



## Trilateral Development Cooperation with "New Donors"

Many traditional aid recipient countries have recently also become donors of development aid. In particular, anchor countries such as China, India, Brazil, Mexico, South Africa, and Thailand are increasingly providing aid programs for needier developing countries. In some cases, however, this masks trade and political interests to a greater extent than in the case of donors belonging to the Organisation for Economic Co-operation and Development (OECD).

Various among these "New Donors" direct inquiries to OECD countries for carrying out joint development projects in third countries or for receiving support in building up their own donor institutions. OECD donors have a clear interest in integrating these New Donors into a democratic and multilateral world order. From this point of view, the assumption of international responsibility displayed by the New Donors through their engagement can only be welcomed. On the other hand, this engagement should also be aligned with the international donor consensus, especially as set forth in the MDG Agenda and the

"Paris Declaration" of the Development Assistance Committee (DAC) of the OECD. This is currently not the case with all New Donors. Particularly China – which, along with some of the Gulf States, is by far the most important donor outside the DAC – is often criticised both for its unconditional support of countries with bad governance records and for its tied aid.

Then how should established DAC donors react to inquiries for trilateral development cooperation made by the New Donors? New Donors who already align their policies with the consensus principles should be invited to joint projects in third countries – provided that the required management costs and efforts remain within reasonable limits for all concerned. An important aim here is to convey good donor standards and experience to the emerging donor institutions.

In order to also engage the other New Donors for DAC principles, open dialogue should be upheld and indirect cooperation should be offered.

### 1. Strategies for Cooperation with New Donors

Many traditional aid recipient countries have recently also become donors of development aid. They thus show their willingness to accept responsibility for international development. Basically, this entry in the donor role (or its significant expansion in the case of countries like China and India, which have already provided development aid in the past) is to be welcomed, even though the volume of aid in most cases remains small. Up to now, only China has assumed a truly important position among the New Donors. China does not publish its budget for developmental cooperation (DC). However, the European Union estimates it at 5 billion US dollars a year. India and Russia contribute about 100 million US dollars each, and all other New Donors contribute less than 10 million US dollars a year.

Many of the "New Donors", including regionally influential anchor countries like Brazil, China, Mexico, South Africa, Thailand and Turkey, along with smaller newly industrializing countries, the Gulf States and the EU accession states, direct inquiries to OECD countries for carrying out joint development projects to benefit third countries or for receiving support in building up their own donor institutions. What appropriate response should the established DAC-donors give to these inquiries? Here, a basic distinction can be made:

1. Presently, a solid basic consensus exists with some countries (in particular Brazil, Mexico, Chile and South Africa) concerning the goals and the quality standards for development cooperation. The motivation of these

New Donors overwhelmingly corresponds to that of the DAC donors.

2. However, other countries, especially China and India, use development cooperation primarily as a means of pursuing their interests in the areas of foreign trade and foreign policy. These countries offer a wide range of assistance to countries which are important as suppliers of energy, minerals, and raw materials. China favours in some cases authoritarian and corrupt regimes and thus undermines the efforts of the donor community to establish a universally agreed set of *governance standards*. Moreover, the offer of development cooperation in this case is linked – in some instances explicitly – with foreign-policy interests such as support for China's own position in global fora. For example, China pursues its aim of diplomatically isolating Taiwan. Moreover, China and India are unwilling to align their donor activities with DAC standards which call, among other things, for the untying of aid, coordination with other donors, and respect for *governance* criteria. On the other hand, truly altruistic motives derived from the countries' colonial experience also play a role for both countries. These can open up channels for dialogue and cooperation with DAC institutions.

Established OECD donors committed to the DAC principles should make differentiated offers for cooperation to each of the two above-mentioned groups of countries. An offer of carrying out joint projects in third countries should be made to the countries of the *first group*, should they so request,

under certain conditions (which are specified in greater detail below). "Trilateral cooperation projects" have the advantage not only of combining the resources of two partners for the benefit of third countries, but also of promoting learning processes in the newly emerging donor institutions of the partners.

For the *second group*, on the other hand, joint implementation of a project is problematic. It is nevertheless especially important to include these countries in the dialogue concerning good donor standards in order to ensure that their practices of development cooperation do not undermine goals of the DAC donor community. One possibility for achieving this lies in allowing them to participate in DAC *peer reviews*. Thus China, for example, has been invited to the *peer review* of the British development cooperation. Conferences and seminars concerning good practices of development cooperation can also be offered. Moreover, indirect support for these countries' international engagement make sense whenever it helps to raise the level of quality standards (e.g. curriculum development for institutions which train African experts). In fact in both China and India there is an openness for dialogue and an interest in such indirect forms of cooperation.

The OECD has a central role in involving New Donors in international consensus principles on development cooperation. Alongside this, the European Union promotes the "European Consensus on Donor Standards" and makes every effort to involve others, particularly EU accession countries.

## 2. What is trilateral development cooperation?

By "trilateral development cooperation" we understand cooperation projects which are jointly planned, financed and carried out by an **established donor country** which is already a member of the OECD-DAC together with a **cooperation country** which, although itself a recipient of development cooperation and not (yet) a member of the DAC, is emerging as a New Donor, and a **third country** as the recipient. The relevant cooperation countries are in most (but not in all) cases anchor countries. An essential feature of trilateral development cooperation is that its funding and the know-how transfer to the third country is organized *jointly* by the established donor and the cooperation country.

## 3. Goals, conflicts of goals, and constellations of interests

The implementation of trilateral development cooperation makes sense only when these cooperation projects serve the interests of all three partners involved. The interests are however many-faceted and, as will be shown in the following, not always congruent.

### *Goals of established donor countries*

From the viewpoint of DAC donor countries, trilateral development cooperation with New Donors can be useful for the attainment of various goals. Some of these goals focus the New Donor, others the third country which will receive aid. The following main goals can be distinguished:

#### I. Building up effective development cooperation institutions in the New Donor countries.

Here, the main goal may be to help the New Donors build up effective institutions for international cooperation.

More often these countries manage their donor activities through existing institutions in the foreign affairs or finance departments set up earlier in order to channel incoming aid. There are, for this reason, consolidated cooperation relations between these institutions and the DAC donors. Also, OECD country implementing institutions have been acquiring practical knowledge in development cooperation for decades. Through trilateral development cooperation, the New Donors can access state of the art approaches in development cooperation through an established partnership without having to repeat the exercise of protracted learning processes that the history of development policy abounds with.

#### II. Scaling up those programs in third countries which have been successfully installed in anchor countries.

Trilateral development cooperation projects may replicate successful anchor country development cooperation programs at relatively low cost in third countries. Here, „Economies of Scale“ come into effect and programs will impact on a broader scale. However, there is a risk that transaction costs increase, that the quality of delivery decreases and that the fragmentation of the donor community aggravates. Moreover, there can be political reservations on behalf of third countries against the involvement of a New Donor. More often than not, smaller neighbor states anxiously eye the anchor countries as emerging regional powers claiming dominance. In those cases, trilateral development cooperation should not be considered.

#### III. Establishment of high donor standards.

Trilateral development cooperation projects may help to win over New Donors for a permanent alignment to the OECD-DAC standards.

#### IV. Exploiting comparative advantages of anchor countries.

In some cases, the OECD-donors have an interest in making use of anchor country comparative advantages. India, as an example, disposes of enterprises and skilled professionals experienced in the production and marketing of anti-retroviral medicaments. Therefore it could be viable to cooperate with India in programs that build up capacity for generic HIV/AIDS drug production in least developed countries (LDCs). In some (although rare) cases trilateral development cooperation can be based on the cultural proximity between New Donor and third country, thus avoiding costs and risks accruing from cultural gaps.

#### V. Trilateral development cooperation as an element of Phasing Out-Strategies.

In countries with which development cooperation is agreed to end, OECD donors should organize orderly and successive phasing out processes in order to guarantee the sustainability and ownership of successful programs. Trilateral development cooperation can be an element of these strategies, both, in the case of the retreat from the New Donor country *or* from the third country. In the former case, the last milestones of development cooperation should aim at qualifying the emerging donor capacities. For the latter, trilateral development cooperation should substitute – while safeguarding the quality of delivery – the OECD country's aid with the New Donor's contribution.

## VI. Global structural policies in diversified political areas.

It is those anchor and middle income countries which, by means of their increased capabilities, cease to be dependent on international aid and which emerge as New Donors that are now influential actors of "global structural politics". The OECD countries should seek to institutionalize dialogue and cooperation structures, level with those countries in such diversified areas as politics, economics, science and culture. Trilateral development cooperation can contribute to the establishment of cooperation networks that span across industrialized and anchor countries.

### *Goals of cooperation countries*

Many among the New Donors perform an active foreign policy and emerge as brookers in global and regional policy processes. Yet, in many instances their foreign departments use development cooperation rather to polish their international reputation. In other instances, and particularly with regard to the two biggest anchor countries, global economic interests (securing access to natural resources and seeking consumer markets) come to the fore. OECD donors should critically observe the practice of linking economic and political goals with the emerging development cooperation policies of the New Donors. At the same time should OECD donors acknowledge, that the legitimacy of development cooperation is much more precarious in anchor countries than in high income countries. In many anchor countries, which make available scarce state budget resources for altruistic goals in third countries, there is a considerable share of the population which is itself poor and which therefore justifiably has rival claims on state transfers.

For the time being, anchor countries' first efforts to engage as a donor should be appreciated. These should not be evaluated by using the same scale for quantity and public interest orientation that OECD country development cooperation is measured against. The aspiration to align the deployment of DC resources with economic goals should be tolerated for a certain transition period. Minimum standards, however, for good governance and donor coordination should nevertheless find application in the dialogue about the development cooperation of the New Donors.

### *Goals of Third Countries*

Third countries' relations with their neighboring anchor countries are sometimes burdened by history. The anchor countries or middle income countries in their region are more advanced, economically more potent, politically more influential and dominant with regards to military power. Anchor countries' efforts to exert regional influence are therefore often met with grave suspicion. For trilateral cooperation this means that it is imperative that third countries unambiguously express their interest in it – before any action is taken. The recipient country's right to propose prevails, in order to counter the serious risk that the third country perceives the project as a move towards foreign control on behalf of two weighty political actors.

All recipient countries have an interest in getting the best aid delivery at minimized transaction cost. Recent efforts to harmonize donor contributions to programmed and

budget aid are a reflex to the unacceptable multifold management claims originating from a highly fragmented donor community. The engagement of the New Donors, as it makes available additional resources for development, is to be welcomed indeed. The excesses of multiple bureaucratic project management, however, that overburden many administrative systems of recipient countries threaten to aggravate – particularly, if considered the relatively small volumes of aid provided by New Donors. Additional time and resource consuming procedures and excessive project bureaucracy connected to trilateral programs should therefore be minimized.

### *Résumé*

If it can be achieved to align and harmonize the diverse interests of the potential partners, then trilateral development cooperation can often serve multifold goals of the established donors' agenda. For instance, one project could encompass scaling up beyond its borders of a successful anchor country program at low cost and building institutional capacity in the anchor country while thereby fueling and exemplifying a practice-oriented dialogue on good donor practice.

## **4. Requirements for trilateral development cooperation**

Identifying common interests is a necessary but not yet a sufficient condition for trilateral development cooperation projects. To render them effective for development, following five conditions should be fulfilled:

### I. Increasing alignment with good donor practices.

There should be at least a visible approximation to the DAC-standards in the goals of the New Donors. The openness for dialogue on these standards is critical. This is important as a means of ensuring the quality of the services rendered. This in turn helps to establish the desired standards among the New Donors and to keep the reputation of the participating institutions of the established donors untarnished.

### II. Co-financing by the cooperation country.

When the OECD-donor, jointly with the cooperation country delivers development aid, the latter should carry a significant share of the funding, respectively an equivalent share of personal and in-kind resources. Whether anchor countries are or are not ready to provide resources shines light on their political commitment. It should, however, be decided case by case which share of the burden has to be shouldered by the New Donor, or which form its contribution can take on.

### III. Efficiency.

The implementation of trilateral development cooperation programs should make the deployment of scarce donor resources more effective in comparison to usual partner constellations. But as discussed, in many cases trilateral programs will also further goals related to the New Donors' aid systems. Those goals have to be included when assessing overall efficiency. The decision processes should therefore include efficiency criteria related to the third country *and* related to the anchor country.

#### IV. Donor coordination.

The initiation of new, co-financed aid programs contributes to the fragmentation of the donor community and therefore binds additional institutional resources of the third countries. It is therefore desirable – and should be actively promoted – that the New Donors participate in joint programs of financing rather than channelling their resources solely through bilateral and trilateral channels of action. In the latter case, at least, a complementary alignment in coordination with other donors should be aimed at.

#### 5. Budgetary and thematic classification

OECD-donors budget their DC with recipient countries in negotiated quota. The benefits of trilateral development cooperation projects, however, go to the New Donors as well as to third countries. The question of which quota should be considered for specific trilateral programs can be addressed by using these criteria:

- *Will global public goods be provided?* In this case it can be appropriate to debit the major part of the cost to the OECD-donor's account while using specialized funds instead of the country quota.
- *Does the program predominantly benefit the New Donor or the third country?* The financial efforts of the OECD-donor should, depending on this ratio, be charged to the New Donor's or the third country's bilateral quota.
- *What are the needs and what are the capabilities of the partners involved?*

It might be even more difficult to associate trilateral projects with both, the negotiated focal themes of cooperation with the New Donor country, and those with the third country. It can be argued whether the focal themes should be binding for all cases or whether trilateral projects can serve as exemptions. Yet, there is a strong case for aligning the project with the focal themes with the new Donor. Through this, an established partnership and jointly developed and tested project formats can benefit third countries. The alternative (that the negotiated focal themes with the third countries apply) would mean that these partnership relations are not available. Then the quality of expertise in a field potentially new to the New Donor institution can be a weak factor and therefore drive increased transaction costs.

#### 6. Alternatives to trilateral development cooperation

##### Regional institutions as donors

Some risks associated with trilateral development cooperation can be minimized if OECD countries and New Donors defer to a regional institution when implementing the project. These institutions can enjoy the support of both parties and can formally act as the donor of development cooperation.

#### Supporting regional projects

Many anchor countries are met, in varying degrees, with distrustfulness because of alleged or actual hegemonic aspirations in their regions.

It can therefore be appropriate to avoid constellations that formally privilege one partner in the region. Regional projects, for instance with integration projects such as the SADC or the MERCOSUR, with regional development banks or UN organizations, can be reasonable alternatives. Ultimately, regional projects can be suited to build bridges between anchor countries and their neighbors.

#### Trilateral development cooperation of multi-lateral donor institutions and the EU

There are cases in favor of the EU or a multilateral donor institutions rather than a bi-lateral donors to be the partner that consults and accompanies the New Donor's efforts in third countries. When deciding this, however, the principle of subsidiarity should be applied. It can be more reasonable to develop approaches for trilateral development cooperation as a spin-off from established bi-lateral programs. Multi-lateral aid, then, should be complementary to the bi-lateral programs. The EU should engage in topics that are related to the common policies as well as to the coherence of development policies (e.g. topics in trade and environment, migration, agro-economic and fisheries etc.).



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