Macro Dev

Macroeconomics & Development
OCTOBER 2022 I N° 43

Development finance fragmentation and diversification: the case of China, India and Türkiye

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Translated by Cadenza Academic Translations

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Introduction

From 2010 to 2019, the international community committed USD 1,700 billion in loans for developing countries. While multilateral development banks continued to provide the bulk of financings (60% of the total), close to 20% came from relatively new actors, amongst which the BRICS countries[1] – primarily China, Russia and, to a lesser extent, India[2] – played a significant role.

This paper presents different issues associated with the relative rise of three donors from the emerging world: China, India and Türkiye, looking at the circumstances which led to their emergence (Section 1), their respective particularities and objectives (Section 2), and their impact on the existing framework(s) used to define and measure official development assistance (ODA) (Section 3).

1 Brazil, Russia, India, China and South Africa.

2 Source: World Bank (2021).

1.
A challenge to historical practices

1.1 – Development finance was long dominated by OECD donor practices

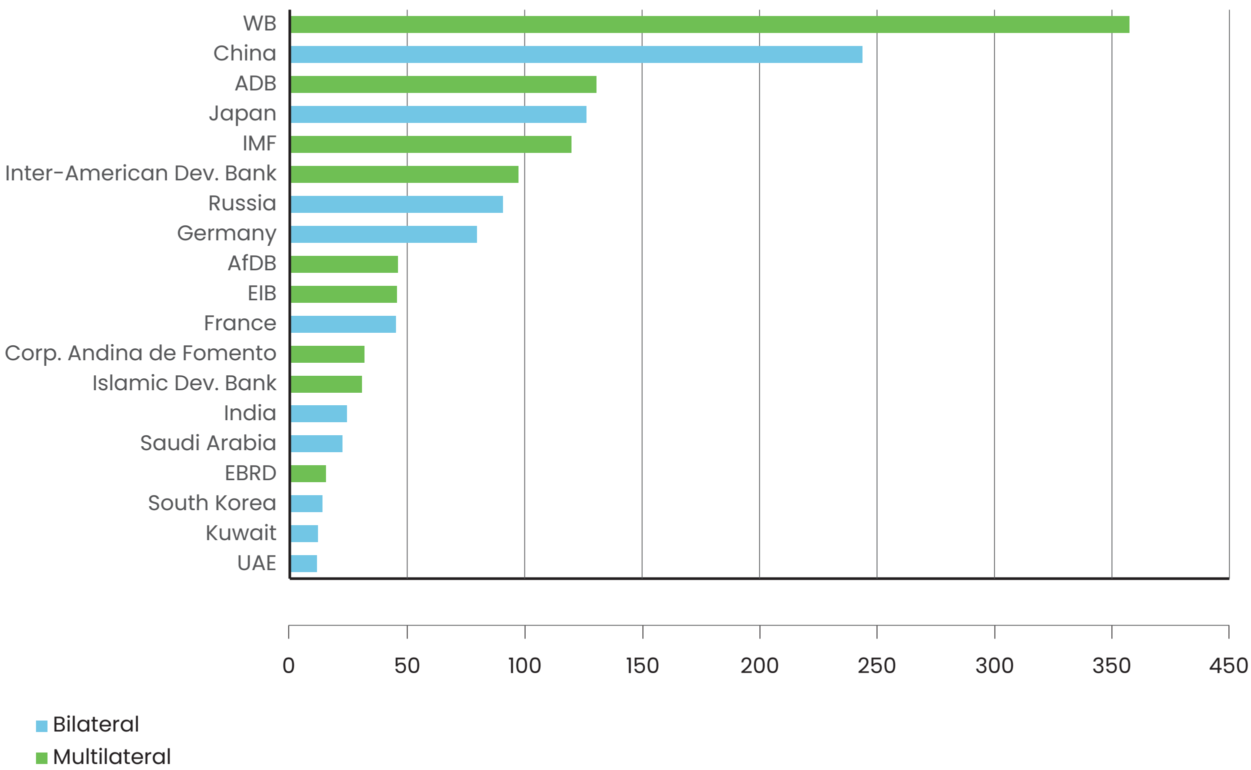
From the 1970s onwards, Western institutions (IMF, World Bank, OECD, etc.) and countries provided the bulk of the world's official development assistance (financial, material, human), thus enjoying *de facto* a central, if not undisputed, role in setting up the agenda and normative frameworks for ODA.

The emergence of regional and global powers amongst developing countries in the early 2000s has disrupted the established order and the Western relative hegemony. Capitalizing on ever-increasing resources and their growing presence in developing countries (of which they themselves are a part of), the new emerging powers, with China at the forefront, have tipped the global geopolitical balance and weakened the Western dominance in defining development standards.

1.2 – Emerging donors promoting South-South cooperation

Many new Global South multilateral and bilateral players have appeared in recent years, some of which have become systemic in international development finance[3] and regional development finance (China, India, Türkiye and Gulf States). This upheaval is blatant: while OECD development Assistance Committee (DAC) countries provided more than 80% of development financing in 1966, their share has fallen to 65% in today, and this ratio is probably overestimated since a large proportion of Global South players' development financing is not reported as ODA and is therefore not accounted for.

Chart 1 – Official loan commitments to developing countries
(Cumulative 2010-2019, USD billions at 2019 prices)



Source: World Bank (2021).

3 Such as China, which has joined the "club" of leading developing country creditors alongside the World Bank and the IMF.

Moreover, since the turn of the 2000s, traditional Western donors have revamped the nature of their interventions. They have gradually phased out "gray or black" finance - i.e. the financing of infrastructures, especially the most polluting ones – to concentrate mainly on the protection of global public goods (GPGs), including climate, biodiversity, and social sectors (health and education), even as infrastructure needs in the developing world remain massive. As a result, developing countries have increasingly turned to the new emerging donors as lead partners to build heavy infrastructures, primarily under global connectivity strategies, the most well-known of which to date is the Chinese "Belt and Road Initiative" (BRI).

2. Three very different emerging donors

The rise of a number of Global South countries as regional and/or global donors has not occurred in a coordinated manner. Instead, a multitude of models has developed, at times complementing, often opposing, the Western framework. To illustrate this point, this paper analyses three different models for development financing from the Global South: China, India, and Türkiye.

2.1 – Diverse intervention methods

(i) One of the main differences between the Chinese, Indian and Turkish approaches to ODA is their institutional organization.

In Türkiye, the autonomous TIKA agency housed at the Ministry of Culture and Tourism steers and coordinates development policy. The latter is implemented by a range of public players (presidency, government agencies, ministries and public-sector corporations) and private players (non-governmental organizations [NGOs] and business associations which are often religious and close to the ruling AK Party). There is no one player in charge of international development cooperation in India or China. In India, the Ministry of External Affairs (MEA) could be said to coordinate action, alongside the Department of Economic Affairs (responsible for bilateral cooperation with other countries) and the Department of Commerce (in charge of ODA-like trade flows). The India Exim Bank (Export-Import Bank of India), responsible for import-export activities as its expanded name suggests, plays an increasingly central role in financing loans and budget support. In China, despite the 2018 creation of the China International Development Cooperation Agency (CIDCA), development finance is handled by an array of financial players including the two leading policy banks, the China Development Bank (CDB) and the China Exim Bank (Export-Import Bank of China).

(ii) The financial tools proposed by the three emerging donors appear to be more homogeneous.

China, India and Türkiye all have grants, credit facilities, concessional and non-concessional loans, capacity building and technical cooperation in their development financing toolkits. They however do not prioritize the same instruments. For example, Chinese ODA flows, as defined by DAC rules, are 70% bilateral finance provided in the form of grants (41% of the total), interest-free loans (8%) and concessional loans (21%). The other 30% consists of multilateral ODA-eligible funds in the form of contributions to international multilateral organizations[4]. AidData finds that ODA flows estimated using the DAC definition account for only a small proportion of Chinese international development finance, at just 12% or USD 101 billion of a total USD 843 billion between 2000 and 2017.[5] China has used mainly debt instruments (which typology varies according to the financing partner) to carve out a dominant position in the development finance market.

On the other hand, a full 60% of India's international aid covers capacity-building activities, while only 30% takes the form of subsidized loans – the remaining 10% funds feasibility studies and technical expert assessments for projects. In Türkiye, aid is allocated almost exclusively in the form of in-kind assistance to support persons displaced by the conflict in Syria.

4 JICA Ogata Sadako Research Institute for Peace and Development

5 AidData (https://www.aiddata.org/) is a website that publishes data, tools and research on international development finance.

Table 1 – Typology of China's intervention instruments in emerging and developing countries

Aid instruments	**Grants**	Aid *("Free Aid")* granted by the Ministry of Commerce of the People's Republic of China (MOFCOM) for social and humanitarian projects
	Zero-Interest loans (ZIL)	Long-term interest-free loans granted by the Ministry of Commerce of the People's Republic of China (MOFCOM), mainly for public infrastructure, industrial and agricultural projects
	Concessional loans	Loans granted by the China Exim Bank at subsidized interest rates (approximately 2%-3%) for various purposes
Hybrid instruments	**Preferential buyer's credit (PBC)**	Loans granted by the China Exim Bank for purchases of Chinese goods and services. In the same way as export credits, they do not qualify as aid under OECD rules.
Commercial loans	**Policy Bank loans**	Loans granted by the CDB and the China Exim Bank at an interest rate based on LIBOR (LIBOR + margin) for various purposes. Terms depend on the type of project and the associated risks.
	Bank loans	Loans granted by the four leading banks at an interest rate based on LIBOR (LIBOR + margin) for various purposes. Terms depend on the type of project and the associated risks.

Source: Groupe Rhodium, Padieu and Pornet (2021).

(iii) There is a great deal of diversity in terms of sectoral and geographical priorities

The Chinese Belt and Road Initiative (BRI), launched in 2013, structures the sectoral and geographical priorities of China's development financing. When the BRI was launched, the Chinese authorities announced that it would prioritize construction, industry, energy, transportation, and mining – trends already observed in previous years (2000-2012).[6] Initially covering a group of 30 countries, the initiative now counts around 140 countries. It has also been largely expanded from its original focus on Asia, to include Africa, Latin America and the Caribbean, Oceania and the Middle East. Between 2000 and 2017, Africa (USD 41.7 billion) and Asia (USD 38 billion)[7] received the bulk of Chinese financing recorded as ODA. In addition, China spent more than USD 190 billion and 135 billion in the form of other official flows (OOF)[8] in Asia and Africa, respectively, over the same period (AidData Report, 2021).

India's development cooperation ranges from trade, culture, energy, engineering, health, housing, information and communication technologies (ICTs), to infrastructures, sports, science, humanitarian assistance, restoration and preservation of cultural and heritage assets. Regional connectivity plays an important role in Indian development finance. Over the 2014-2022 period, more than USD 22 billion went into funding projects in infrastructures, hydroelectricity, power transmission, agriculture, education, health, industry, etc., in South-Asia[9], primarily in Afghanistan, Bangladesh and Bhutan (these three countries together account for around 50% of Indian development cooperation), but also in Myanmar, the Maldives, Nepal, Sri Lanka, Mauritius, the Seychelles, and in other neighboring and Indian Ocean countries.

6 See the AidData Report (2021).

7 Financial flows to Africa and Asia accounted respectively for 42% and 38% of ODA-like flows.

8 Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) eligibility criteria.

9 Source: Indian Ministry of External Affairs (http://meadashboard.gov.in/indicators/92).

Lastly, Türkiye's ODA consists almost entirely of grants (bilateral humanitarian aid) to support Syrian refugees – in particular the more than 3.6 million people who have taken refuge in Türkiye since the start of the conflict[10]. As a result, Turkish ODA has increased substantially since 2011. Türkiye also provides concessional and non-concessional loans, export credit facilities and technical cooperation, as well as hosts foreign students, and funds the construction of cultural and religious buildings, in particular those related to Ottoman history. Turkish non-humanitarian ODA has also posted a sharp increase since the early 2000s, but it remains low compared to both Turkish humanitarian aid and other development finance-providing countries' non-humanitarian ODA. Rising instability in Türkiye's immediate neighborhood has also led to a shift in the geographical distribution of Turkish development financing: while the Turkic countries of Central Asia were the leading recipients of Turkish ODA in the 1990s, they have been replaced by Syria (i.e. Syrian refugees in Turkey) and Lebanon. Sub-Saharan Africa (particularly the continent's Muslim countries) is also increasingly wooed by Turkish development financing, which is mobilized alongside other tools to support a growing diplomatic and economic foray on the continent.

2.2 – Development finance objectives

Development financing serves a wide range of more-or-less explicitly-stated agendas. For example, China's aid and technical assistance (TA), initially based on eight principles set forth by former Prime Minister Zhou Enlai in 1964 – including mutual benefit and respect for the sovereignty of the recipient countries, as well as readily-implementable actions to help raise recipient governments' revenues[11] – were complemented in 2021[12] by objectives regarding sustainability, in response to growing criticism regarding the nature, quality and impact of Chinese development financing.

India, on the other hand, promotes a human-centric approach adjusted to the recipient countries' own development priorities. It also puts forward India's own experience as an example that can be used by other countries, in line with Mahatma Gandhi's statement, "my service to India includes the service of humanity"[13]. Indian aid is thus promoted as detached from political and trade considerations. In reality however, Indian development cooperation is a tool that serves the country's foreign policy at large and the geostrategic dimension of aid is consequently an important criterion in the allocation of Indian ODA. It uses development aid to influence policies in recipient countries and strengthen its relations with foreign governments, in particular as an attempt to offset China's geopolitical and commercial ever-growing influence[14]. In the same manner, India supports multilateralism in development finance in order to strengthen a global framework that it perceives as best serving its emergence.

Türkiye is more vocal as presenting its development cooperation policy as an extension of its foreign affairs' strategy. Aid is thus considered as part of the "soft power" tools that can be mobilized by Turkish authorities. The Turkish discourse on development financing is however also increasingly complemented with moral arguments. The "duty to help" is becoming central to the development aid narrative voiced by Türkiye, which presents itself as the "world's conscience" in many official publications, mainly on the basis of: (i) its humanitarian actions (almost entirely focused on the Syrian crisis and Syrian refugees in Türkiye), and (ii) its initiatives for the least developed countries. Aware of its relatively small size on the development stage, Türkiye also displays an increasing ambition to tackle global issues on a global scale, within and outside of the existing multilateral framework.

10 The European Union has a Facility for Refugees in Türkiye (FRIT) set up to meet the basic needs of Syrian refugees in Türkiye.

11 Huang and Ren, 2012.

12 White Paper on China's Foreign Aid, available at: http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284620.htm

13 India Ministry of Foreign Affairs

14 Asmus *et al.* (2021).

Development finance is a means for emerging donors to weigh in on global multilateral agendas. Chinese players have become major global creditors, as symbolized by the size of the China Development Bank (CDB) and China Exim Bank balance sheets. Between 2008 and 2019, the commitments of these two institutions totaled USD 450 billion, just USD 5 billion short of the World Bank's commitments for the same period[15]. In addition to an increase in bilateral international development finance, China has become a leading stakeholder in multilateral development organizations – it is for example the IBRD's third largest shareholder[16]. This is due to (i) its economic emergence, which has automatically driven up its shares in Bretton Woods institutions' capital and compulsory contributions calculated on the basis of the size of the country's economy, and (ii) its volition to increase China's contributions.[17] In addition to playing an increasing role in the traditional architecture for development, China has also pushed for the creation of new multilateral organizations for development (Asian Infrastructure Investment Bank -AIIB, New Development Bank -NDB), in which it positions itself as a key stakeholder.

India sees itself as a key player for South Asian stability, having ramped up over the years strategic bilateral (United States, EU, Germany and France), regional (Southeast Asia and Central Asia) and multilateral partnerships (not least with the United Nations). Generally speaking, India seeks to change the current international aid model to facilitate market access to developed countries for developing country, as well as strengthen developing countries. Among its moves in these directions are its proposals to change voting rules in the Bretton Woods institutions (BWIs – IMF and World Bank) and to create new institutions promoting South-South cooperation (such as the IBSA[18] Forum for trilateral dialogue between India, Brazil and South Africa), including the creation of a "Southern DAC". South-South cooperation with a level playing field for all countries is a priority in the international development cooperation framework promoted by India.

15 *Boston University,* 2019 data. The World Bank calculation includes finance from the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

16 Morris *et al.* (2021).

17 *Ibid.*

18 India, Brazil, South Africa.

Lastly, Türkiye plays a relatively small role in coordinated financing initiatives, even though the country is theoretically aligned with the global Sustainable Development Goals (SDGs) framework, and the promotion of international partnership actions. A mere 2% of Turkish international development finance is earmarked for multilateral organizations. The same holds true for the Turkish support for global public goods and climate change action: Turkish expenditures to address these issues represented less than 10% of its international development finance on average in the last decade.

Economic diplomacy is also often put forward by emerging donors to justify (generally to their own populations) the transfer of resources to help other countries' development. ODA is for example part of China's internationalization strategy. Developing countries offer opportunities for Chinese exports, while they also play an important role in satisfying China's demand for natural resources. The Belt and Road Initiative is contributing to the internationalization of the Chinese currency through trade agreements with, deposits made in, and reserves accumulated by recipient countries, as well as contracts denominated in RMB. China is a key creditor, but also a major commercial partner to the development banks. It dominates the multilateral development banks' procurement landscape. Although only a small number of multilateral development banks (MDBs) publish data on partners' nationalities, the available data shows that Chinese firms won a total of USD 7.4 billion in contracts in 2019 from the IDA, the African Development Bank (AfDB), the Inter-American Development Bank (IDB), the Asian Development Bank (ADB) and the EBRD, thereby accounting for 14% of the total value of procurements.[19] The predominance of Chinese firms in MDB contracts reflects procurement rules that favor the most attractive financial bids. It also reflects the comparative advantage that Chinese firms have in the infrastructure sector, since the latter represent the largest MDB procurement contracts.

19 Morris *et al.* (2021).

The link between economic diplomacy and development finance was structured in India through the use of lines of credit from 2005 onwards. These funds facilitated a number of large Indian corporations, including public-owned ones, gaining access to Africa and Asia, mainly in infrastructures (railroads, roads and ports; electricity generation and distribution; manufacturing industries; and agriculture and irrigation). As part of its dual economic/development foray, India also launched a joint initiative with France at the COP21 called the International Solar Alliance (ISA), committing USD 2 billion to fund solar power projects in developing countries. At the same time, Indian civil society organizations (CSOs) have also been very active in education, health and financial inclusion.

In Türkiye, the emergence of the Justice and Development Party (AKP) in 2002 marked an important turning point for the country's aid policy. The focus of development finance indeed shifted from culturally-alike countries to ones with substantial trade opportunities, in particular in Sub-Saharan Africa (USD 10 billion in trade in 2020 as opposed to USD 1 billion in 2003). This strategic swing was part of a broader initiative steered by the Turkish presidency: many public (ministries and Turkish Airlines) and private players (employer associations such as TÜSIAD[20] and MÜSIAD,[21] faith-based organizations such as IHH[22] – themselves often sponsored by businessmen close to the AKP) contribute to strengthening economic and political ties between Türkiye and its African trading partners.

Development assistance providing countries often gain political influence over recipient ones, although this aspect of the relationship usually remains unpublicized.

In contradiction with one of the core principles of Chinese development aid (non-interference in another country's internal affairs and preservation of the partner's sovereignty), Huang and Ren (2012) point out that development aid has been used as a diplomatic and political tools by China to receive support from developing countries in international organizations. Numerous analysts have also pointed a finger at a potential debt trap stemming from Chinese international financings, questioning the link between debt restructuring and strategic asset seizure or political and diplomatic ambitions – the example of Hambantota International Port in Sri Lanka being the most famous one. However, the lack of financial transparency in China's financing makes it hard to verify the materiality of this hypothesis. Acker *et al.* (2020) for example report that no asset seizure case has been referred to courts.

20 Türk Sanayicileri ve İş İnsanları Derneği (Turkish Industry and Business Association).

21 Müstakil Sanayici ve İşadamları Derneği (Independent Industrialists and Businessmen's Association).

22 İnsani Yardım Vakfı (Humanitarian Relief Foundation).

In the Indian view, development aid is a tool to strengthen the country's negotiating position on the international stage. Although it is also a way for India to compete with China, its greatest rival in terms of regional power, development finance to date has not given India any particular influence with the countries it helps on the multilateral or international scene, probably due to the (very low) sums involved[23].

Türkiye appears more vocal about the link between development aid and political influence, since development financing is officially one of the country's foreign policy tools, albeit a much smaller one than military projection, for example. In 2008, the President of the Turkish Cooperation and Coordination Agency, TIKA, acknowledged that the agency's action had played a role in the diplomatic campaign conducted by the country to rally the votes needed for Türkiye to be elected as a non-permanent member of the UN Security Council. In addition to "social" projects (schools, hospitals, etc.), TIKA is known for funding local heritage renovations, with a particular focus on renovating and promoting historical and religious Ottoman buildings. Building or financing the construction of mosques and religious schools in several countries, TIKA has been described as an instrument for the projection of the neo-Ottoman ideology promoted by the AKP government.

23 These sums can be called "low" compared with "systemic" donors such as China.

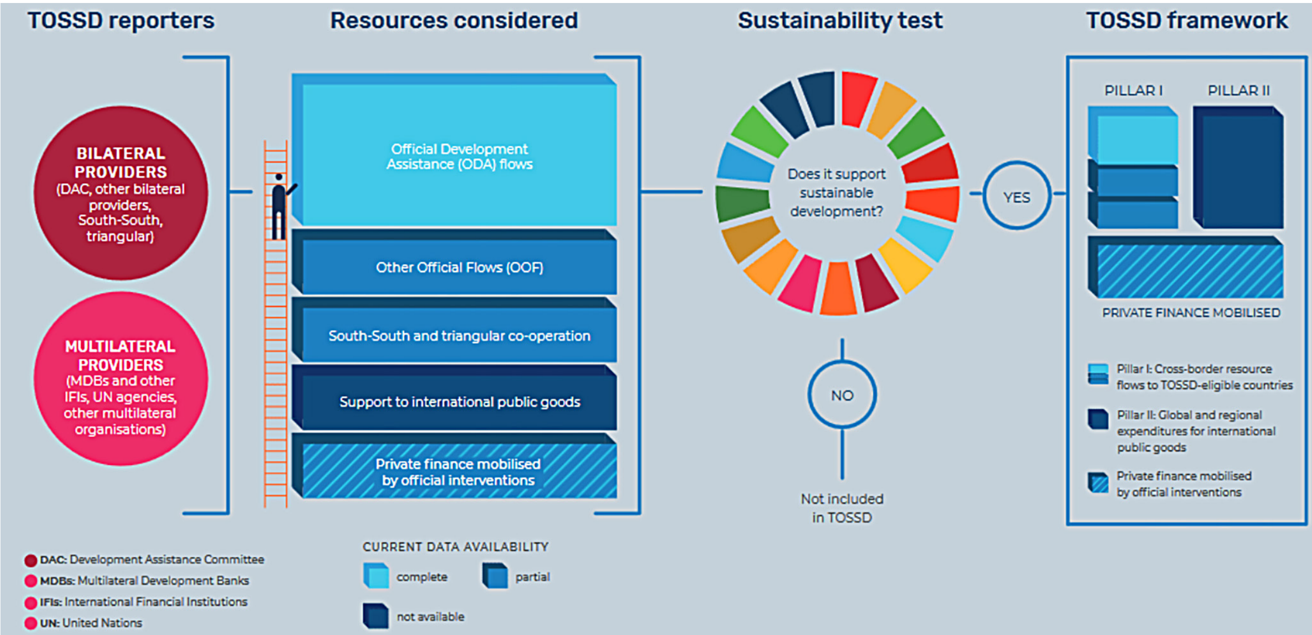
3.
Has the emergence of new donors challenged the measurement of ODA?

3.1 – DAC's limitations and the creation of TOSSD

The comparison of emerging donors' models, objectives, and capacities is fundamentally limited by the diversity of normative frameworks used by these actors to measure and report international development finance/aid. This major shortcoming is not just problematic in terms of measuring financial flows: if it is impossible to define what development aid is, how is it possible to know precisely who, how and how much is involved?

A group of experts from ODA supplier and/or recipient countries and multilateral organizations got together in 2015 to address this issue and set new common standards to be able to measure the resources used to meet the 2030 Agenda. Total Official Support for Sustainable Development (TOSSD) has since been developed to attempt providing a complete picture of official resources and private finance (mobilized by official interventions) in support of sustainable development and the SDGs in developing countries. TOSSD could be considered as a complement to the ODA measurement, since it includes other types of resources in the form of non-concessional contributions, South-South cooperation, triangular cooperation, activities addressing global challenges, and private finance mobilized by official interventions. The idea behind this initiative is to collect coherent, comparable and transparent data. This data is presented in two categories: (i) cross-border resources (Pillar I); and (ii) support to international public goods and global challenges (Pillar II). TOSSD is therefore better suited to measure actual expenditures in support of the SDGs and the protection of international public goods in developing countries by focusing on both international and domestic flows. It hence represents a significant advance in measurement.

Figure 1. TOSSD coverage and pillars



Source: *What is TOSSD?*, OECD.

One of the key addition from TOSSD is to capture efforts by Global South countries in support of other Global South countries, alongside the already well-documented "traditional" ODA (Global North to Global South countries). Yet many systemic emerging and developing players – including China, India, South Africa and some Latin American countries – do not yet contribute or do not wish to contribute to the TOSSD initiative, thus limiting TOSSD's added-value.

3.2 – What are the alternatives?

The failure of TOSSD to rally emerging donors to a common, coherent measurement of finance to developing countries raises the question as to the reasons for their refusal. While the complexity surrounding TOSSD reporting (calculations for the level of concessionality used, "auditing" mechanisms, etc.) is a challenge for its adoption, the main barrier lies in the fact that the framework is seen as a Western, OECD-type led initiative.

China does not report its official flows to the OECD, nor is it looking to do so. This raises problems of access to data on Chinese international development finance, whether countable as ODA or not, even as the country has become a leading provider of development finance. Similarly, not being an official member of the Paris Club[24], China has no obligation to share data on its claims.

India does not share the approach to ODA developed by the DAC either. It does not report its data to the DAC and avoids using its terminology. It prefers the term "development partnership" to "development aid", since it considers it more compatible with the promotion of South-South cooperation. The emphasis placed by the OECD on democracy, human rights and good governance to guide development assistance plays no part in Indian aid flow policy. The "development partnerships" promoted by India are based on the idea of non-interference in development partners' national policies.

Türkiye is an exception. It has held DAC observer status since 1991, but is not a Committee member despite the OECD's entreaties and the fact that the country, unlike most of Global South donors, reports its development finance data, participates in high-level DAC meetings and cooperates with the members of the DAC.

24 Even though China participated in the discussions held by the Paris Club and the G20 on the debt service suspension initiative (DSSI) and the common framework for debt treatments, as an ad hoc participant.

Conclusions

The emergence of new donors on the international development scene has disrupted the established order. The new donors, found amongst emerging countries, each have their own models and methods, and their positions, while sometimes aligned, often differ. Their heterogeneous emergence has fragmented the framework for development finance: DAC donors, who continue to account for a large volume of development finance, navigate alongside the new, systemic, Chinese model, as well as a plethora of other frameworks put forward by smaller actors.

Excluding China, the volume of development aid provided by the Global South – in particular by India, Türkiye and other emerging countries – remains too low and disunited to form a full-fledged alternative. Together, the emerging powers would be able to exert stronger influence in current international debates.

The concept of development finance itself also appears problematic. Development aid measurement cannot really identify operations in support of SDGs, either to and within developing countries or to and within high-income countries, which are also undergoing major evolutions to adapt their social and economic models to climate change and biodiversity loss. As a result, the monitoring of the global transitions underway can only be limited, weakening the scope of collaborative action to tackle common global challenges.

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List of acronyms and abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AKP	*Adalet ve Kalkınma Partisi* (Justice and Development Party, Türkiye)
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
BWI	Bretton Woods Institutions (IMF and World Bank)
CDB	China Development Bank
CIDCA	China International Development Cooperation Agency
COP	Conference of the Parties (United Nations)
CSO	Civil Society Organization
DAC	Development Assistance Committee (OECD)
EBRD	European Bank for Reconstruction and Development
EU	European Union
FRiT	Facility for Refugees in Turkey (EU)
G20	Group of Twenty
GPG	Global Public Goods
IBRD	International Bank for Reconstruction and Development
IBSA	India, Brazil, South Africa (forum)
ICT	Information and Communication Technologies
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
IFL	Interest-Free Loan
IMF	International Monetary Fund
ISA	International Solar Alliance (joint France/India initiative)
JICA	Japan International Cooperation Agency
LIBOR	London Interbank Offered Rate
MEA	Ministry of External Affairs (India)
MOFCOM	Ministry of Commerce of the People's Republic of China
NDB	New Development Bank (formerly referred to as the BRICS Development Bank)
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PBC	Preferential Buyer's Credit
RES	Renewable Energy Sources
RMB	Renminbi (China's national currency, also known as the yuan)
SDG	Sustainable Development Goals (United Nations)
TA	Technical Assistance
TIKA	*Türk İşbirliği ve Kalkınma Ajansı* (Turkish Cooperation and Coordination Agency)
TOSSD	Total Official Support for Sustainable Development
UN	United Nations
USD	United States Dollar
WTO	World Trade Organization

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Création graphique MeMo, Juliegilles, D. Cazeils
Conception et réalisation Luciole

Final date of writing: 15 august 2022

Legal deposit 4rd quarter 2022
ISSN 2116-4363
Printed by the AFD reprographics department

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