the aid landscape may be more a reflection of regional and global geopolitical issues than local needs. For example, there appears to be a tendency for India and China to ‘shadow’ each other’s presence in some countries. This may take the form of infrastructural investments. Similarly, China’s increased presence in the Philippines may be seen as an effort to counter the United States’ influence in the region.

6. Recommendations

General recommendations on potential partnerships are a challenge given the variation in country context, the presumably varied Australian interests in each of the countries, and the uncertainty as to what 'shared goals' might mean in an aid landscape in which non-DAC donors may be explicitly pursuing bilateral goals that may not be shared with Australia. However, this section will offer a series of practical recommendations on potential modalities for more effective collaboration with non-DAC donors. It focuses on what types of instruments and communication strategies may be most effective in finding common ground with non-DAC donors and identifying areas for meaningful collaboration.

The following recommendations are derived from findings and implications presented above.

1. **Stay the course in middle-income countries and look carefully at strategic programming opportunities.** With the exception of Myanmar, all of the countries in the study are now considered middle-income countries. Although there is a significant increase in wealth, there is still considerable poverty and rising inequality. With 75% of the world's poor residing in middle-income countries, there is a need to continue focusing attention to poverty, inequality, and the MDGs. However, there is also a need to focus on domestic policy reforms and external relations that will underpin the desired Asian Century development trajectory.

Non-DAC providers – whose development programming is not contingent on poverty levels- are increasing their engagement in their neighboring countries and using development cooperation to support neighbours, garner influence, and contribute to development goals. Australia would do well to be part of this regional partnership to ensure prosperity and equitable growth.

2. **Look for opportunities to leverage 'aid' funds within a wider set of public and private instruments to achieve development outcomes.** One of the main findings of the report has been the complexity and interconnectedness of the instruments that non-DAC providers use to support recipient countries. Public and private instruments are often blended. There may be opportunities for Australian development cooperation to identify its own blend of instruments in providing more responsive and creative financing tools. This may include innovative grant support to Australian companies working in focus countries to facilitate their compliance with and promotion of international best practice in responsible business. It may include financing for impact-giving and impact-investing sectors to promote the scaling up of social enterprises. There are a range of potential blended instruments and approaches that can be leveraged as part of a more dynamic package of development cooperation. One suggestion from Cambodia is for Australia to support chambers of commerce, including the Cambodian Chinese Chamber of Commerce, to provide investment related research, raise awareness on CSR issues (drawing on CSR outfits perhaps in China and among other Asian partners), and support targeted networking events between private sector and development programs.
3. **New partnerships with non-DAC providers are important, but require careful strategies for identifying entry points and influencing opportunities.** All of the non-DAC providers featured in this report rely heavily on their headquarters for decision-making and policy direction. As a result, often

the representatives on the ground are not in a position to make or significantly influence decisions in a country. If Australia is interested in fostering stronger collaborative relationships with non-DAC providers, there will be a need to identify ways to engage with decision makers in China, India, and Thailand. Indirect approaches to collaboration and engagement are likely to be most successful. Evidence from successful programs suggests that trilateral cooperation, knowledge exchanges, and engagement with and between academic institutions from provider countries have helped to strengthen relationships and create opportunities for collaboration.

4. **Review the development landscape and traditional partnerships and modalities. Regional forums are an increasingly important mechanism for collaboration in Asia on issues of greatest importance to countries in the region.** Re-examine engagement with multilateral institutions and see if there are new regional partners that may be more locally effective at achieving development outcomes. In the context of a new aid landscape in middle-income Asian countries, there may be scope to review and reexamine relationships and modalities of development cooperation- notably with multilateral banks. New initiatives like the BRICS Bank, or other regional lending institutions, may appreciate new partnerships in their start-up phase. Trust funds to support project preparation and social and economic safeguards may be welcomed in an effort to build capacity and establish norms and ways of working. Australia is in a unique position to capitalize on its role as an Asian neighbour and has the potential to help integrate development themes into the agendas of regional forums. Some of the regional groups that bring together the focus countries, the strategic non-DAC providers, and potentially Australia include: ASEAN Plus 3, Greater Mekong Sub Region, Greater Tumen Initiative, BRICS Bank, OFID, and Bangladesh-China-India-Myanmar (BCIM) group.
5. **Be proactive in seeking out opportunities to work with non-DAC donors to strengthen their knowledge, capacity, and partnerships.** There appears to be an appetite amongst non-DAC providers to learn and exchange approaches on development cooperation. In recent years, some Asian donors, like Korea, have undergone a significant shift in their development policy approaches- moving from hardware-focused approaches to a more nuanced and holistic approach to development cooperation. There appears to be a similar appetite in China, India, and Thailand. However, finding the right entry point and modality for effective learning is challenging. Experience from the Australia-supported 'Asian Approaches to Development Cooperation' work program (implemented by The Asia Foundation) has demonstrated the effectiveness of engaging through more indirect, track two approaches that build both on the expertise in the region as well as the expertise within academic and policy institutes operating in provider countries. While indirect approaches may be most effective at generating long-term impact, they may require a greater amount of flexibility and uncertainty up front.
6. **Support genuine country ownership and work with recipient countries to make more informed decisions about their development investing and infrastructure.** Country level research indicates that with the increase in development lending, there is greater scope for partner decision-making practices that may result in suboptimal infrastructure and financing decisions. There is a continued need to provide technical assistance and capacity-building to national government institutions- almost without regard for sectors- so that they can design, bid out, award, and supervise implementation of projects. Strong projects that are honestly awarded will help the country, no matter where the financing comes from.

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