

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

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# Outline of the presentation

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- 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

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## 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

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- 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

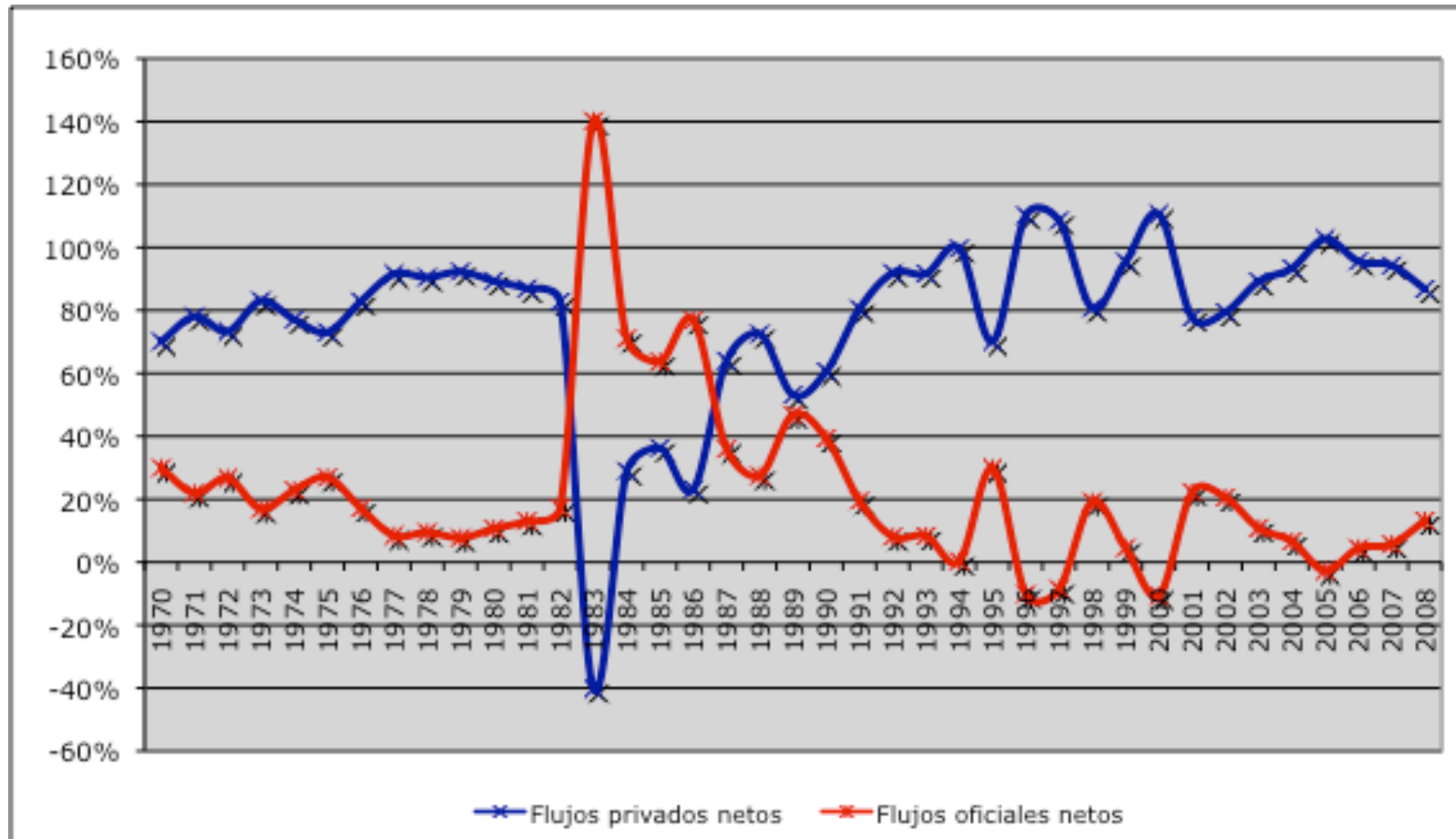
# Main changes in the context for international development cooperation

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- 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

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# Main changes in the context for international development cooperation

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- **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

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- 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

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- 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

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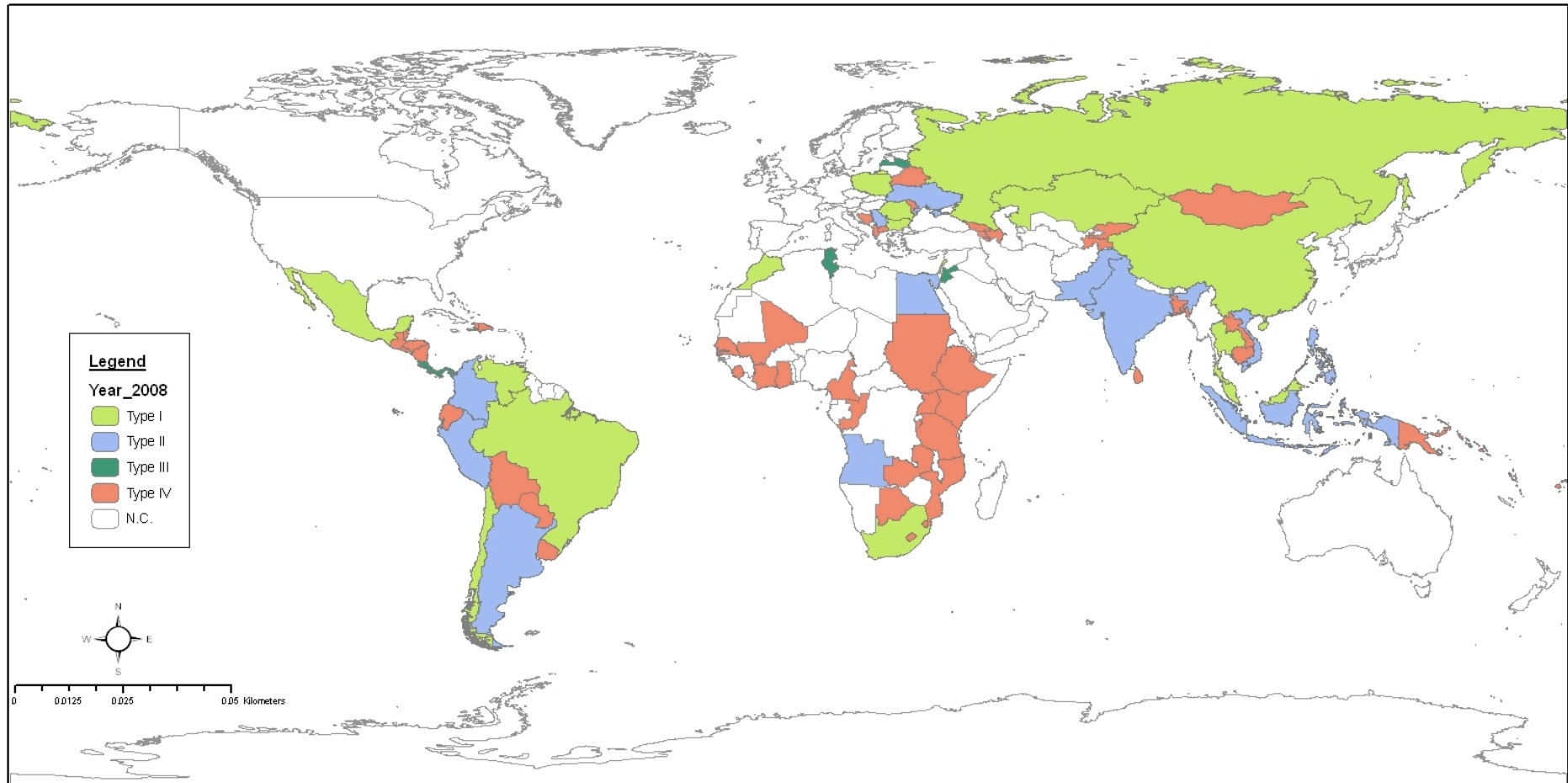
- **Altruism–self-interest dichotomy** does not capture the diversity of current donor motivations
  - Beyond bilateral relations between states (NGOs, private sector)
  - Combination, convergence and crisscrossing of altruistic and self-interest motivations (international public goods, CSR)
- Traditional 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

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- 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



# Financial instruments for development cooperation

Type	Actors									
	Bilateral		Multilateral				Private sector		Capital markets	Global
	DAC	Other donors	United Nations	World Bank, RDBs	IMF/regional	SRDBs	For-profit	Non-profit/individual		
Loans	X	X		X	X	X	X	X	X	
Grants	X	X	X	X	X	X	X	X		
Bonds		X		X		X	X		X	
Foreign direct investment							X			
Remittances								X		
Market creation / support	X	X	X	X		X	X	X	X	
Specific purpose funds / facilities	X	X	X	X		X	X	X	X	
Taxes and fees							X			X
Payments for services	X	X					X			
Combined value instruments							X	X	X	
Risk mitigation /management	X	X		X		X	X		X	
Management / reduction of debt	X	X		X	X	X				
Provision of international liquidity	X	X			X					





# South-South Cooperation

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- **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)



# South-South Cooperation

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- 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

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- 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

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**South-South Cooperation: network of health biotech firms collaborations**

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

# South-South Cooperation

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- 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)

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- 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

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- 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