LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER'S DEGREE

DEVELOPMENT AND INTERNATIONAL COOPERATION

MASTER'S FINAL WORK

DISSERTATION

A *SOUTHERNISATION* OF DEVELOPMENT COOPERATION? COMPARING CHINESE AND EUROPEAN UNION DEVELOPMENT FINANCE IN LATIN AMERICA (2007-2017)

LAUREN EMILY GLANVILLE

OCTOBER 2017

MASTER'S DEGREE

DEVELOPMENT AND INTERNATIONAL COOPERATION

MASTER'S FINAL WORK

DISSERTATION

A *SOUTHERNISATION* OF DEVELOPMENT COOPERATION? COMPARING CHINESE AND EUROPEAN UNION DEVELOPMENT FINANCE IN LATIN AMERICA (2007-2017)

LAUREN EMILY GLANVILLE

SUPERVISION:

PROFESSOR LUÍS MAH

OCTOBER 2017

INDEX

INDEX OF ANNEXES

ACRONYMS

AAA	Accra Agenda for Action
ACP	Africa, Caribbean, Pacific Group of States
AfIF	Africa Investment Facility
AIF	Asian Investment Facility
ALADI	Latin American Association for Integration
APEC	Asia- Pacific Economic Cooperation
BOFs	Beyond Aid Flows
OOFs	Other Official Flows
CDB	Chinese Development Bank
CELAC	Community of Latin American and Caribbean States
ChExIm	China Export-Import Bank
CIF	Caribbean Investment Facility
CsP	Country Strategy Paper
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DG-DEVCO	Directorate General for Development and Cooperation
EC	European Commission
ECOSOC	United Nations Economic and Social Council
EDF	European Development Fund
EEAS	European External Action Service
EIDHR	European instrument for Democracy and Human Rights
ENI	European Neighbourhood Instrument
EU	European Union
GDP	Gross Domestic Product
HLF	High- Levels forums
IFCA	Investment Facility for Central Asia
IfG	Instrument for Greenland
IfSP	Instrument for Security and Peace
IMF	International Monetary Fund
INSC	Instrument for Nuclear Safety and Cooperation
IPA	Instrument for Pre-Accession
LAIF	Latin America Investment Facility
MDG	Millennium Development Goals
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
NAM	Non-Aligned Movement
NECD	the New European Consensus on Development
NIF	Neighbourhood Investment Facility
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PCD	Policy Coherence for Development
PI	Partnership Instrument
RsP	Regional Strategy Paper
SSC	South-South Development Cooperation
SSDC	South-South Cooperation
UN	United Nations
WBIF	Western Balkans Investment Facility
WP-EFF	Working Party on Aid Effectiveness

ABSTRACT

This paper aims to investigate the notion that development cooperation financing practices are undergoing a "Southernisation" - that is to say, (re)emerging donors from the South like China, India or Brazil are influencing traditional donor practices and discourse. It aims to do so by means of an exploratory comparative analysis of European Union and Chinese development cooperation financing practices towards Latin America, and how they have evolved over the past decade (2007-2017). The paper finds that for this specific case study, the answer to this question is rather more nuanced than first expected. Firstly, although recent evolutions in EU's discourse and practices in terms of development cooperation financing indicate a move towards the Southern model of development, at the same time China is moving quickly towards the traditional donor model with regards to certain issues including the use of conditionalities and environmental standards, among others. It thus would seem that whereas initial reactions by traditional donors indicated a definite move towards a "Southernisation" of development financing practices, lessons learnt by China over the past few decades have and are in some regards, reshaping their approach. Secondly, although EU development cooperation has become more focused on value for money, commercial interests and generally adapting to the new developing aid infrastructure, it is not clear whether this move comes as a direct result of the (re)emerging donor practices, or is rather being shaped by the current context taking place within its immediate neighbourhood.

Key words: Development Finance, Southernisation, European Union, South-South Development Cooperation, China

RESUMO

Este artigo tem como objetivo investigar a perceção de que as práticas de financiamento da cooperação para o desenvolvimento estão a passar por uma "Southernisation" – querendo isto dizer que o (re) aparecimento de doadores do Sul, como a China, India ou Brasil, estão a influenciar o discurso e as práticas dos doadores tradicionais. O objetivo é efetuá-lo através de uma análise comparativa exploratória das práticas de financiamento da cooperação para o desenvolvimento da União Europeia e da China para a América Latina e a sua evolução durante a última década (2007-2017). O artigo conclui que, para este estudo de caso específico, a resposta a esta questão tem mais nuances do que o inicialmente esperado. Em primeiro lugar, apesar das recentes evoluções no discurso e práticas da UE em relação ao financiamento da cooperação para o desenvolvimento, indicando um movimento para o modelo de desenvolvimento do Sul, a China está, paralelamente, a adotar rapidamente o modelo tradicional de doadores no que diz respeito a algumas questões, tais como o uso de condições e padrões ambientais, entre outros. Compreende-se então que, enquanto as reações iniciais dos doadores tradicionais indicaram um movimento definitivo para uma "Southernisation" das práticas de financiamento do desenvolvimento, a estratégia adotada pela China, no que diz respeito às lições aprendidas, tem sido de reformular a sua abordagem. Em segundo lugar, apesar da cooperação para o desenvolvimento da UE se ter tornado mais focada no *value for money*, em interesses comerciais e, em geral, adaptando-se à nova estrutura da ajuda para o desenvolvimento, não é claro se este movimento ocorreu como resultado direto das práticas dos doadores (re) emergentes, ou se está a ser moldada pelo contexto atual da região vizinha.

Palavras-chave: Financiamento da Cooperação para o Desenvolvimento, *Southernisation*, União Europeia, Cooperação Sul-Sul, China

I. Introduction

The recent world context has coupled a long-standing economic crisis in Europe with the fast-paced growth of several developing countries from various continents, both in economic and political terms. These changing dynamics in the global order have called into question the foundations of a development cooperation approach whereby the "enlightened" North assists the "troubled" South. The latter can no longer be seen as a homogenous unit but rather needs to be viewed as the basis for the emergence of strong economic and political centres of power with differentiated interests and cultures – in many cases shaped as reactions to historical relations with the Western powers. The latter have come to realise that the "emerging" economies and donors are presenting other developing countries with an alternative development model and approach which goes *Beyond Aid*. They see this new approach as undermining the developmental results they have worked so long and hard to achieve. It can no longer really be described as "development aid" but rather as a mutually beneficial relationship between developing countries characterised by a respect for national sovereignty and interests. The threat to the established North-South development paradigm therefore transcends the field of Official Development Assistance (ODA), encroaching rapidly on the sphere of political and economic interests.

This paper hopes to contribute to the *Beyond Aid* debate by comparing the development model of a traditional Western donor (the European Union), with that of one of the major (re)"emerging" donors (China) in Latin America over the period 2007-2017. This timeframe includes the 2008 global financial crisis as well as the period from 2010 when China's presence in Latin America increased. The aim will be to discuss the following question: Are we witnessing a "Southernisation" of development cooperation financing practices?

It will be divided into three main chapters: The first two will provide a literature review of the *Beyond Aid* debate focusing on South-South Development Cooperation and development financing practices; Chapter IV will be divided into two main parts. The first will present Chinese foreign aid both in theory and applied to Latin America; and the second will outline European Union development cooperation policy in the same region. The following chapter will summarise the findings and compare the two development models discussing to what extent it can be argued that we are seeing a homogenisation of development practices, with a bias towards the "Southern" model.

II. Making Sense of the *Beyond Aid* Debate

2.1 Beyond Aid: A Historical Introduction

Mawdesly, Savage, Kim (2013) describe recent evolutions in development cooperation taking as a starting point the late 1990's, when after a brief hiatus in terms of aid flows from most Western donors following the dissolution of the USSR, a new "aid effectiveness agenda" emerged. The latter would concentrate on poverty-reduction and the promotion of good governance, and this would be achieved in practice through the achievement of the UN-led Millennium Development Goals (MDGs). Two main elements would allow for this: greater recipient-country ownership and responsibility for their own poverty reduction and a global commitment to target-led results.

The aid-effectiveness agenda was linked to a series of High Level forums (HLFs), which took place in Rome (2003), Paris (2005), Accra (2008), and more recently in Busan, South Korea (2011). Two major international agreements resulted from these meetings: the Paris Declaration of 2005 "which promoted ownership, harmonization, alignment, results-based management and mutual accountability" (Ibid), and the Accra Agenda for Action (AAA) in 2008, which focused on improving predictability of aid flows, a greater focus on working through recipient country systems, and the untying of aid and reduction of conditionalities (ibid). Although these initiatives were widely welcomed and approved of, little progress was made in the areas highlighted by the international agreements. According to Douglas Alexander (2008), a generation after the Brandt Commission's Report (1980) highlighting the need to tackle widespread poverty, "leading thinkers continue to grapple with many of the same problems faced."

2.1.1 The Failure of the Aid Effectiveness Agenda: External and Internal Pressures

Some of the most relevant literature relating to the *Beyond Aid* debate summarizes the failures of the aid effectiveness paradigm as a result of *external* and *internal* pressures. According to Janus, Klingebiel and Paulo (2015), the external pressures include the global shifts in poverty that have taken the place over the past few two to three decades and in particular the growing heterogeneity of the "South". Additionally, more and more recipient countries are becoming less dependent on aid with increases in national income leading to 28 developing countries with a total population of 2 billion, being crossed off the list of ODA-eligible countries (ibid). Another external pressure identified is the growing number of explicit goals being pursued with aid. Poverty reduction is no longer the sole objective and is now complemented by the variety of national and local level problems, global challenges (such as climate change) and the need to focus on public goods (such as security) (ibid). Mawdsley, Savage and Kim (2013) list two further (both internal and external) pressures confronting the Paris Agenda: firstly, the global financial crises have externally impacted development funding and politics by enhancing the notion of "value for money". Secondly, there has been a significant increase in the number and type of development partners, coupled with the growing influence exerted by actors from outside the aid arena (see also Janus, Klingebiel & Paulo, 2015).

According to Charles Gore (2013), in the past development cooperation and ODA were understood to be one and the same. There was general consensus around the definition of ODA as well as a coherent institutional set-up through which the International Monetary Fund (IMF), the World Bank, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) oversaw the practices of donors and recipients. However, this architecture is rapidly evolving to give way to a more complex and diverse system characterized by multiple actors and differentiated approaches and objectives.

2.2 Beyond Aid: SSC, Development Finance, Regulation and Knowledge

Janus, Klingebiel and Paulo (2015) argue that the emerging form being taken on by development cooperation is severely fragmented and poorly coordinated, therefore creating difficulties in terms of the conceptual debate regarding *Beyond Aid*, which is still in early phases of development. It has become clear that the existing infrastructure needs to be reformed in order to respond to the emerging issues and pressures, but how this should be done is still very much up for debate. They proceed to outline the four dimensions that they consider make up *Beyond Aid*.

The first relates to the proliferation of actors engaging in development cooperation and in particular the "emerging" southern donors that are creating partnerships between themselves – South- South Cooperation (SSC). Other new public and sub-national actors are also seeing an increased role in development cooperation. The second dimension refers to development finance and a move beyond traditional aid financing through bilateral and multilateral donors to other sources and mechanisms of finance. Thirdly, regulation and policy coherence for development (PCD) is identified as an important dimension within the *Beyond Aid* debate, and finally, the fourth dimension relates to knowledge sharing and its close link to the transfer of financial resources (Janus, Klingebiel & Paulo, 2015).

The next section will take a further look at the first and second dimensions described above: “emerging” donors and SSC, and changes that are taking place in terms of development financing. The aim of this section will be to lay further theoretical foundations for the ensuing case study comparing European Union and Chinese development finance practices.

III. The (re) Emergence of South- South Development Cooperation

3.1 Introducing SSC

Since the 1990s, a group of “new” or “emerging” donors has been increasing its participation and importance within the development assistance architecture. This group of countries comprises “growing nations with strong economies that are increasing their international footprint through many channels including foreign assistance.” (Walz & Ramachandran, 2010). They ascribe to the principles of SSC, which simply put, refers to cooperation between developing countries (Bry, 2017).

Although they are often referred to as “new” donors in the literature on development cooperation and ODA, it is largely accepted that the majority of these countries have been involved in development cooperation since the 1950’s and are in fact merely “re-emerging”. The Bandung Conference which took place in 1955 resulted in the creation of the Non- Aligned Movement (NAM), the latter representing “the official beginning of a collective voice for the South” (Ramachandran & Walz, 2010). During the following decades, aid programs were implemented in support of the Bandung objectives, generally in the area of technical assistance and in most cases on a fairly ad-hoc basis. The 1980’s saw a decline in the number of aid programs due to the debt and oil crises, which forced countries to turn their attention inwards (ibid).

However, by the end of the decade, development cooperation witnessed the re-emergence of these donors as “dramatic economic growth in many “third world” countries proved a model for successful development that was not dependent on the West” (ibid). The increase in weight of these new players in development cooperation has been accompanied by a growing focus and need to define them and their practices in an attempt by traditional donors, to integrate them into the existing and evolving aid architecture.

According to Walz and Ramachandran (2010), “the notion of emerging donors is relatively misleading as it lumps very distinct groups of non-DAC donors into one.” Several different groupings are made in the literature, but the one that seems to appear most consistently groups emerging donors into three distinct models (ibid), leaving out the new EU members: 1) *The DAC model* which bases its aid programs on the DAC and probably aims to join it at some point; 2) *The Arab Model* with the Arab donors who have been heavily involved in aid for some time now and which is very regionally concentrated and openly influenced by social solidarity and religious ties (Chandy & Kharas, 2011); and 3) *the Southern Model*, which includes Brazil, **China**, Egypt, India, Malaysia, Mexico, South Africa, Thailand and Venezuela (ibid). These “donors” (although they reject this term) insist on distinguishing their assistance programs from the DAC donors and the traditional donor-recipient model. According to Chandy and Kharas (2011), only this last category - the Southern Model - practices South-South Development Cooperation. Whether this distinction is made varies throughout the literature. The OECD simply separates into two categories: reporting[1] and non-reporting countries beyond the DAC[2].

3.2 SSC Narratives and Instruments

Although “there are as many SSC approaches as there are southern countries involved in development cooperation” (Chandy & Kharas, 2011), Bry (2017) usefully groups together the SSC principles and approaches as described in the literature: Respect for sovereignty, no conditionality and non-Interference in domestic affairs (no governance conditions attached to projects); mutual benefits (commercial ties viewed as wholly acceptable in order for both countries to participate in development); demand-driven ownership; horizontality; effectiveness and adaptability of technical cooperation and knowledge sharing (mainly in the infrastructure and productive sectors) and a regional focus.

According to OECD figures (OECD, 2017a), ODA levels from countries “beyond the DAC” reached 25,2 USD billion from 19 reporting countries and 7.5 billion from 10 non- reporting countries. The total flows from non-DAC providers made up 17,8% of estimated global development co-operation flows (ibid). This said, estimates in the literature vary widely and it is hard to definitively evaluate the extent of emerging donor contribution to development cooperation. On the one hand, reporting practices vary

[1] Azerbaijan, Bulgaria, Croatia, Cyprus, Estonia, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russian Federation, Saudi Arabia, Chinese Taipei, Thailand, Timor Leste, Turkey, United Arab Emirates.
[2] Brazil, Chile, People’s Republic of China, Colombia, Costa Rica, Indonesia, Mexico, Quatar, South Africa.

greatly, with some in keeping with the OECD definition while others are under-reported due to a lack of a standard system for reporting ODA, or of a definition of what qualifies as development assistance. On the other hand, the OECD-DAC definition of ODA is restrictive and does not take into account other flows, which South-South donors might consider to be development cooperation:

> *"those flows to countries and territories on the DAC list of ODA Recipients and to multilateral development institutions which are: i) provided by official agencies including state and local governments, or by their executive agencies; ii) each transaction of which is: a) administered with the promotion of the economic development and welfare of the developing countries as its main objective; b) concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)."*
>
> OECD (2017b)

Not all non-DAC donors report their ODA and among those that do, they do not always hold true to this definition making it very difficult to compare and analyse the extent, and impact of flows.

3.3 The Changing Development Finance and Sectoral Landscape

Until recently, the development finance landscape was very much dominated by traditional donors, with developing countries having little option but to depend for the most part on multilateral development banks and bilateral foreign aid in order to borrow (Mawdsley, 2012). With the rise of re-emerging donors, new financing opportunities have become available to developing countries and the importance of official ODA relative to other sources of financing is quickly eroding. This has strengthened the negotiating power of developing countries vis-à-vis traditional donors (Prizzon, Greenhill & Mustapha, 2016).

In the 2016 Overseas Development Institute (ODI) synthesis report (ibid), the importance of Beyond ODA Flows (BOFs) is highlighted. According to the authors, in 2012 total external development finance to all developing countries amounted to $269 billion, 45% ($120 billion) of which came in the form of BOFs. The latter was divided up mainly amongst Other Official Flows (OOFs) (37%): “defined as official sector transactions that do not meet official ODA criteria” (OECD, 2017c), bilateral DAC donors (23%), philanthropic assistance (22%) and (re)emerging donors (13%).

Mawdsley (2012) outlines some of the main types of financing used by re-emerging donors: Exports credits (whereby either donor or private companies borrow funds on concessional terms in order to lower investment risk); debt relief (used as development cooperation and in some cases tied to trade or commercial interests); and technical cooperation (SSC cooperation is widely thought to be more horizontal, practical and experience-based experience compared to traditional ODA). However, according to the author, it is when analysing the use of loans (both concessional and non-concessional) by emerging donors, that the main conceptual and operational differences between them and traditional donors on ODA is understood. SSC donors use loans as part of foreign aid portfolios although they often do not conform to DAC definitions and approaches and oftentimes they have a high level of commercial intent but are still considered to be part of development cooperation relationships (ibid). Other characteristics of SSC development finance relate to: a bias towards infrastructure and production projects, whereas traditional donors have, since the 1990’s, prioritized social sectors; a preference for project over programme financing; speedier project negotiation, agreement of contracts, project undertaking; and a willingness to fund high-profile buildings (ibid).

According to Mawdsley (2012), two issues of contention, which cut across all forms of financing, relate to the tying of aid (mainly referring in this case, to the tying of aid to specific commodities/services to be procured (Jepma, 1991) and to the use of conditionalities. The former can take on different forms, often blurring the line between development and commercial- oriented interests. The DAC has been making great efforts to untie aid arguing that it undermines developmental and humanitarian effectiveness. However, according to Mawdsley (2012), a more cynical approach highlights the fact that tied aid can be seen as undermining fair competition between firms and creating greater competition within the financial services sector and that it is "for these reasons the mainstream aid and development community has aimed conceptually (if less so in practice) at separating aid out from commerce, sequestering it within a supposedly more virtuous realm" (Ibid). Chandy and Kharas (2011) add that SSC providers have openly linked aid to commercial objectives and mutual benefits whilst traditional donors do the same in a less obvious and opaque manner.

With regards to the use of conditionalities, according to Mawdsley (2012), traditional donors argue that without them aid is more easily subject to elite capture or other forms of waste or distortion. Emerging donors are seen to be condoning human rights violations and jeopardizing their efforts in terms of good governance, with some going as far as to call it "rogue aid" (most notably Naim, 2007). However, according to an ECOSOC (2008) report, the majority of countries benefiting from southern assistance are also among the top ten recipients of aid from OECD/DAC donors. Emerging donors respond to the criticisms on their lack of interest in applying conditionalities, by invoking the Bandung principle of non-interference in sovereign affairs.

In sum, the main principles of SSCD along with some of the main development finance practices adopted by (re)emerging donors are the following:respect for sovereignty; no conditionalities and non-interference in domestic affairs; importance of mutual benefit approach (essentially the tying of aid to commercial interests); the importance of loans (both concessional and non-concessional) vis-à-vis grants and other forms of financing; a bias towards infrastructure and production projects; and speedier negotiation, agreement of contracts and project undertaking. This selection will guide the subsequent chapters and serve as a set of indicators in the final analysis and conclusions.

IV. Comparing China and the European Union in Latin America: A *Southernisation* of Development Practices?

The following case study aims to provide an initial exploratory analysis of EU (which subscribes to the DAC model of development) and Chinese (South-South) development cooperation to Latin America. In doing so, it will explore the aforementioned idea that SSC, and in particular the more "aggressive" approach adopted by China, is influencing traditional donor development financing practices, and that we are witnessing a merging of approaches from the two sides, with a significant bias towards the Southern model.

Although the EU and China have markedly different approaches to development cooperation (both in terms of policies and instruments as well as ideologies and discourses - as will be presented in the subsequent chapters), both have only more recently, intensified relations in Latin America. In addition to this, both have been adopting seemingly strategic approaches. Therefore, Latin America provides for an interesting case study as over the past decade it has witnessed significant changes in the development cooperation modalities being adopted by both actors: China has only recently become one of the main finance providers to the region and to some extent, its involvement in the region can be seen to characterize a more updated and, some might say, moderate approach by the Chinese government on issues such as the environment, types of financing instruments, main sectors of interest, and political motivations. On the other hand, over recent years, the EU has been signalling a move from a traditional cooperation model, towards a strengthened *peer learning model (*OECD, 2014) and an evolution in the terms of its engagement with the region can be seen.

The next chapter will be divided into two main parts: The first will outline China's involvement in Latin America and will consider the historical evolution of relations, the types of development finance instruments being used, and the main areas of contention as highlighted in the relevant literature. The second part will concentrate on the structure of EU's development cooperation and how its approach has changed over the past period, and on its relations with Latin America both from a historical and current perspective. Following on from this chapter, this paper will carry out a brief comparative analysis of both approaches, based both on the set of SSC characteristics defined earlier on, as well as on more China and EU-specific issues. The overall aim will be to provide an initial insight into what a future *Beyond Aid* approach might look like, and whether it indeed signals a move towards a *Southernisation* of development cooperation financing practices.

4.1 China's Aid to Latin America: Narratives, Instruments and Goals

According to Creutzfeld (2017) as a result of its own historical path, China's foreign policy is characterized by a few core issues namely, national sovereignty, social stability and steady consumption. These depend to a large extent on economic growth with guaranteed access to raw materials, food and energy. Thus, since 1978, the focus has been on a domestic modernization drive, which resonates in the Five Year Plans outlining a series of social and economic development initiatives. Further underpinning China's foreign policy are the five principles of peaceful coexistence as proclaimed by Mao Zedong at the birth of the nation in 1949: mutual respect for territorial integrity and sovereignty; non-aggression; non-interference in others' internal affairs, equality and mutual benefit; peaceful coexistence.

China's record as (net) "donor" dates back to the rise of communism in China in the late 1940's, and has experienced several different phases according to its domestic context. A more recent stage began in 1990's when China's economy started to grow rapidly, and aid levels rose again significantly after a period of concentrating it attentions on domestic issues. However this time, "in line with the new market economy, foreign aid was to be carried out on a business-like basis" (Stallings, 2017). As a result, Chinese aid is not strictly separated from other financial flows such as commercial loans and Foreign Direct Investment (FDI). Instead aid is seen "as one part and package of funds that promotes the development of recipient countries" (ibid). There is an allocation of "foreign aid" but it is seen as comprising one component within a larger concept of development cooperation (Mawdsley, 2015). China therefore tends not to make a strict distinction between development loans and investment. In addition, its aid allows Chinese companies' increased access to energy resources and favourable contracts, while recipient countries gain a new source of financing with little or no policy conditionalities attached to it – a situation that China describes as "win-win" (Stallings, 2017).

Compared to the EU, China provides low levels of "foreign aid" according to the OECD-DAC definition (refer to chapter III), which includes grants, interest-free loans and concessional loans. The OECD estimates that in 2015, China's total ODA (according to OECD definition) amounted to 3.4 billion (OECD, 2017d), a low figure compared to the EU Institutions disbursement of 13.7 billion in ODA for the same year (OECD, 2017c). This said, the levels of financing going to other forms of assistance are significant and as Brautigam (2011) observes, the challenge posed by China on Western donors "has little to do with the Chinese tools that parallel those labelled 'official development assistance' by the West and far more to do with the many other instruments used by the Chinese states to promote its (…) engagement".

The majority of Chinese funding takes the form of soft loans (both commercial and concessional – with no grant element) and state-to-state investments in infrastructure and natural resources. Two policy banks provide the lion's share of Chinese assistance: China EXIM Bank and the Chinese Development Bank (CDB). The CDB mainly supports Chinese macroeconomic policies as set out in the Five-Year-Plans, which focus on 8 main areas of development: electric power, road construction, railway, petroleum and petrochemical, coal, postal and telecommunications, agriculture and related industries, and public infrastructure (Gallagher & Irwin, 2016). The China EXIM Bank on the other hand, is dedicated to supporting China's foreign trade, investment and international economic cooperation (The Export-Import Bank of China, 2017), and it does this through the use of export credits, loans to overseas construction and investment projects and concessional loans (Gallagher & Irwin, 2016).

Most of the literature until recently concentrated on China-Latin America trade relations which intensified as from the early 2000s and which were easily observable due to comprehensive databases (Gallagher, Irwin & Koleski, 2012). On the other hand, China's investment and lending to Latin America, has only significantly grown in importance over the past decade and China does not publish official reports and accounts on these figures. However, despite the lack of information regarding China's assistance, the tentative figures indicate that its involvement in the region has rapidly outpaced that of the EU as well as that from other major sources of finance.

4.1.2 Chinese Narratives and Goals towards Latin America

Within the context of China's foreign policy described above, Latin America has come to play a role in terms of natural resource diversification for China, as well as in advancing its "One-China" policy – nearly half of the countries that recognize Taiwan are in Latin America (Stallings, 2017). Since 2001, the intensifying of relations started off mainly as high-level leadership forums and state visits and later further intensified namely as a result of the 10th Five Year Plan in 2008, which encouraged Chinese companies to expand their activities into three regions, including Latin America (Creutzfeld, 2017). Three policy papers were written in 2008, 2014 and 2016, outlining the terms of their bilateral approach to the region, always emphasizing the "win-win" nature of the relationship. Furthermore, over the years several attempts have been made at furthering multilateral cooperation, with the most notable being the creation of the China-CELAC forum, established in 2014. China is also member of the Inter-American

Development Bank (since January 2009), and has observer status in ALADI, CEPAL, The Latin American Parliament, the Pacific Alliance and OAS (Creutzfeld, 2017). Despite these efforts Chinese officials and businessmen have expressed their frustration at the diversity they have been confronted with among the countries and sub-regions, which have created obstacles to the interactions with the region as a whole.

4.1.3 Chinese Development Finance to Latin America

As previously mentioned, Chinese financing to Latin America is mainly in the form of large concessional and commercial loans. According to estimates put together by the China-Latin America Finance Database, in the year 2005, total Chinese public-sector lending amounted to $30 million and by 2010 it had already risen to $35.6 billion, overtaking the amount in loans provided by the World Bank, the International Development Bank and the US Exim Bank combined. Last year, after a few slower years (2011-2014), it rose again to $24.6 billion. According to Gallagher and Irwin (2016) since 2005, Chinese lending to the region has amounted to a total of $141.3 billion, about 80 per cent of which have come from CDB and 10 per cent from the EXIM bank. The same authors, in their empirically-based research on China's financing to Latin America, note that Chinese loans are large and concentrated among a few countries, namely Venezuela ($62.2B [3]), Brazil ($36.8B), Ecuador ($17.4B) and Argentina ($15.3B), which since 2005 have received 91% of total loan commitments. Other Latin American countries having received Chinese loans since 2005, although in significantly smaller proportions are: Bolivia ($3.5B), Mexico ($1B), Costa Rica ($395M) and Peru ($50M).

3 Loan amounts from source: Gallagher & Myers, 2016.

The concentration of loans in countries such as Venezuela, Argentina and Ecuador that have had or still have restricted access to international capital markets has attracted attention from the international community claiming that China is undercutting Western efforts in terms of good governance. Additionally, the high risk taken by the Chinese government in lending to such governments has been questioned. David Dollar (2017) further investigates these claims and concludes that China is indifferent to governance levels and is merely filling a void that has been left by Western donors and IFIs. Whether this is a smart move by China's government is unclear still – although the worsening situation in Venezuela will probably lead China to create stronger safeguards for its investments in the future.

That being said, an important financing instrument is being used by China in order to reduce its risk: oil-backed loans or loans-for-oil. The latter involve an agreement whereby an oil exporting country receives a loan from the Chinese government, and in return a state-oil company pledges to export a certain amount of oil every day for the duration of the loan. The oil is then bought by Chinese companies at market prices, the proceeds of which go straight into an account owned by the policy bank that granted the loan. The bank then repays itself directly from the account (Gallagher, Irwin & Koleski, 2012). In short, loans for oil "in addition to securing oil supplies, help (…) Chinese companies expand abroad, and build(…) relationships with South American governments…lower(ing) risk and increas(ing) profits" (Gallagher, Irwin & Koleski, 2012).

4.1.4 Chinese Sectoral Aid in Latin America

In addition to the focus on a few countries, as mentioned previously, Chinese loans target different sectors than do IFI and western loans – focusing on EMITH sectors: energy, mining, infrastructure, transportation and housing (ibid), whilst the latter focus more on social sectors in order to achieve the Millennium Development Goals (MDGs). Of the $141.3 billion loan disbursements, the China-Latin America Finance Database (Gallagher & Myers, 2016) estimates that over 70% went to infrastructure projects, 17% to energy sector projects, and 12% to mining and other sectors. According to Gallagher, Irwin and Koleski (2012), whether this sectorial focus signals a different development model, whereby China seeks to directly impact economic growth and create jobs in recipient countries, or it is merely seeking access to key natural resources and markets, is unclear.

The infrastructure and extractive sectors inherently carry high risks in terms of the environment and the displacement of people (Dollar, 2017). China has a rather tarnished reputation in this respect, although it argues that instead of subscribing to international standards, it follows the domestic regulations, in keeping with the notion of non-interference other country's domestic affairs. However, as Dollar (2017) argues, countries with bad governance are often those with the weakest regulation and/or application of environmental safeguards. However, the same author argues that China has made important strides in this respect and that in fact although "multilateral banks have developed gold-plated standards, (…) they apply to only a fraction of investment" seeing as infrastructure and extractive sector investments account for a minimal amount of total spending to developing countries. In fact, this is not only due to multilateral banks own policy, but is also linked to the burdensome bureaucratic process that these stringent environmental standards impose on recipient country institutions, encouraging the latter to turn to China for financing in these sectors.

Another characteristic to be discussed in this section relates to the lack of policy conditionalities imposed by China on recipient or partner countries. This is in keeping with the Five Principles of peaceful coexistence, which underpin its foreign policy approach. The idea here is that countries negotiate on equal terms and recipient countries are not submitted to governance and economic conditions in order to receive development financing. Although China does not impose policy conditionalities, it imposes conditions relating to the purchase of Chinese goods or equipment with a part of the loan, and in some cases the entire loan. This is in keeping with the idea of a “win-win” partnership and allows Chinese banks to lower the chances of default risk (Dollar, 2017). Finally, concerns have been expressed with concerns to the growing dependence of the region’s economies on China as a result of what some refer to as the “biggest commodity lottery” (Wise, 2017). Total China-Latin America and Caribbean trade increased 22-fold during the period 2000-2013 and FDI increased exponentially especially to Brazil and Argentina with the most investment being made in resource extraction (ibid). Although this has had positive impacts especially when one looks at the capacity of these economies to rebound from the 2008-09 global financial crisis, on the other hand a large dependency has been created. Carol Wise (2017) argues however, that although these economies have been negatively affected by China’s slowdown, this dependence relationship is not specific to these relations, but is rather a case of path dependence, and thus the slowing down of the Chinese economy is once again highlighting institutional fragilities.

4.2 EU Aid to Latin America: Narratives, Instruments and Goals

According to Mah (2013), the EU's history as a development aid donor can be separated into three distinct historical phases. The first spanned from the 50's to the mid 80's during which time development policy was guided by the Lomé Convention and was applicable merely to the African, Caribbean and Pacific (ACP) countries. The signing of the Maastricht Treaty in 1992, which expanded development policy beyond the ACP countries to include all developing countries, marked the ensuing phase from the 1980's to the late 1990's. This period was strongly influenced by the Washington Consensus whereby economic conditions were prioritized over political ones in the disbursement of aid. The most recent phase can be said to have begun in the early 2000's with the Cotonou Agreement replacing and updating the Lomé Convention. The former has aimed to increase the role of recipient countries by making aid needs and performance-based. Additionally, the 2005 European Consensus on Development, which sets out common strategic norms for development cooperation, and the 2007 Code of Conduct on Complementarity and Division of Labour, were pivotal in increasing the complementarity and coordination within EU development cooperation efforts. Since 2009, the Lisbon Treaty has aimed to further reshape EU development policy by integrating it into the EU's external action and by means of important internal organizational changes.

Currently two main institutions are in charge of EU's development policy: the new Directorate General for Development and Cooperation (DG DEVCO) and the European External Action Service (EEAS). Additionally, the 2011 EU Agenda for Change to some extent replaced the 2005 European Consensus for Change as the basis for future EU development cooperation instruments. Most recently, at the beginning of 2017, the

EU Council, Commission and Parliament endorsed the New European Consensus for Development (NECD). The Agenda for Change for its part signalled a change of the development paradigm from a poverty-focused approach to an economic growth model (CONCORD, 2013), a change that was then reflected in the EU's latest seven-year development cooperation plans.

The EU's political priorities are presented in financial terms within the Multiannual Financial Frameworks (MFF), which span a minimum period of 5 years. The latest MFF runs from 2014 to 2020 and allocates a total of around €95 billion to external relations (EC, 2017a). This budget is distributed amongst a series of instruments put in place by the EU to carry out its development policy: Instrument for Pre-accession Assistance II (IPA II), European Neighbourhood Instrument (ENI), Development Cooperation Instrument (DCI), Instrument for Greenland (IfG), Partnership Instrument (PI), Instrument contributing to Stability and Peace (IfSP), European Instrument for Democracy & Human Rights (EIDHR), and the Instrument for Nuclear Safety and Cooperation (INSC) (see Figure 1 for descriptions and budget allocations for each of the instruments). The first 4 instruments listed above are geographic and the following 4 are thematically focused. Together, these instruments are covered by the EU budget. Aside from these instruments, € 30.5 billion was allocated to the 11th European Development Fund (EDF) that is not covered by the EU budget which covers cooperation in among others, Caribbean countries.

In order for budgets allocated to each instrument to be disbursed to countries and/ or regions, Country Strategy Papers (CSPs) and Regional Strategy Papers (RSPs) are defined between the EEAS and recipient(s) which then act as the basis for multiannual cooperation programming with indicative funding per commitment and sector (Lima, Herrera, Lebret & Echeverria, 2014). Development cooperation can be provided using two main implementation methods: budget support and project modality. The former is encouraged as a means of strengthening recipient country ownership, financing national development strategies and supporting more efficient and transparent public finance management. This modality is often linked to economic and political conditionalities with countries needing to achieve a series of results in order to continue benefiting from on-going support (ibid). Projects and programmes on the other hand, support recipient governments in the implementation of sector policy and improved service delivery (ibid). Although not strictly a programme implementation method, the EU Blending Facilities (which will be discussed further in the following section) are also now used in order to leverage additional resources for development financing.

4.2.1 The Agenda for Change: What's New?

CONCORD (2013), the Confederation of EU Development NGO´s Platforms, in its working paper outlines the main trends of the 2011 Agenda for Change and how these were reflected in the 2014-2020 MFF. Some of these include: a greater move towards a "value for money" approach and concentration on fewer countries and fewer sectors; discussions about the definition of ODA with some Member States wanting to expand aid to include other costs, as well as concessional loans and other official flows (OOFs); promotion of economic development with increasing focus on private sector development; promotion of governance and stricter aid conditionalities; a reduction of direct support to social sectors; using GDP to determine the countries that should be benefitting from aid; the interests of donors becoming more visible; and the blending of public and private loans and grants. Some of these emerging trends are directly observable in some of the instruments and implementation mechanisms of external aid present in the latest MFF (2014-2020). The next section will take a look at those having a direct impact on the EU's development cooperation approach to Latin America.

4.2.2 EU Narratives and Goals for Aid to Latin America

According to Roy (2009), despite the longstanding links existing between the two regions, relations between the EU and Latin America did not really take off until the 1980's. This was mainly due to the initial objectives of the European Community, which concentrated on developing a European common commercial policy. The countries within the community, aside from Belgium, had no links to the former colonies in the region and therefore little interest was taken in the region. Changes began to take place with the joining of the UK, which still had close colonial ties with the West Indies, and were further reinforced when in 1986, Portugal and Spain became members of the European Economic Community (EEC), bringing attention back to Latin America. According to the same author, the ensuing decade between the 1980s and 1990s marked a golden era for EU relations with the region mainly due to European interest in bringing peace and stability to conflict zones, as well as its interest in exporting the European integration model to the region. Nowadays, the EU is an important partner both economically and politically to Latin America. It is the leading donor, one of the main foreign investors and an important trading partner for the region (OECD, 2014). Relations have intensified and been shaped to a large extent by political dialogue taking place at regular high-level summits and target not only bilateral relations but also work through a series of regional and sub-regional partnerships, reflecting the EU's recognition of the region's heterogeneity. Currently the EU boasts a wide range of agreements with individual countries as well as country groupings. Perhaps most significant for the EU's relations with the region as a whole are the bioregional Rio Summit which has taken place every two years since 1999, and CELAC which is a regional mechanism for political dialogue and cooperation that for the first time groups together all 33 countries (EC, 2013).

4.2.3 EU Instruments for Latin America: from ODA to blended finance?

According to the OECD Statistics Database (OECD, 2017c), during the period 1993 to 2015, the EU disbursed approximately $5.2 billion in bilateral ODA to Latin America. The region's development cooperation has been governed by DCI since 2007, with funds organised into regional, bilateral and thematic programmes.

As outlined earlier, the EU defines policy priorities and the budgets foreseen for the achievement of results in its MFFs. The latest 2014-2020 MFF, established in accordance with DCI Regulation and based on the EU-CELAC Strategic Partnership and Action Plan, committed an overall allocation for the Regional Programme for Latin America, of €925 million (EEAS & EC, 2014) as well as a total of approximately 1.2 billion under bilateral agreements with individual countries (EC, 2017b).

As mentioned in the previous section, the Agenda for change represents a shift in paradigm, which has reflected itself in some of the instruments and implementation methods established by the 2014-2020 MFF, directly affecting the EU-Latin America development cooperation relationship. Among these are the DCI, the Partnership Instrument and the EU Blending Facilities:

- **The Development Cooperation Instrument** now functions according to the notion of *differentiation*, with the aim being to concentrate more aid in the countries most in need. This criteria has resulted in the "graduation" of upper-middle income countries (UMICs), meaning that they are no longer eligible for assistance under the bilateral geographic component of the DCI, but remain eligible under the DCI's thematic and regional programmes. They will now receive bilateral cooperation under the partnership Instrument. This shift in focus resulted in the discontinuation, since 2014, of bilateral aid to Argentina, Brazil, Chile, Costa Rica, Mexico, Panama, Uruguay and Venezuela. Countries that continue to be eligible for bilateral aid include 13 OCTs and 6 Latin American countries. Colombia, Ecuador and Peru will have bilateral cooperation discontinued at the end of this year (EC, 2017b). Relations between the EU and MICs will adopt a cooperation and mutual-interests approach and these countries will be eligible for project funding under the PI.

- **The Partnership Instrument** represents the main innovative instrument in the external aid package (EC, 2013), and has the overall objective of furthering EU interests through the external dimension of its internal policies. "It will also address specific aspects of the EU's economic diplomacy with a view to improving access to third country markets by boosting trade, investment and business opportunities for European companies" (EC, 2017c). The instrument will aim to further public diplomacy relations with those countries, which are having a greater role in the world economy and those, which due to recent GDP growth rates, are no longer eligible to receive bilateral cooperation (*differentiation* principle described above). In practice, this instrument creates forums for dialogues between the EU and a recipient country or region on a variety of issues within various sectors, both in order to promote the EU's values and to create more reciprocal and mutually beneficial partnerships with these countries. Countries having "graduated" from bilateral cooperation will rely to a large extent on this instrument to capture EU funding.

- The **EU Blending facilities** combine EU grants or loans with public and private equity, the objective being to reduce risk with the grant element and as a result attract more financing for large-scale investments in EU partner countries. EU blending operations are implemented through regionally or thematically focused financial instruments and are organised into Blending Frameworks according to the financing instrument that is providing the funding. For the Latin America, the DCI Blending Framework includes the **The Latin American Investment Facility (LAIF)** which between 2009 and 2016 has been allocated a budget of €323 million, resulting in a combined investment cost of over €8 billion (Hultquist, 2015)**.** This mechanism supports the new vision, present in the Agenda for Change and the NECD, of an EU external cooperation focused on supporting inclusive growth and job creation, as well as the idea of collaborating further with the private sector in order to achieve greater development results. The benefits that the European Commission claims are associated with this innovative financing mechanism includes, leveraging of ever-shrinking aid budgets, support to policy reforms, increasing financing in a sustainable and affordable way, socio-economic development promoted through investment in public service and infrastructure; and lower risk of investing in new markets and sectors (EC, 2017d).

These changes that have taken place in the EU's development cooperation signal an evolving approach. The latter is based on the new world context on two fronts: European countries have been grappling with the economic crisis and the resulting pressure to show development results achieved back home, as well as the security issues (migration, climate change etc.) that have developed in their own neighbourhood. On the other hand, several "emerging" economies are "graduating" out of their status as recipient countries representing both a challenge and an opportunity for the European Union in its development policy (EC, 2017e).

4.3 China and EU in Latin America: Wrapping up

European Union development cooperation in Latin America represents a significantly different model to the Chinese one, which fits in with the SSC characteristics listed earlier on. It is based on a longer track record in the region, which has resulted in a more stable, comprehensive and adapted strategy taking into account the region's heterogeneity and its main priorities in the field of development cooperation. Nevertheless, the most recent communication and policy papers have introduced a noticeably new policy direction as a response to the current world context. The next section will consider the Chinese and European Union development cooperation models side-by-side and - to the extent that is possible with two such different approaches - will discuss what the two sides can learn from each other and pave the way towards a new *Beyond Aid* paradigm.

V. Analysis: Comparing EU and Chinese models of Development Cooperation

The following analysis will discuss the two development models described thus far, dividing into four main themes which provide for interesting points of comparison in terms of development cooperation finance practices: Country and sector focus, political and economic conditionalities, blending of private and public funds; and environmental regulation. These four categories incorporate analyses of the SSC characteristics established earlier on. The aim will be to gain some insight as to whether the initial argument that we are seeing a “Southernisation” of financing practices, can be verified in the case of China and the European Union in Latin America.

5.1 Country and Sector Focus

Figure 2 shows EU aid disbursements and Chinese loan disbursements (from the CDB and Chinese ExIm Bank) to Latin American countries for the period 2005-2016. Chinese aid disbursements are not published according to DAC principles but as mentioned previously the estimates show that the amounts are very low compared to overall EU ones, and for this reason loans by the two state-owned policy banks have been used as a point of comparison. The data shows that countries in which EU and Chinese development financing intersect are Brazil, Argentina, Bolivia, Costa Rica, Ecuador, Mexico, Peru and Venezuela. Of these countries, five have “graduated” from bilateral cooperation with the EU and therefore receive aid only through geographic and thematic instruments. The NECD strongly emphasizes the fact that funds should be diverted from Middle Income Countries (MICs) to those that need it the most. A new path is to be taken whereby more developed economies are seen not as recipients but as partners in the successful implementation of the 2030 Agenda and the SDGs. The sectors outlined as priorities are youth, gender equality, mobility and migration, sustainable energy and climate change, investment and trade, good governance, democracy and the rule of law and human rights. As seen in the section on Chinese development cooperation, loans are mainly directed towards EMITH sectors in order to secure natural resources, and their geographic concentration reflects this preference. It would seem that the EU is slowly pulling funding from Latin America, recognizing that many of the economies no longer need its support, and China has been quickly filling this void over the past less than a decade. This signals a positive trend in terms of development cooperation results for the continent but negative effects may arise from the fact that the EU is reducing funds to the social sectors in MICs, in which China is not that interested in intervening. The focus is shifting towards a partnership based on trade and commercial activities. "Graduated" countries continue to be eligible for funding via blending facilities (LAIF), but the targeted sectors will mainly be large infrastructure projects. This said, the NECD (EC, 2017e) does point out that special attention will be paid to the more specific challenges faced by the MICs, many of which "still have high numbers of people living in poverty within their borders and often have very high levels of inequality and social exclusion".

5.2 Political and Economic Conditionalities

The EU uses several types of political and economic conditionalities in its aid disbursements in order to promote democracy, good governance and sustainable development. These conditions can take the forms of negative measures like sanctions or positive ones whereby recipients agree to carry out reforms within their public administrations. The latter approach depends on the achievement of agreed results in order for the receipt of further funds. The EU use of conditionalities for aid disbursements reflects its vision that "good governance, democracy and the rule of law are vital for sustainable development" (EC, 2017e). In addition to this, the recent context of economic crisis has put increasing pressure on the EU and other donor countries to be able to show that money spent on aid is having the desired results, and that they are not supporting autocratic and/or corrupt governments. The underlying aim has been to give less, and achieve more.

China on the other hand, abides by the principle of non-interference in domestic affairs, and has shown little regard for governance issues within countries as well as a lack of a results-based approach. In fact, as mentioned previously, it has concentrated some of its biggest loans specifically in countries during periods where they had restricted access to international lending (such as Argentina, Ecuador, Venezuela), filling the void left by Western finance institutions. All this said, China does impose an important political conditionality: countries must adhere to the “one China principle” in order to be eligible for aid and loan disbursements. Additionally, Chinese aid is openly “tied” with loans often being attached to conditions relating to the use of Chinese labour and resources, and with the use of oil-backed loans in order to lower the risk associated with its investments (Gallagher, Irwin & Koleski, 2012). The notion that development cooperation is undergoing a “Southernisation” would presume that due to Chinese financing, EU institutions have been losing their leverage over countries, which have been reluctant to apply political and economic conditionalities. As a result, we should in fact be seeing a move towards a relaxing of conditions imposed. In the case of conditionalities, this does not seem to be the case – in fact as shown in the Agenda for Change and the NECD, the European Union has been signalling a move toward stricter governance conditions. The need to lower the risk of investments, in the form of grants and loans, made to recipient countries has become more important as a result of the increasing need to achieve “value for money” and results. China would seem to be moving in a similar direction as growth has been slowing down and domestic tensions have been rising. In addition to this, recent dealings with countries like Venezuela have sounded the warning bells as the messy political and economic situation has caused the country to fall back on its oil shipments as payment for Chinese loans. In the case of conditionalities, it would seem that there is not a “Southernisation” and that in fact it is more likely that China will slowly start to find ways to protect its investments. Whether this will be done through EU-like conditionalities is unclear; China might merely achieve these results through further tying of aid.

5.3 Blending of private and public funds

As outlined earlier on, Chinese aid financing is in many cases difficult to separate from commercial flows due to the set up of the banking system and in particular the role of its policy banks. This allows China to leverage public funds for investment in large-scale infrastructure projects with high visibility. According to Mawdsley (2016), the blending of grants, concessional loans and technical assistance, with market based loans and export credits in support of projects, has been rather criticized. However, she also notes that the “pendulum may in fact be swinging in their direction, including among the DAC and other ‘traditional’ donors”. This does seem to be the case for the EU, though funding channeled through the Blending facilities remains limited for the period 2014-2020, EU communication and policy papers strongly emphasize a move towards a more aggressive approach in blending. Both the Agenda for Change and the NECD highlight the importance of “blending grants and loans, as a way to leverage additional private finance …(as)… another important means to implement the 2030 agenda.” (EC, 2017e). This said, figure 3 shows EU grant allocations per investment facility for roughly the period from 2007-2016. When analyzing the figures by region, it is clear that the EU’s surrounding neighborhood (including Northern African, Middle Eastern and Western Balkan countries) is prioritized with an allocation of €2.83 Billion. In second place comes (Sub-Saharan) Africa with €654 million, Latin America and Caribbean region comes next with €388.6 million, and finally Asia received an allocation of €218 million over the period 2008-2016. The recent European Investment Plan proposed by the EC in 2016 signals a further reinforcement of these trends in terms of funding priorities. It is an ambitious plan with the aim of encouraging further investment in Africa and the EU neighborhood region, and will count on a €4.1 billion allocation, expected to leverage €44 billion by 2020. It would seem that although the EU is moving further towards the Chinese in terms of blending of private and public funds, Latin America is not positioned to be one of the main beneficiaries of this trend for the moment. This diversion in priorities might be momentary as EU tackles issues closer to home.

5.4 Environmental regulation

The bulk of Chinese loans from the CDB and ExIm bank have gone to Energy and Infrastructure projects. These are areas with higher social and environmental risks, resulting in an increasingly negative image for China both within recipient countries and internationally. This is further reinforced by the fact that it does not adhere to international standards, instead opting to follow recipient country regulations. On the other hand, as mentioned previously, the 'traditional' donors including the EU have put in place a set of what some might view as restrictive and cumbersome environmental standards which in many cases encourages countries to look elsewhere for funding in order to carry out large scale infrastructure projects rapidly.

The EU has been making efforts to improve the speed of disbursements and this idea is strongly reflected in the NECD. The EC is currently increasing the amount of funding and size of projects that are eligible for implementation through framework contracts - until recently this fast-tracked procurements procedure was only applicable to small contracts under €300,000 but as from next year will be applicable to projects up to €999,999. Additionally, one of the positive effects associated with blending refers to non-financial leverage, which includes faster project starts, for larger-scale projects

(EC, 2017d). On the other hand, several independent evaluations carried out on Blending operations warn against prioritizing speed over transparency, proper monitoring and evaluation frameworks and environmental assessments. China has already been making strides in this direction with the CDB and ExIm Bank adopting various regulation, guidelines and memoranda with other IFIs, although it is difficult to measure to what extent these guidelines are respected and put into practice (Gallagher, Irwin and Koleski, 2012). Additionally, the two policy banks are relatively new to the development lending industry and "in comparison with the World bank in the 1980s, the CDB and China Ex-Im Bank are ahead of history" (ibid). The tendency will most probably be for China to move further towards Western donor standards not only to improve their image but also to protect their investments.

VI. Conclusion: Some thoughts on the Future of Development cooperation

It would seem that the answer to the initial question "Is development cooperation financing undergoing a "Southernisation"?" needs a more nuanced response than first expected, when looking at the specific case of the EU and China in Latin America. With regards to the SSDC characteristics summarised at the end of Chapter III, the analysis has allowed for the following tentative conclusions to be made:

1. Respect for sovereignty; no conditionalities and non-Interference in domestic affairs: The EU is opting to impose stricter conditionalities as part of its focus on a "value for money" approach, whilst China is further tying aid in order to protect its interests which can be negatively affected by recipient country domestic context.
2. Importance of the mutual benefit approach: China openly adheres to the "win-win" model of development cooperation and the EU would seem to be moving further in this

direction, again due to a more focused approach whereby funding is leveraged through blending (although Latin America is not currently the priority, and this mechanism is still in its early days), and with the creation of partnerships with the region's MICs.

3. Importance of loans vis-à-vis other forms of financing: China's loans are often used together with grants in order to carry out development cooperation, blurring the line between commercial and development interests. The EU is focusing more on leveraging funds through Blending facilities, and there is debate among member states concerning the potential broadening of the ODA definition to include some of the BOFs.
4. Bias towards infrastructure & production projects: China clearly prioritises the EMITH sectors. The EU on the other hand still mainly concentrates on social sectors although both the Blending and Partnership Instruments are allowing for a focus on larger energy and infrastructure projects as well as more commercially based partnerships.
5. Speedier negotiation, agreement of contracts and project undertaking: China is coming under greater pressure to adhere to stricter environmental standards, which will probably create more bureaucratic procurement processes. The EU on the other hand is trying to move away from the cumbersome and lengthy processes incurred by strict environmental regulation (Blending, Framework Contracts etc.)

It is clear that the two models have been very different, with China adopting a mutual interests-driven approach with a focus on natural resources, while the EU has for decades prioritised social sectors and developed a very comprehensive framework through which it transparently and consistently, carries out development cooperation. This said, the rise of China and other fast-growing middle-income economies has clearly had a destabilising effect on the traditional ODA approach, which was already under intense scrutiny due to the poor results achieved with regards to the MDGs. The effects have included a visibly "Southernised" EU cooperation not only as a result of these new actors, but recently due to the events taking place within its neighbourhood. However, China's approach has also undergone major changes, as it learns from experience and as its domestic growth slows down. It would seem that the models are indeed merging, but whether it is a bias towards the Chinese model, is unclear. In any case, Latin America would seem to be facing a challenging period as the EU concentrates its attentions elsewhere and fundamentally changes its approach to the major economic powers of the region, leaving behind a funding gap in the social sectors of these countries. Until it is clear that China will adopt a more "responsible" approach towards development financing, it will be up to local policy makers to strengthen regulation and strike mutually beneficial deals for their people.

Bibliography

Brautigam, D. 2011. Policy Arena: Aid 'with Chinese Characteristics': Chinese Foreign Aid and Development Finance meet the OECD-DAC Aid Regime. Journal of International Development, Wiley Online Library, DOI:10.1002/JID.1798.

Bry, S. H. 2017. The Evolution of South-South Development Cooperation: Guiding Principles and Approaches. European Journal of Development Research. 29, pp.160-175.

Chandy, L., Kharas, H. 2011. Why can't we all just get along? The practical limits to international development cooperation. Journal of international Development, 23, pp.739-751.

Creutzfeld, B. 2017. One Actor, Many Agents: China's Latin America Policy in Theory and Practice. In M.Myers & C.Wise (Eds.), *The Political Economy of China-Latin America Relations in the New Millenium: A Brave New World* (pp. 15-30). New York and London. Routledge, Taylor & Francis.

Dollar, D. January 2017. China's Investment in Latin America. Geoeconomics and Global Issues, Paper 4. Foreign Policy and Brookings.

Douglas, A. 2008. Beyond aid: the future of international development. Public Policy Research, Volume 15, Issue 1, pages 48-52.

ECOSOC. 2008. Background Study for the Development Cooperation Forum: Trends in South-South and triangular development cooperation.

EEAS, EC. 2014. Development Cooperation Instrument (DCI) 2014-2020, Multiannual Indicative Regional Programme for Latin America. Available at https://ec.europa.eu/europeaid/sites/devco/files/dci-multindicativeprogramme-latinamerica-07082014_en.pdf

European Commission. 2017a. External action financing instruments. Available at https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/where-does-money-come/external-action-financing-instruments_en (Accessed on 07-10-2017)

European Commission. 2017b. Bilateral Cooperation (Online). Available athttps://ec.europa.eu/europeaid/regions/latin-america/continental-cooperation-latin-america/bilateral-cooperation_en (Accessed on 30/07/2017)

European Commission. 2017c. The Partnership Instrument, advancing the EU's core interests (Online). Available at http://ec.europa.eu/dgs/fpi/what-we-do/partnership_instrument_en.htm (Accessed on 30/07/2017)

European Commission. 2017d. Tools and Methods Series Guidelines No 5: Guidelines on EU Blending Operations. Directorate-General for International Cooperation and Development European Commission. Brussels, Luxembourg.

European Commission. 2017e. Communication 'Proposal for the new consensus on development. Our World, our Dignity, our Future', COM (2016)740 final.

European Commission (2013). *The Multiannual Financial Framework: The External Action Financing Instruments* (Online). Available at http://europa.eu/rapid/press-release_MEMO-13-1134_en.htm (Accessed on: 28-07-2017)

Gallagher, K.P., and Myers, M. 2016. China-Latin America Finance Database. Washington: Inter-American Dialogue.

Gallagher, K.P., Irwin, A., Koleski, K. 2012. The New Banks in Town: Chinese Finance in Latin America. Inter-American Dialogue Report.

Gore, C. 2013. Introduction: The New Development Cooperation Landscape: Actors, Approaches, Architecture. Journal of International Development. Volume 25, pages 769-786.

Hultquist, I. 2015. Mapping of EU blending, Project: Side and EU blending. UTV Working Paper 2015:1, Sida.

Janus, H., Klingebiel, S., Paulo, S. 2015. Beyond Aid: A Conceptual Perspective on the Transformation of Development Cooperation. Journal of International Development, Volume 27, Issue 2, pages 155-169.

Janus, H., Klingebiel, S., Paulo, S. 2014. "Beyond Aid" and the Future of Development Cooperation. German Development Institute. Briefing Paper 6/2014.

Jepma, C.J, 1991. The Tying of Aid. Development Centre of the Organisation for Economic Co-operation and Development.

Lima. J, Herrera. R, Lebret. P, Echeverria. M. (2014) Latin America- European Union cooperation: A partnership for development. United Nations – Economic Commission for Latin America and the Caribbean (ECLAC).

Mawdsley, E., Savage, L., Kim, S.M. 2013. A 'post-aid world'? Paradigm shift in foreign aid and development cooperation at the 2011 Busan High Level Forum. The Geographical Journal.

Mawdsley, E. 2012. From Recipients to Donors: The Emerging Powers and the Changing Development Landscape. London, Zed books.

Naím, M. 2009. Rogue aid. Foreign Policy. (Online). Available from: http://foreignpolicy.com/2009/10/15/rogue-aid/ (Accessed on 11-09-2017).

OECD. 2017a. Development finance of countries beyond the DAC. Available at http://www.oecd.org/development/stats/non-dac-reporting.htm (Accessed on 18-09-2017).

OECD. 2017b. Official development assistance – definition and coverage. Available at http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm (Accessed on 18-09-2017).

OECD. 2017c. QWIDS Query Wizard for International Development Statistics. Available at http://www.stats.oecd.org/qwids (Accessed on: 07-10-2017)

OECD. 2017d. Development Co-operation of the People's Republic of China. Available at http://www.oecd.org/dac/dac-global-relations/chinas-development-co-operation.htm (Accessed on 07-10-2017)

OECD (2014). New EU development cooperation strategies in Latin America and the Caribbean. Available at http://www.oecd.org/dev/dev-week-eu-development-cooperation-strategies-latin-america-caribbeans.htm (Accessed on: 18-09-2017)

Prizzon, A., Greenhill, R., Mustapha, S. 2016. An age of choice for development finance: Evidence from country case studies. Overseas Development Institute (ODI) Synthesis Report. London, UK.

Roy, J. 2009. The European Union and Latin America: Relations and model. NEJ Vol. 14 –n.1 –p. 147-153.

Stallings, B. 2017.Chinese Foreign Aid to Latin America: Trying to Win Friends and Influence People. In M.Myers & C.Wise (Eds.), *The Political Economy of China-Latin America Relations in the New Millenium: A Brave New World* (pp. 69-91). New York and London. Routledge, Taylor & Francis.

The Export-Import Bank of China website. Available at english.eximbank.gov.cn/tm/en-TCN/index_617.html (Accessed on 22-09-2017)

Walz, J., Ramachandran, V. 2010. Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance. Center for Global Development, Working Paper 273.

Wise, C. 2017. After the China Boom: What Now for Latin America's Emerging Economies? In M.Myers & C.Wise (Eds.), *The Political Economy of China-Latin America Relations in the New Millenium: A Brave New World* (pp. 143-169). New York and London. Routledge, Taylor & Francis.

ANNEX I

Figure 1. EU Development Finance Geographic and Thematic Instruments (descriptions and allocated budgets)

Instrument name	Budget allocation MFF (2014-2020)
Instrument for Pre-accession Assistance II (IPA II): supports countries aiming to join the EU, in the implementation of comprehensive reform strategies needed to prepare for future membership (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Serbia, Turkey, the former Yugoslav Republic of Macedonia).	€11.7 billion
European Neighbourhood Instrument (ENI): Provides funding to countries covered by the European Neighbourhood Policy, in order to strengthen relations with non-EU neighbouring countries (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, the Republic of Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine).	€15. 4 billion
Development Cooperation Instrument (DCI): Covers all the developing countries (except those eligible for the IPA). Its geographic programmes cover developing countries in Asia, Central Asia, Middle East, **Latin America**, and South Africa. Thematic programmes are divided into two categories: 1. Global Public Goods and Challenges, 2. Civil society organisations and local authorities.	€19.7 billion
Instrument for Greenland (IfG): Aims to assist Greenland in diversifying its economy, for an increased focus on policy dialogue, recognising its geostrategic importance.	€ 217 million
Partnership Instrument (PI): The aim of this thematic instrument is to advance and promote EU interests by supporting the external dimension of EU internal policies. Supports public diplomacy, people to people contacts, academic cooperation and outreach activities in order to promote the EU's values and interests.	€ 955 million
Instrument contributing to Stability and Peace (IfSP): key instrument used to respond to crises and create a safe and stable environment.	€ 2,3 billion
European Instrument for Democracy & Human Rights (EIDHR): The objective of this instrument is to increase the EU's capacity to respond to human rights emergencies and support human rights protection mechanisms, through increased support to civil societies.	€ 1,3 billion
Instrument for Nuclear Safety and Cooperation (INSC): Applicable to all third countries with preference given to accession and neighbouring countries (IPA and ENI), and responds to the global challenges and the need for EU action in the field of nuclear safety, radiation protection and nuclear safeguards.	€ 225 million
European Development Fund (EDF): Covers cooperation with African, Caribbean and Pacific Countries (ACPs) and Overseas Countries and Territories. Unlike previous 8 instruments, remains outside of the EU budget.	€ 30.5 billion

Source: https://ec.europa.eu/europeaid/funding/funding-instruments-programming/funding-instruments_en

ANNEX II

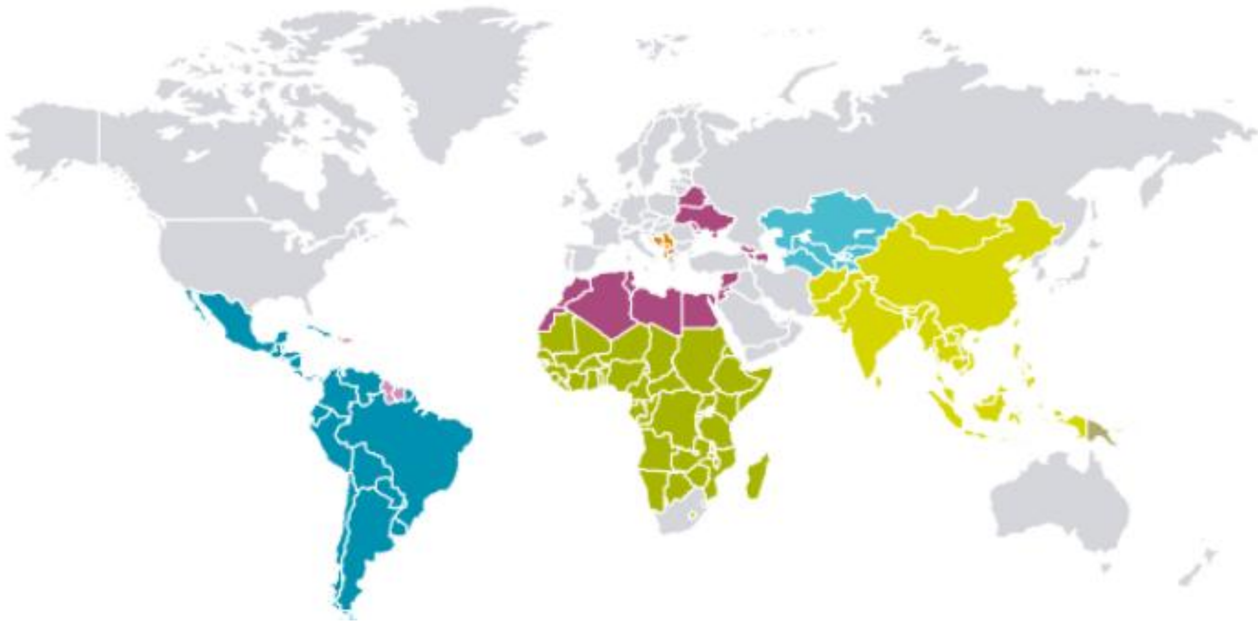
Figure 2. Comparison of EU aid disbursements with Chinese concessional loans to Latin America (2005-2016)

Recipient(s)	Total EU aid disbursements 2005-2016	Total CDB and ChExIm Loans 2005-2016
Argentina	198 M	15.3 B
Belize	117 M	
Bolivia	659 M	3.5 B
Brazil	906 M	36.8 B
Chile	256 M	
Colombia	612 M	
Costa Rica	82 M	395 M
Ecuador	551 M	17.4 B
El Salvador	347 M	
Guatemala	371 M	
Guyana	330 M	
Mexico	172 M	1 B
Nicaragua	595 M	
Panama	MINUS 179 M	
Paraguay	184 M	
Peru	518 M	50 M
Uruguay	96 M	
Venezuela	109 M	62.2 B

Source: Gallagher & Myers, 2016 and OECD, 2017c

ANNEX III

Figure 3. EU Blending Facilities grant allocations and amounts leveraged (periods between 2007-2016)



NIF (2008-2015)
EU grant amount: €1,432 Billion
Total est. investments: €13,83 Billion

WBIF (2008-2016)
EU grant amount: €1.4 Billion
Total est. investments: €15.3 Billion

LAIF (2009-2016)
EU grant amount: €305 Million
Total est. investments: €8 Billion

AIF (2010-2015)
EU grant amount: €89 Million
Total est. investments: €2.63 Billion

CIF (2010-2016)
EU grant amount: €83.6 Million
Total est. investments: €965 Million

IFP (2012-2014)
EU grant amount: €10 Million

EU-AITF (2007-2015)
EU grant amount: €654.9 Million
Total est. investments: €9.2 Billion

IFCA (2010-2015)
EU grant amount: €119 Million
Total est. investments: €830 Million

Source: EC, 2017c and Hultquist, 2015