The new face of development cooperation: the role of South-South cooperation and corporate social responsibility

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Outline of the presentation

• Introductory remarks
• Changes in the international development cooperation system
• The new face of development cooperation:
  – Motivations for engaging in development cooperation
  – Recipient country capacity to mobilize financial resources
  – Financial instruments for development cooperation
  – Categories of recipients and financial instruments
• The growing role of South-South cooperation
• Corporate Social Responsibility and development cooperation
• Final remarks
Introductory remarks

A view on development assistance:

“An important experience, without precedent in modern history, is coming to an end. It will have lasted much less than was expected. Born in the midst of contradictions, it dissipates in ambiguity. It means renouncing an ambitious but ill-conceived enterprise. Its original noble intentions have been progressively submerged by other considerations, which inevitably, have led to mutual recrimination and disillusion”

Tibor Mende, 1972
Main changes in the context for international development cooperation

• Changes in the institutional context
  – Greater focus on development results and effectiveness
  – Agreement on reducing aid fragmentation and volatility, improving predictability of flows, and using country systems (Paris Declaration, Accra Agenda for Action)
  – But, awareness of inconsistencies, low-income country focus, and limited progress in implementing PD and AAA
• Traditional donor (developed) countries:
  – Commitments to increase ODA during the 2000s
  – Financial crisis forced tradeoffs between resources for domestic stimulus and development assistance
• Growing differentiation among recipient countries
  – Emerging donors, recipient/donor countries, SSC
Main changes in the context for international development cooperation

- The financial crisis has had an impact, at least temporarily, on:
  - Net private flows, which have slowed down more than in previous crises, with short-term flows hit worse
  - FDI and remittances have been more resilient, but are growing at a slower rate
  - Net official flows have increased and have become positive after several years of being negative, primarily due to the intervention of multilateral institutions
- However, the reduction in private flows will not be fully compensated by the increase in public resources for development assistance
Main changes in the context for international development cooperation
Main changes in the context for international development cooperation

• **Financial innovations** in resource mobilization for development cooperation
  – *Beyond debt forgiveness and budget support*: international financial facilities, climate change, triangular cooperation
  – *Partnerships* between public (bilateral and multilateral) and private (foundations, corporations, individuals) actors
  – *New financial instruments*: guarantees, aggregation of individual donations, securitization, international taxes

• **New actors** in development cooperation
  – “*New donors*” is a diffuse concept; it includes: new bilateral donors, private not-for-profit entities, multi-actor funds, private corporations, among others
  – What is new is their increasing influence and capacity to mobilize resources
Main changes in the context for international development cooperation

- Impact of new actors:
  - They bring additional resources —but at the same time add pressures for greater fragmentation
  - They employ new perspectives and modalities —but at the same time may erode international agreements on debt sustainability, environmental protection, human rights and democratic governance, among others
  - The interactions and synergies between different types of donors have led to the creation of new facilities, spurred financial innovation, and increased financial options for developing countries —but have increased the complexity of the international development cooperation system
  - Need for an integrated perspective of the whole range of actors in the system, and particularly the new donors
The new face of development cooperation: a framework and some issues

• Broad but simple conceptual framework to:
  – Appreciate changes in the international development cooperation system
  – Recognize and integrate the new actors and their motivations

• Elements of the conceptual framework:
  – Countries, organizations and entities that provide international cooperation and their motivations
  – Countries that receive international cooperation and their capacity to mobilize resources
  – Financial instruments and mechanisms that link providers and recipients of development cooperation

• Focus on South-South Cooperation and on Corporate Social Responsibility
Motivations to engage in development cooperation

- **Altruism–self-interest dichotomy** does not capture the diversity of current donor motivations
  - Beyond bilateral relations between states (NGOs, private sector)
  - Combination, convergence and crisscrossing of altruistic and self-interest motivations (international public goods, CSR)
- Traditional and emerging bilateral donors appear to have different motivations
  - Tensions between DAC donors and emerging donors (e.g. relevance of Paris Declaration, adjustments in AAA)
- Countries that are **both recipients and donors** have complex mix of motivations
- Private sector motivations are expanding and reaching out to overlap with those of other actors
Recipient countries and their capacity to mobilize domestic and external resources

- Beyond average national income per capita as the main criteria for allocating development financing and cooperation resources
- Two indexes by compacting statistics through analysis of principal components:
  - Index of mobilization of domestic resources: (1) Gross fixed capital formation / GDP; (2) domestic credit to the private sector / GDP; (3) gross national income per capita
  - Index of mobilization of external resources: (1) foreign direct investment; (2) volume of exports of goods and services; and (3) net international reserves
- Four groups of countries, through combinations of high / low score in each index (domestic and external)
Recipient countries and their capacity to mobilize domestic and external resources

- Type I = High internal capacity and high external capacity
- Type II = Low internal capacity and high external capacity
- Type III = High internal capacity and low external capacity
- Type IV = Low internal capacity and low external capacity
Recipient countries and their capacity to mobilize domestic and external resources
# Financial instruments for development cooperation

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<th>Other donors</th>
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<th>World Bank, RDBs</th>
<th>IMF/regional</th>
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Low capacity

High capacity

Mobilization of domestic resources

International capital markets

Instruments for orderly sovereign defaults

• Instruments to mobilize domestic resources
• Support of domestic capital markets

• Loans, grants and blended instruments from official sources (MDBs and bilateral)

• Concessional credit
• Funds to promote private investment
• Debt reduction instruments

• Instruments to catalyze FDI
• Instruments to improve debt profile and mitigate investment’s risks

• Grants
• Technical cooperation
• Debt cancellation

• Technical assistance to improve domestic resource mobilization (country systems, taxation)

• Funds to promote private investment

• Debt reduction instruments
South-South Cooperation

• Transfer of knowledge and experience in an “horizontal” or “diagonal” way, in contrast with “vertical” technical cooperation between developed and developing countries

• Executed through various modalities:
  – Financing, exchange of experts, technical assistance, exchange of goods and services (in kind), information on best practices, joint initiatives to increase negotiation capacities

• Special status in the AAA: how to adapt SSC to Paris Declaration principles, enrich debate and identify synergies between traditional aid and SSC?

• Estimates of amounts mobilized: around US$13 billion in 2008 (10 percent of ODA)
Three types of SSC, according to capacity to mobilize resources:

- SSC among countries with high capacities to mobilize resources (emerging economies): strategic cooperation, direct investment, joint ventures, common positions to increase negotiating power

- SSC between countries with different resource mobilization capacities: direct investment, scientific and technical cooperation, triangular cooperation, capacity building

- SSC between countries with low resource mobilization capacities: exchange of experiences, technical cooperation

Different approaches and content of SSC initiatives in each case
South-South Cooperation

SSC between countries with high resource mobilization capacities (emerging economies)
- Strategic cooperation
- Direct investment
- Joint ventures
- Common negotiations

SSC between countries with different resource mobilization capacities
- Direct investment
- Scientific and technical cooperation
- Triangular cooperation
- Capacity building

SSC between countries with low resource mobilization capacity
- Exchange of experiences
- Technical cooperation
South-South Cooperation

- Importance of regional integration processes in the expansion of SSC activities
  - Regional platforms to increase technical cooperation (common markets and monetary unions and agreements)
  - Regional cooperation programs (OAS, ALBA, ASEAN)
- Triangular cooperation: opportunities to join efforts in innovative programs, mobilize additional resources, take advantage of different strengths and capabilities
  - Funds for triangular cooperation (UNDP, World Bank)
- South-South foreign direct investment
  - Surge of developing countries’ multinationals
  - Growing share of South-South investment flows
- South-South remittances: mostly within same region
- South-South cooperation in science and technology (UNDP, IDRC, SAREC)
South-South Cooperation: network of health biotech firms collaborations

Source: *Nature Biotechnology*; Volume 28; number 5; May 2010
South-South Cooperation

• Some challenges:
  – What types of financial flows should be considered?
  – How to account for the creation of regional public goods
  – SSC financial flows: up to what extent they complement or substitute other sources of development finance?
  – Compliance with Paris Declaration principles to improve development effectiveness (Accra Agenda for Action)?
  – How to scale-up and replicate experiences?

• What does it mean for the development cooperation landscape?
  – New possibilities to incorporate middle-income countries in the international development cooperation system
  – Fresh perspectives on development issues: climate change, trade, energy, food security, financial stability, among others
Corporate Social Responsibility (CSR)

- Intersection of private sector activities and development cooperation initiatives
- The role of the private sector in development, focus on Corporate Social Responsibility
  - Wealth creation
  - Compliance with legal frameworks
  - Self-imposed rules to project favorable image
  - Activities to improve living conditions of populations in their areas of influence
- How to integrate CSR activities with bilateral and multilateral cooperation actors?
- Innovation in mechanisms: public infrastructure for taxes; microfinance; socially responsible investment
Final remarks

- The international system of development finance and cooperation is experiencing an accelerated process of transformation
  - New actors, motivations, resources, mechanisms
  - Changing capacities to mobilize domestic and external resources
- South-South Cooperation is now a main driving force for changes in international development cooperation
- Important to pay increasing attention to the role of the private sector (corporate social responsibility)
- Time to re-examine the international development cooperation system with a holistic perspective
- Need for establishing open spaces for coordination between traditional and new actors in the international development finance and cooperation system