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

Francisco Sagasti and Fernando Prada with the collaboration of Mario Bazán, Jorge Chávez Granadino and Gonzalo Alcalde

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Introduction

This work aims to present an overview of the international of development finance system and its outlook for the future, taking into account the changing motivations of donor countries, as well as the financing needs and recipient countries, their capacity to mobilize domestic and external resources, and the institutional context in which they operate. The document highlights two main issues: (1) South-South Cooperation (SSC), which has acquired a new dimension as a number of developing countries have improved their living standards and strengthened their links of solidarity with relatively less developed nations; and (2) the role of the new actors in international cooperation, in particular that of the private sector, including corporate social responsibility (CSR) initiatives, grants from foundations, individual donations and various types of associations with multilateral and bilateral agencies.

The document also tries to characterize the emerging issues relating to the system of development finance in the context of the financial crisis, as well as the impact of the crisis on the future outlook for new actors (Section 2). To do so, it analyses the main trends of international cooperation flows, briefly describes the main changes in the institutional architecture and places the activities of new actors and the area they occupy in the system of international cooperation in context.

The structure of the system of international cooperation and the role of new actors in the coming years will depend on the interaction of three factors. First, the *balance between the domestic stimulus programmes and the international cooperation programmes* in developed countries, as a reduction in aid flows appears probable, despite the fact that the presidents and prime ministers of the donor countries of the Organization for Economic Cooperation and Development (OECD) have committed themselves in various forums to maintaining them as a mechanism to ease the crisis in developing countries. The core question is whether these resources will be available in the near future, as pressure persists in developed countries to bolster their financial systems and domestic aid programmes begin to put stress on their public budgets. Another factor to be taken into account is the effect of the probable increase in interest rates, which are still close to zero, as part of the programmes to strengthen internal capital markets.

The second factor refers to *the capacity for innovation in the financial sector and the capital markets* that are geared towards financing development. Various emerging and developing countries have been capable of mobilizing resources using instruments to reduce private investment risk, particularly in infrastructure and the development of capital markets (public-private partnerships, guarantees, derivatives, instruments for strengthening the domestic capital markets, among others). Following the financial crisis, both bilateral and multilateral donors have made available contingency lines of credit, liquidity and counter-cyclical funds, as well as instruments to ensure that emerging countries can obtain finance on international capital markets. However, the financial crisis requires a review of the real potential and limits of financial markets and the capacity of developing countries to mobilize internal and external resources.

The third factor is the boost to the *institutional reforms in the architecture of development finance*. The financial crisis has encouraged initiatives to reform development finance institutions, but so far the main efforts have been designed to increase resources available for multilateral institutions. Less progress has been made on issues of governance and development effectiveness, although modest steps have been taken to include emerging countries in the decision-making process on global subjects and international agreements.

Section 3 reviews the range of financial instruments and mechanisms available for international cooperation, taking into account the motivations for giving and receiving cooperation. While many developing countries are experiencing problems in covering their financing needs, they are also becoming increasingly differentiated on the basis of their capacities to mobilize domestic and external resources, and of their access to a variety of financial mechanisms and instruments. Against this background, sections 4 and 5 examine South-South Cooperation and corporate social responsibility (CSR) initiatives.

Finally, it is important to note that the international system of development finance was experiencing limitations in its ability to channel resources effectively even before the crisis. The financial crisis and global recession have deepened these limitations, but at the same time they have generated responses from various actors and have opened up opportunities for establishing innovative and effective cooperation schemes. These initiatives could help the process of designing and implementing the institutional reforms needed to improve the performance of the international system of development finance. In addition, the presence of new actors offers an opportunity to innovate in the modalities of cooperation and in the ways of increasing the capacity to mobilize resources for development. However, these actors are still not completely integrated into the international system of development finance, and have not developed their full potential as sources of finance and generators of ideas to complement those of the traditional actors. Section 6 proposes some strategic options for making progress in this direction, as well as offering some concluding reflections.

1 Changes in the international development finance system

This section analyzes first the factors affecting the trends in international cooperation flows and how the financial crisis has affected them. It then describes some of the main changes in the institutional context, which allows to appreciate the roles that new actors are now playing, and in particular those of South-South cooperation (SSC) and corporate social responsibility (CSR) programs.

1.1 MAIN TRENDS IN INTERNATIONAL COOPERATION FLOWS IN THE CONTEXT OF THE FINANCIAL CRISIS

The financial crisis and economic recession have reversed some of the trends in financing flows to developing countries that had gained ground in the last three decades (Sagasti, Bezanson and Prada 2005). These trends can be summed up as follows: (1) *growth in net private flows*, particularly in the form of foreign and portfolio equity investment, and to a lesser extent as debt, mainly in the corporate sector; (2) *steady growth in workers' remittances*; and (3) a *reduction of net official debt flows*, which became negative in the 2000s due to prepayments to multilateral institutions and debt relief operations of bilateral creditors, and despite the fact that official grants grew over the decade. The data up to 2008 clearly show the reversal of these trends (Table 2.1).

TABLE 2.1. Net capital flows to developing countries 1980-2008
(annual average, US$ billion)

		1980-1989	1990-1999	2000-2006	2007	2008
1.	**Net private flows [a]**	**41.56**	**145.96**	**373.78**	**1,223.6**	**752.3**
2.	**Net official flows [b]**	**35.74**	**51.14**	**24.96**	**74.1**	**114.3**
3.	**Net FDI and portfolio equity inflows**	**13.45**	**113.99**	**296.85**	**663.8**	**536.5**
4.	**Net debt flows**	**50.60**	**54.30**	**40.42**	**557.8**	**243.8**
4.1.	Official creditors	22.49	22.33	-36.51	-1.9	28.1
4.2.	Private creditors	28.11	31.97	76.93	559.8	215.8
a)	*Net short-term debt flows*	*7.31*	*16.45*	*63.21*	*244.5*	*-12.7*
b)	*Net medium- and long-term debt flows*	*20.80*	*15.52*	*13.72*	*315.3*	*228.5*
Memorandum items						
	Official grants [c]	**13.25**	**28.81**	**61.47**	**76.0**	**86.2**
	Workers' remittances	**20.36**	**53.29**	**164.56**	**281.8**	**326.7**

Source: World Bank (2009b), Global development finance 2010, CD-ROM.

Notes: [a] Debt to private creditors + net FDI and portfolio equity investment; [b] Official grants + debt to official creditors; [c] Official grants include those from official sources, and a smaller proportion of those channelled through NGOs including some vertical funds.

First, there has been a *greater reversal of private flows than in previous crises*, such as those of the 1980s "lost decade" and the Asian crisis at the end of the 1990s. Developing countries received US$752.3 billion in net private flows in 2008, US$470 billion less than the US$1,200 billion in 2007, a fall of around 3.3 percent of global GDP (World Bank 2009a).[1] Although the effect on long-term investment flows (foreign direct investment and commercial lending) has not been as strong as on short-term flows (investment in securities and short-term credit lines), the latter effect should not be underestimated: short-term credit lines provide liquidity for the corporate sector and foreign trade operations, and allow to refinance debts. This situation is similar for the public sector, which issues short-term securities to obtain liquidity and meet its obligations. The risk of an end to payments in the first few months of the crisis was the result of movements in these short-term flows, which significantly reduced liquidity.

Between January and September 2008 developing countries issued an average monthly US$4.5 billion in bonds, of which 80 percent was corporate issuance. There were no additional issues in September and until the end of 2008, and although they recovered modestly in 2009, their size and composition changed. Between January and July 2009, the average monthly issuance was only US$2.1 billion, but 70 percent were sovereign bond issues. Although there are signs that the corporate sector has increased the rate of issuance in 2010, the main risks in the medium term are in this area.[2] Between 2003 and 2007 the corporate sector based in developing countries issued close to US$1.2 billion via syndicated loans and bond issues (World Bank 2009b: 39). This debt has to be constantly refinanced, although not in such favourable conditions as those that the private companies had in 2007.[3]

Second, *long-term investment flows and workers' remittances were more resilient*, but their rate of growth has varied. Foreign direct investment (FDI) has fallen to a greater extent than short-term flows and corporate debt issuance and may even grow in 2010. However, net transfers to countries where parent companies are resident have increased, although this process can be expected as the investments made in past decades reach maturity. In addition, remittances have slowed their growth rate and may fall if unemployment continues to increase in developed countries.[4] Remittances are estimated to have fallen by between 7.3 and 10.1 percent in 2009, while they grew at an annual rate of 15 percent in 2000-2008 (World Bank 2009c).

Third, with the aim of mitigating the effects of the international crisis, *net official flows have become positive again*, particularly for low-income countries. However, most developing

1 The fall has had a varied effect on the different regions. For example, it has been dramatic in the case of countries in Eastern Europe and Central Asia, at around 47 percent or US$221 billion. In Sub-Saharan Africa the fall was US$19.5 billion, equivalent to the sum received by the region in official grants for their public budgets.
2 This is the case of the group of emerging economies, which represent 90 percent of these flows. Many of them have been able to mitigate this fall by strengthening their domestic capital markets, but the possibility of greater refinancing problems cannot be ruled out as the effect of temporary stimulus packages implemented in these economies is gradually reduced.
3 The corporate sector had very favourable conditions before 2007, when the average rate for refinancing its debt was 6.4 percent. Interest rates increased to 11.5 percent at the end of 2009, and although they have fallen at the end of the first quarter of 2010, conditions are still difficult.
4 There is also evidence that families in developing countries have had to send remittances to members in developing countries as a response to the weak labour market (Lacey 2009).

countries are using domestic resources to deal with the crisis.[5] Middle-income countries have made use of temporary credit lines to mitigate the fall in private flows (multilateral banks and the IMF), but a major part of the resources used to strengthen their internal markets have come from domestic savings such as international reserves, public budgets and, in the case of some emerging countries, sovereign wealth funds.

In general, *official sources have shown limitations when it comes to tackling a financial crisis of this magnitude*. For example, the IMF intervened relatively swiftly, with its net flows becoming positive and rising from -US$2.1 billion in 2007 to US$10.8 billion in 2008, but it does not have sufficient resources to meet all the demand if more countries require finance (Eswar 2009). Similarly, multilateral banks have responded swiftly, but they are reaching the limits imposed by their capital allowances, so that they have opted in some cases for requesting capital increases from their member countries (section 3.2).

The financial crisis has shown, once again, the importance of multilateral development banks.[6] For example, the International Development Association (IDA), which is part of the World Bank, established a Crisis Response Window (CRW) to support 56 of the 70 IDA countries (those that do not export oil) with close to US$1.3 billion, although their financing needs in 2009 were calculated at $11.4 billion (Alexander 2010). Similarly, the African Development Bank was able to double its disbursements in 2009 to US$18.5 billion and to increase its commitments to US$32.9 billion as a result of the negotiations undertaken in 2008 to increase its resources (AfDB-11th replenishment). However, these increases in multilateral bank lending could complicate debt relief efforts in the poorest countries because of the additional levels of indebtedness they imply (Leo 2009). In this context, the poorest countries are at risk of not complying with the Millennium Development Goals due to financing shortfalls. For example, in order to comply with commitments assumed in Gleneagles (US$25 billion of net aid by 2010), contributions to Africa should have been increased by 17 percent per year to 2010, and this has not occurred (OECD 2009b).

In conclusion, *the reversal of private flows will not be fully compensated by public finance flows*. To reduce the financing gaps in developing countries over the coming years requires a combination of increases in domestic resource mobilization (domestic savings, and credit and capital markets) and enhanced mechanisms for accessing external resources, both private and official.

1.2 CHANGES IN THE INSTITUTIONAL COOPERATION CONTEXT

The international crisis came at a time when the international development finance system was undergoing a series of reforms. For example, the recent emphasis on results and development effectiveness has its origin in criticisms regarding the effectiveness of aid, and also in the interest of some emerging countries to influence the way in which the development cooperation system works. This has led to a number of initiatives being launched *to improve the effectiveness of international cooperation*. They include the Paris Declaration and the Accra Agenda for Action, the Millennium Development Goals, the

5 The fiscal measures to finance stimulus programmes in developing countries through debt issues have cost 4.4 percent of GDP in 2009, compared with 3 percent in developed countries.
6 Dang, Knack and Rogers (2009) have calculated that financial crises lead to a 20-25 percent reduction in aid (against the counterfactual case in which aid continues at its previous trend).

Monterrey Conference and the Doha Round, as well as other initiatives at both regional and sub-regional level.

However, these agreements are partial in nature, in the sense that they have not included the growing diversity of actors who participate in the international development cooperation system (section 2.2). In addition, some of these agreements confront the challenge of adapting to the changes in the institutional development architecture, such as the G-20's participation as a mediator in the reform of financial institutions, and the rise of urgent issues including the war against terrorism, global warming, the fight against drug traffic and the monitoring of capital flows to counter corruption and crime. These new challenges are in addition to a number of aspects in the system that have reduced the effectiveness of international cooperation:

- *Volatility of cooperation flows*. Flows of official development assistance (ODA) have on average been five times more volatile than GDP growth and three times that of exports for each aid recipient. This volatility has generated negative shocks in some poor countries. Using an analysis that measures the cost of volatility of the aid on the basis of the capital assets pricing model (CAPM), the deadweight loss may be 15-20 percent of the total of the aid and between 7 and 28 cents per dollar of ODA depending on the donor (Kharas 2008).

- *Fragmentation of cooperation and proliferation of donors.* In the 1960s, only 8 percent of the recipient countries received cooperation funds from 20 donors countries or more, while 40 percent of these countries had the support of fewer than 10 OECD / Development Assistance Committee (DAC) funds. By 1990, some 80 percent of recipient countries received cooperation from 20 donors or more, and the situation has not been different since 2000 (Bourguignon 2007). Currently, the system has 22 OECD donors, eight from the European Union who are not members of the DAC (non-DAC), eight OECD non-DAC and 18 non-DAC. There are also 236 cooperation institutions including international organizations, regional and sub-regional multilateral banks, multi-donor programmes, public-private associations and global NGOs (World Bank 2008).

- *Low predictability of cooperation flows.* The OECD carried out a study to estimate the percentage of country programmable aid (CPA) with a horizon of more than three years. It showed that only 51 percent of the aid was programmed in this way, ranging from 30 percent in the case of France to 75 percent in the case of the European Union (OECD 2007).

- *Parallel units, implementation costs and limitations to capacity creation.* As ain illustration, more than 700 projects were registered in Tanzania, a country that receives significant aid flows, managed by 56 parallel implementation units, and in which the government is estimated to channel only half of ODA flows. In 2005 Tanzania received visits from 541 donor missions and only 17 percent of these involved more than one donor (World Bank 2008). Although this is an extreme case, there are similar problems with other aid recipients. Knack and Rahman (2007) indicate that the greater the fragmentation of aid, measured as an index of the number of small projects carried out by a large number of cooperating agencies, the worse the bureaucracy in recipient countries. It creates incentives for hiring local professionals who could otherwise reinforce local management skills, and time is used up in coordination, monitoring and reporting activities.

The Paris Declaration and the Accra Agenda are core agreements in this context because they place the emphasis on *the effectiveness of cooperation*. But the assessments made have concluded that progress is still limited (Wood, Kabell, Sagasti and Muwanga 2008). Because of this, Birdsall and Vyborny (2008) have proposed a six-point agenda that emphasizes measures that may be implemented quickly and that depend on a political decision rather than changes in processes with greater administrative budgets, so they are highly cost-effective.[7]

The renewed importance of public sources of international cooperation flows makes *institutional reforms of bilateral and multilateral institutions increasingly urgent*. Multilateral institutions have responded more swiftly, but their financial contributions would not be sufficient without the support of bilateral agencies and of agreements to increase their resources, and especially their concessional windows. In this context, a new approach to the reform of cooperation has become increasingly critical. A systemic vision is now required to take into account new the presence of new actors, the changing emphasis in motivations for development cooperation, and the new financial instruments that are available.

1.3 NEW ACTORS IN DEVELOPMENT COOPERATION

The institutional reforms to increase the effectiveness of international cooperation have emphasized the changes in the international architecture largely due to the growing influence of “emerging donors" or "new donors". The concept of “new donors” is in general diffuse, as it includes a variety of institutions and actors whose contribution tended to be marginal within the framework of the international system for development cooperation. However, in the last decade, some of these new donors have increased their influence in the design of public development policies, and they are also altering the structure of financial and technical cooperation.

These new actors and forms of cooperation include large private foundations, sovereign wealth funds, international NGOs, private corporate donors, schemes for mobilizing resources of individuals and consumers, arrangements for South-South and triangular cooperation, and initiatives of emerging countries. Although several of these have been operating for some time, their resource mobilization capacities and their interest in exercising greater influence in global and regional issues have now become increasingly visible. The dynamism of these actors brings about competition and innovation, together with new perspectives, methodologies, instruments and forms of intervention, as well as additional sources for financing development. At the same time, it presents challenges with regard to the coordination of efforts and the need to avoid greater fragmentation, conflicts of interest, increased administrative costs and, in general, a reduction in aid effectiveness.

7 These points refer to the following: (i) untie aid, including technical assistance, as has been done by the U.K. government (ii) implement transparency standards on expenditure, based on regular reports, like those required by the countries’ governments; (iii) publish and disseminate the results of evaluations, including the methodologies, data and results, and report when these evaluations are not made; (iv) progress towards results-oriented programmes, e.g. "$100 per student that graduates from school" and give national authorities leeway to implement them; (v) create a platform that lets recipient countries hire technical assistance and access evaluations of suppliers and previous work; and (vi) make aid flows more predictable by probably outsourcing the work of distributing aid according to an agreed-upon timeframe to a third party, like a private investment bank.

In general, *the new actors are taking up an increasingly important role on the development financing and international cooperation* stage. This is because of a number of factors: the presence of new bilateral donors such as China and Venezuela (whose role in South-South cooperation is analysed in section 5); growing direct investment from emerging countries (from China, India, Brazil, South Africa, Mexico, Chile among others) in other developing countries, which has been associated with the growth of their capital markets (Saxena and Villar 2008); the more active role played by sub-regional multilateral banks (Sagasti and Prada 2006); the activation of agreements on regional monetary issues (Ocampo 2006); and the mobilization of resources provided by individuals (Hudson Institute 2009).

From the point of view of developing countries, a more diverse environment provides greater sources of finance and more options for strategic management of international cooperation (section 3.3). In a situation of financial crisis, this means that some countries benefit from greater diversity of options and financial instruments which they can make use of according to the conditions, approaches or facilities offered by each (see CEPAL 2009 for the case of Latin America). However, this diversity of sources and actors also implies that the new donors could erode the efforts of the international community to exercise pressure on policies and in questions of human rights, environmental protection and the sustainability of foreign debt.[8] In addition, this multiplicity of actors and their additional resources could generate problems for some of the poorest economies, which will not be capable of absorbing greater flows of official aid without a probable deterioration of their macroeconomic and competitiveness indicators (Gupta, Powell and Yang 2006).

In Sub-Saharan Africa, which has been a priority for traditional donors during the last two decades, China has replaced Western countries as the main trading partner and donor (Van Dijk 2009; Reality of Aid 2010), and India is also beginning to take up a position as an important actor in the region (Feigenbaum 2010). These examples represent a new trend in the growth of amounts mobilized and levels of influence of the new regional powers. Although there are significant difficulties in calculating the payments made by these new bilateral actors, in 2008 South-South transfers had reached US$13.9 billion, i.e. nearly 15 percent of the ODA of OECD-DAC countries (Reality of Aid 2010). To this amount we have to add around US$800 million from Russia (which is not normally considered as part of the South or developing world) in 2009, compared with only US$220 million in 2008 (Anishyuk 2010). In some cases, there is a significant amount of aid from countries that are not members of the OECD-DAC or emerging economies. This is the case of Arab oil countries such as Saudi Arabia, Kuwait and the United Arab Emirates, whose payments amounted to US$5.9 billion in 2008; in addition, the amounts from Venezuela are estimated at between US$1.1 billion and US$2.5 billion for the same year.

Within the group of new actors are those emerging donors whose motivations begin to transcend a global scope and exercise significant influence, while maintaining high levels of financial independence due to their capacity to mobilize domestic resources. For example, the sovereign wealth funds of emerging economies, such as those of China, South Korea and the Arab countries, which have ample resources, were key in providing liquidity to commercial banks during the start of the financial crisis and acted as stabilizing agents in the global

8 There is an intense debate on the role of new donors who provide loans and donations without conditions, particularly with the concept of non-interference in the internal affairs of recipient countries applied by countries such as Cuba, Venezuela and China when exercising their cooperation. In practical terms, this kind of intervention could undermine other initiatives such as those encouraging debt sustainability, as has been suggested is the case with the concessional loans by China to African countries (Reisen 2008).

economy. Thus the China Investment Corporation acquired assets from Morgan Stanley for US$5.3 billion, the Korean Investment Corporation together with the Korean Investment Corporation invested US$5.4 billion in Merrill Lynch, and the Abu Dhabi Investment Authority acquired US$5.7 billion of stock in Citigroup (Singh 2008).[9]

Non-governmental actors are also gaining ground within the international system of development finance, moving significant resources and developing links with traditional bilateral and multilateral actors. For example, the amount of aid from all the private U.S. funds, which includes religious organizations, private foundations and individual donations, was estimated at US$33.5 billion in 2005, greater than that reported for official U.S. development aid (US$27.9 billion) in the same year, although not all the aid reported in this figure corresponds to international development projects (the Reality of Aid Management Committee 2008; OECD 2010).

The relationship between these new actors and traditional actors, particularly bilateral and multilateral agents, is rather complex. Private philanthropic foundations play an increasingly important role in development finance. This is the case of the Bill and Melinda Gates Foundation, which mobilizes greater resources for health than most bilateral actors. Even foundations with a longer history, such as the Ford Foundation or the Kellogg Foundation contribute hundreds of millions of dollars a year (US$530 million in 2006 in the case of the Ford Foundation), while CARE and Catholic Relief Services mobilize around US$500 million a year on average). Although their influence is growing in some of these areas, their activities are not subject to the same scrutiny and assessment as traditional actors, as they are not conditioned by politics or alignments that govern the OECD donors, nor are their sector support strategies determined significantly by global agendas such as the Millennium Development Goals, for example (Chervalier and Zimet 2006).

It is also important to highlight the significant amount of ODA channelled through NGOs and complemented with the resources that various NGOs collect from civil society, individual donations and other sources. Between 2005 and 2008, total ODA resources channelled through NGOs by OECD countries reached an unprecedented level of nearly US$15 billion a year (more than 10 percent of total ODA). This size varied widely between countries: in Japan it was 1.7 percent in 2007, but some European countries distribute up to 60 percent of their ODA through these organizations. The World Bank has also provided a great deal of funds for NGOs since the 1980s. However, there are opinions both for and against the growth of non-governmental actors and their effectiveness in supporting development. On the one hand, as these actors are closer to the beneficiaries and have greater autonomy, they can be more effective and fairer when it comes to implementing the projects. However, Nunnenkamp and Ohler (2009) did not find any indications of greater effectiveness, and Nunnenkamp, Weingarth and Weisser (2008) found no indications of greater capacity for focusing on poorer countries. In fact, Fruttero and Gauri (2004) find indications of the use of strategic criteria and private interests when it comes to assigning the aid provided through NGOs.

Two of these new actors and modalities of aid are worthy of particular attention because of their potential impact on the mobilization of financial resources, skills transfer and influence to initiate reforms that improve the effectiveness of development cooperation. First, *South-*

9 However, their assets suffered a significant impact: by September 2009 they are calculated to have incurred losses of the order of $57 billion in their equity portfolio of $127 billion. In 2007, sovereign wealth funds were estimated to have managed assets of around $9.7 billion (Hagan and Johanns 2009).

South cooperation, which can help create a more horizontal relationship between donor countries and recipients on the basis of common interests and solidarity, respect for sovereignty in domestic affairs and, in many cases, efficiency due to lower relative cooperation costs between developing countries. Second, *corporate social responsibility* initiatives, which could enable activities, programs and resources financed by the private sector to be integrated into development cooperation programmes and projects (sections 4 and 5).

2. Elements of financing and international development cooperation: space for new actors

How can the actions and motivations of new actors be recognized and integrated into a broader framework? Three elements of a simple conceptual scheme to identify ways of reforming the international system of development financing would include:

- *Countries and institutions that provide international cooperation*: Their scope extends beyond the traditional OECD/DAC donors and includes emerging donors, the private sector (corporations, foundations, entities mobilizing the resources of individual citizens, organizations that channel the resources of capital markets) and the institutions that make use of public resources for specific ends, such as vertical funds and donor partnerships.

- *Financial instruments and mechanisms*. These constitute the link between providers and recipients of financial resources, classified in broad groups according to the modalities, also taking into account their capacity for leverage, predictability, conditionality and sustainability, among others. Appendix 1 lists these types of financial mechanisms, including those implemented to tackle the financial crisis of 2008-2009 and some proposed recently in various fora.

- *Countries that receive international development financing*: These are classified into four major groups in accordance with their capacity for mobilizing external and internal resources. This perspective contrasts with the practice used by the great majority of donors of using gross national income per capita as the main criterion for the eligibility and selectivity of recipient countries.

Three issues will be analyzed to assess the interactions of the three components and how these to a large extent explain the structures for financing developing countries: the motivations of the actors who participate in the system, as donors, recipients, or both; the set of financial mechanisms and modalities of cooperation available for developing countries; and a set of categories for classifying countries in accordance with their capacity to mobilize domestic and external resources, and how this capacity is related to the use of cooperation instruments and modalities.

2.1 MOTIVATIONS OF THE ACTORS INVOLVED IN THE INTERNATIONAL DEVELOPMENT COOPERATION SYSTEM

Development finance actors, initiatives and instruments are designed to respond to the resource needs of developing countries. However, decisions both to provide and to access finance go beyond strictly financial considerations and take into account other factors.[10] For

10 McGillivray and White (1993) review the various criteria that official donors have used to distribute aid to developing countries, analysing geopolitical, cultural affinity and linguistic criteria, among others. Sagasti and Alcalde (1999) extended the analysis of motivations of official actors in providing official development aid. A recent review of these motivations through official aid flows can be found in Hoeffler and Outram (2008).

example, donor motivations include: strengthening diplomatic links, expanding areas of economic influence, guaranteeing access to natural resources and increasing trade, as well as matters related to ideological compatibility, cultural and linguistic affinities and historical relations. For their part, recipient countries have a variety of motivations for making use of international financing and cooperation, such as: compensating for the scarcity of resources and low tax revenues, employing resources with greater flexibility than that allowed by domestic budget regulations,[11] using more effective and transparent management processes, acquiring knowledge and securing access to productive and management technologies, and complementing local initiatives with elements available in other countries.

The core question is whether the range of conventional motivations, which have been mainly studied for the cases of official aid and OECD/DAC donors, correspond to those of the broadest set of current actors operating in international development cooperation. Table 3.1 presents a list of motivations and donors and how it relates to schools of thought in international relations. However, some considerations that guide the analysis of donor and recipient motivations need to be re-examined in the light of recent changes in the context of development cooperation. In particular,

- the dichotomy between altruism and self-interest, which helped to simplify the analysis of motivations of official aid, considering primarily the point of view of donor countries, does not capture the diversity of current motivations for at least two reasons. First, this dichotomy functioned within the framework of bilateral relations between sovereign states. However, it loses precision when extended to other actors. For example, an increasingly large proportion of bilateral aid is channelled through NGOs, which have their own agendas that are not necessarily in line with those of the donor agencies. Second, there are increasingly more examples of altruistic objectives and self-interest motivations that combine, converge and crisscross. This is the case of CSR and socially responsible investment, which combine commercial and economic interests with altruistic and social benefit criteria. Strategic motivations of donor countries in a global world may even contain positive externalities that could be considered altruistic, as is the case of the provision of some global and regional public goods (financial stability, mitigation of climate change and regional integration processes, among others).

- It is increasingly clear that strategy and self-interest considerations also exist in the motivations of aid recipients. For example, Argentina and Ecuador prepaid their debts with the IMF[12] to avoid the associated conditionalities and to strengthen their internal political discourse against multilateral financial institutions, even at the cost of accessing more expensive sources of funds, such as issuing bonds in their domestic capital markets, or with a high opportunity cost, as resorting to the use of international reserves. Developing countries have now access to a broader range of donors and financial instruments, which allows them to act more strategically in managing their international cooperation relations. However, countries with lower levels of development, such as least-developed countries (LDC), fragile states and those in a situation of humanitarian or post-conflict disaster, experience greater restrictions in terms of the range of options available (UNCTAD 2009).

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11 Sagasti, Prada and Espinoza (2006) present evidence of this kind of motivation for the Peruvian case.
12 "Ecuador, Argentina and the IMF: The price of pride", The Economist, 10 September 2009.

TABLE 3.1 Motivations for engaging in development cooperation initiatives

General orientation of motivations	**Tend more towards altruism** (concern for recipient interests and objectives)	**Shared or mixed interests** (in the bilateral, regional or global dimension)	**Tends more towards self-interest** (strategic donor interests and objectives)
Specific donor motivations	• Attention to recipient development objectives (sub-national, national or international plans) • Reward institutional, political, social and economic performance • Provide humanitarian aid and attention to emergencies	• Strengthen economic interdependence • Promote processes of integration (economic, commercial, political) • Attention to problems of a global nature • Promote the stability of international systems	• Promote strategic and security interests • Achieve support for political agendas • Promote the donor's economic and commercial interests • Carry out religious proselytizing
Outlook for international relations explaining this orientation	• ***Political idealism*** (essentially altruistic and pacific nature of the actors, and of their relations)	• ***Liberalism*** (possibility of working together and shared values, importance of institutions) / ***complex interdependence*** (incorporates non-state actors)	• ***Realism*** (emphasis on conflict, urge to increase the power and security of countries) / ***neo-realism*** (incorporates the importance of the system, beyond that of the states)

- Countries in transition from recipient to donor status present conceptual challenges for categorizing their motivations. Brazil, Russia, India and China (the BRIC countries) aspire to a varying extent to act as global powers, so their cooperation programmes as donors reflect this attitude. But this is also the case with countries that have an influence within their regions, such as Indonesia, Turkey, South Africa, Mexico and Venezuela, which together with the BRIC countries aim for greater participation in the system of international cooperation and finance, both through South-South cooperation and through multilateral initiatives including their involvement in sub-regional banks and in regional integration mechanisms.

- Countries providing and receiving cooperation do not have a single set of motivations, even when the national government is the predominant actor. The case of OECD countries shows that public agencies (both at the national and, increasingly, at the sub-national levels) and the NGOs of the same donor country have different agendas and practices, not always complementary and consistent, even with respect to the beneficiaries of a single recipient country. For example, the U.S. government is an influential actor in development policies through its bilateral programmes in the health sector. But the Gates Foundation, based in the U.S. and with annual donations of US$1,220 million dollars for health programmes in 2007, is possibly more influential than the U.S. government in some fields of health-focused international cooperation. It has its own agenda, which does not necessarily coincide with that of the U.S.

government. In particular, some private foundations and corporate social responsibility programmes have found it difficult to align themselves with, or to complement, their countries' official aid programmes.

As a result of the financial crisis, it is possible to anticipate three kinds of effects that could configure new trends in the motivations of the growing variety of actors in the system. First, the emerging economies have been able to show their growing influence on development cooperation issues, as well as their capacity to mobilize resources to help relatively less developed countries and to consolidate South-South cooperation.[13] Second, the crisis has challenged the paradigm that private financing would be capable of replacing official aid. As a result it is possible that solidarity and altruism motivations will be reinforced, particularly in the case of the most vulnerable countries that have suffered the triple impact of the financial crisis, the effects of climate change and the increase in food prices. Third, pressure on public budgets in developed countries will make it difficult for them to increase resources for official development assistance, especially when some of the temporary flows that contributed to an increase in the volume of aid during the 2000s are likely to dwindle in the medium term (including support for the reconstruction of Iraq and Afghanistan, and debt relief with bilateral creditors).

2.2 RECIPIENT COUNTRIES AND THEIR CAPACITY TO MOBILIZE DOMESTIC AND EXTERNAL RESOURCES

Bilateral aid agencies and multilateral development banks generally use average national income per capita as the main criteria for allocating their different types of financial resources to recipient countries. For example, grants and concessional loans are targeted at low-income countries; middle-income countries have access to a variety of combinations of grants, soft loans and regular loans; while regular loans and private investment guarantees are channelled to middle-income countries.

However, this classification does not take into account the diversity of situations of countries that have similar per capita income and, in particualr, developing countries are becoming increasingly differentiated according to their capacities to mobilize domestic and external resources. This can be seen, for example, by comparing the situation of some middle-low income countries according to World Bank criteria, i.e. those whose gross national income (GNI) per capita was between US$986 and US$3,855 in 2008. This group includes the following: China, with a GNI per capita of US$2,980, which received US$147 billion in FDI and had a level of domestic savings of close to 56 percent of GDP; Jordan, with a GNI per capita of US$3,130, which received FDI of US$1.9 billion and has levels of domestic savings of -13 percent of GDP; and the Côte d'Ivoire, with a GNI per capita of US$980, which received US$430 million in FDI and has a rate of domestic savings of 14 percent of GDP. In other words, countries with similar incomes present very different features in terms of their capacity for domestic saving and investment, export levels, FDI and net international reserves, among other indicators of resource mobilization.

This suggests the need to develop indicators based on the capacity to mobilize domestic and external resources, with the aim of better adapting the range of financial instruments used in

13 For example, four countries (China, South Korea, Egypt and Turkey) recently graduated as recipients of concessional loans from the International Development Association (IDA) participated actively in the restoration of resources in 2007 (IDA-15) and are expected to increase their contribution in the IDA-16 process to mid-2010.

aid and international financing to the needs of the different recipient countries. This section presents an updated and extended version of the "index of resource mobilization capacity," based on the work of Sagasti, Bezanson and Prada (2005). It makes it possible to identify various categories of recipient countries according to their possibility of accessing external resources and generating domestic resources (see Appendix 2). To do this, we have used the statistical method of principal components, which allows information from a variety of indicators to be integrated in order to identify the factors that best explain their combined variation. In this way it is possible to "compact" the information from various indicators into only a few components (ideally a single factor) that represent the main characteristics of the population studied, in this case the capacity to mobilize the resources of developing countries. A number of indicators were initially identified for this purpose. In the case of *mobilization of internal resources*, a country has greater capacity when it has more domestic savings, tax revenues, capital investment, domestic lending for the private sector, and a lower fiscal deficit. In the case of *mobilization of external resources*, a country has greater capacity when it can attract more foreign direct investment, there is a greater level of exports and imports, more international reserves and lower levels of foreign debt, as well as when it receives a greater flow of official development aid.

For reasons of availability of information[14], particularly for those countries with weaker statistical systems, the following indicators were chosen for calculating the two indices: (1) Gross fixed capital formation, domestic credit to the private sector (both as a proportion of GDP), and gross national income per capita for the *index of internal resource mobilization*[15]; and (2) levels of foreign direct investment, volume of exports of goods and services, and net international reserves, all expressed in logarithms to reduce dispersion, for the *index of external resource mobilization*. The figures used for each indicator correspond to the average for the years 2006-2008.[16]

The principal component analysis allowed identifying four main groups of countries according to their resource mobilization capacities (Graph 3.1).

- Countries with a *high capacity for domestic and external resource mobilization* (both indexes have values over 0.5).[17] These are economies that are integrated in the international markets and receive high levels of FDI. In addition, they have well-developed domestic capital markets to finance the private sector and enough public resources to cover the majority of their current expenditures and investment needs.

14 The index is calculated for the 110 countries that have sufficient information. About 80 percent of these countries have data for all the indicators, and the remaining 20 percent have less information for some of the indicators in each index. It is possible to make a calculation of the relative position of these countries with at least one indicator for each index, although less precisely.

15 Initially it was attempted to include a domestic savings indicator (as a proportion of GDP). However, the use of this indicator presented two problems: lack of information for many countries, which reduced the number of countries with information available for calculating the index of domestic mobilization; and the high variability from year to year, which distorted the calculations. For this reason gross national income per capita was used as a proxy variable. It has a very high correlation to internal domestic savings (more than 80 percent), is more stable and information for it is available for a greater number of countries.

16 Averages were taken for three years to avoid the effect of atypical years or large variations that could distort the calculation of the index and to give greater stability (lower year-on-year variation). The calculation of the index through the main components allows the absolute values to be determined and ordered for countries in accordance with the capacity for mobilizing resources, and to monitor the process over time. For comparative purposes the indexes were calculated for the years 2000-2002 and 2006-2008 (see Appendix 2).

17 The index shows a graduation between countries of high and low domestic and external resource mobilization and the value 0.5 differentiates two main categories for each index.

Emerging economies such as China, South Africa, Russia, Brazil, Mexico and Chile belong to this category.

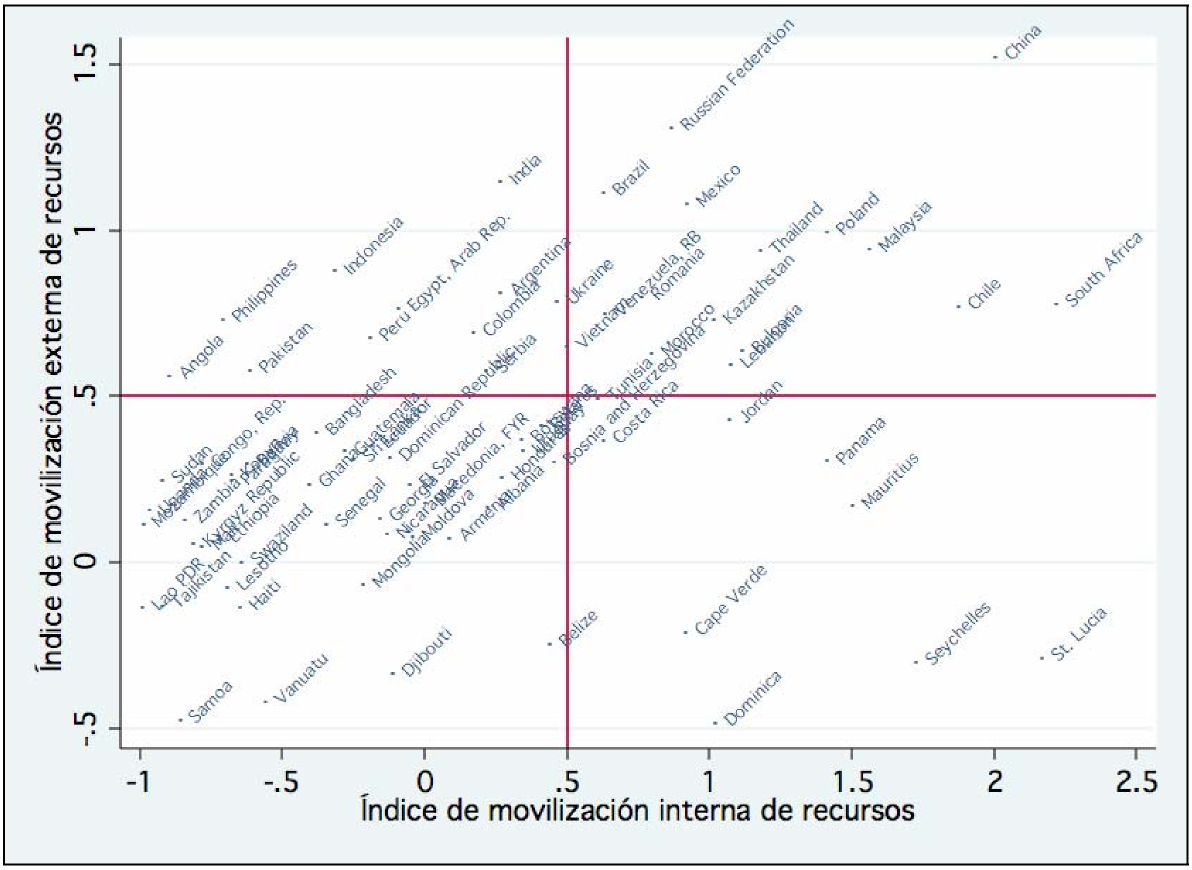
- Countries with a *high capacity for external resource mobilization and a lower capacity for internal resource mobilization*. In general these are countries of intermediate levels of development, with small domestic economies that are open to international trade and foreign investment. Among them are exporters of commodities that can attract external financing, but whose capacity for domestic mobilization is limited by their low levels of savings and investment. This category includes Peru, Angola, Indonesia, Pakistan and India.

- Countries with a *low capacity for external resource mobilization and a greater capacity for internal resource mobilization*. This is generally the case of small economies in which the public sector is an important actor and that have high levels of domestic savings, but that have not been capable of attracting external investment or trade flows as much as average emerging economies. It is the case of countries such as Costa Rica, Uruguay, and smaller economies such as Grenada and the Seychelles.

- Countries with a *low capacity for internal and external resource mobilization* (both indices with values lower than 0.5). These are poorer countries with a lower relative level of development, whose links with international markets have not been developed yet and are dependent on bilateral and multilateral cooperation flows. In this category are countries from Sub-Saharan Africa, Paraguay, Bolivia, Ecuador, Haiti and Bangladesh, among others.

The financial crisis could have changed the resource mobilization capacities of some countries and their position in for the classification scheme, but there no consolidated data for 2009 is yet available. However, even so, it is possible to appreciate some of the risks associated with the effects of the crisis. First, economies with a high capacity for external resource mobilization that depend on external flows to finance the private sector, especially through security issues in international capital markets or credit lines from commercial banks, may have difficulties if the international economic conditions deteriorate in the medium term. The corporate sector in these economies has used debt to finance its investments, and has to refinance its loans as they mature. It is estimated that the corporate sector of the emerging economies has to refinance debt for a value of around 1 billion US dollars in 2010 (World Bank 2009b). This need could lead to serious financial problems if interest rates rise sharply, international capital markets reduce their levels of intermediation, or the liquidity of international commercial banks is restricted.

GRAPH 3.1. Developing countries classified by their capacity
to mobilize domestic and external resources (2006-2008)



[Vertical axis] Index of external resource mobilization
[Horizontal axis] Index of internal resource mobilization

In addition, the impact of the financial crisis on poorer countries has led to the expansion of concessional windows of multilateral banks, including regional and sub-regional institutions (UNCTAD 2009). However, even though the expansion of multilateral sources of funds has focused on countries with a low capacity to mobilize resources, it is also the case that contingent credit lines have been made available to countries with greater resource mobilization capacities. Both of these initiatives would be negatively affected by increased volatility and turbulence in global financial markets, or by a sudden contraction of international financial flows.

The classification based on the capacity for resource mobilization allows a link to be established between the use of certain kinds of financial instruments and modalities of cooperation, and the country categories. This information allows identifying some trends:

- The *supply and use of financial instruments tend to diversify over time*, responding to changes in the environment, progress made in the economies and the introduction of financial innovations. This tendency can be clearly appreciated in the group of new actors providing international cooperation (emerging countries, private firms, foundations, public-private associations) and in the different kinds of recipient countries. Initially, some new donors focused on providing donations and technical cooperation to those recipient countries with the lowest capacity to mobilize resources, whether external, internal or both. Increasing use, however, is being made of a broader range of financing and cooperation instruments by both parties. For example, some emerging donors are using instruments supporting foreign trade, guarantees for private investments, concessional loans and turnkey projects, among others, to finance initiatives in countries with a lower resource mobilization capacity, and particularly from external sources. Other donors are exploring instruments that combine the power of innovation of capital markets, such as securitization of future aid flows to channel resources towards countries with a lower capacity for domestic and external resource mobilization. Meanwhile, donors in the private sector are using new mechanisms to mobilize additional resources, including guarantees, risk mitigation insurance, their own corporate social responsibility initiatives or those that complement the government social projects, support for reconstruction and assistance in the case of humanitarian disasters and "public works for taxes" schemes, particularly in countries with a lower capacity for external resource mobilization.

- *As capacity to mobilize resources increases, access to sources of financing diversifies and expands* For example, emerging economies have strengthened their domestic capital markets, issued bonds on international markets, increased their foreign direct investment inflows and also obtained access to instruments that mitigate the investment risks. At the same time, they can access resources provided by the trust funds of international bodies for specific purposes, such as those designed to address the impact and adaptation to climate change and the financing of health programmes. In contrast, those economies with a reduced capacity for mobilizing external and internal resources are more dependent on official development aid and have access mainly to concessional resources, budget support and donations from public and private sources.

- Various countries with *greater capacity for financial resource mobilization are making the transition from recipients to donors* and becoming increasingly involved in South-South cooperation actions. This is the case of the BRIC countries and other emerging economies, which have begun to expand their influence at the regional and sub-regional level. These countries have “graduated” from some modalities of financing like concessional resources and donations from multilateral bodies and the United Nations. However, it is more a case of *gradation* than graduation, as these countries continue to use resources from bilateral and multilateral sources with strategic aims, in accordance with their interests, although to a more limited extent. For example, some of them have strengthened their capital markets with the support of multilateral banks and by making use of instruments to reduce the costs of issuing local-currency denominated securities. This has allowed them to increase their domestic credit, develop microfinance and extend banking penetration. Similarly, some instruments of bilateral and multilateral sources are used flexibly to finance pilot projects and pre-investment studies, and also to cover additional costs in which companies incur, for example to progress in the use of clean technologies and environmental conservation.

- *Resource mobilization capacity has little relation to average per capita income levels.* Here the case of average-income countries is illustrative. Despite being within the same category, they show major differences in their resource mobilization capacity and thus their capacity to access different sources of finance and modalities of cooperation. Despite having sectors of their economy that are very integrated in the international markets, many of these countries have a high level of inequality in the distribution of income and a significant percentage of their population in a situation of poverty. This is the case with various countries in Latin America and South-east Asia, which do not have the capacity to mobilize domestic resources to finance growth and reduce poverty and resort to regular loans from multilateral and bilateral sources. Other middle-income countries also make use of resources from the United Nations, the private non-profit sector and even concessional sources for the same reasons.

- The *categorization of developing countries based on their capacity to mobilize resources enables to identify the most adequate instruments and modalities of cooperation considering* their specific situations. As well as using instruments to mitigate investment risks (both in the private domestic sector and for foreign companies), countries with greater capacity for mobilizing internal and external resources can use a variety of combinations of instruments and sources of finance. For example, CSR and private foundation resources can be assigned to small-scale experiments with new approaches, procedures and initiatives. Those that are most successful can then be repeated or extended in scale by using resources from bilateral or multilateral loans, or issuing securities on the international markets. In the case of countries with a low internal source mobilization capacity and a high external mobilization capacity, it is essential to promote the mobilization of additional domestic resources. South-South cooperation initiatives, exchange of experience and technical assistance programmes, as well as triangular cooperation schemes, can all play a key role in the creation of the capacity to mobilize domestic resources in this type of country.[18] In the case of the category of countries with a high internal resource mobilization capacity and a low external resource mobilization capacity, the main challenge is how to increase direct private investment flows. Risk mitigation instruments for foreign investment are key in this case, and the experience of multilateral banks and other developing countries can contribute significantly in this respect. Finally, countries with low external and internal resource mobilization capacities require a combination of instruments that channel financing at low cost (loans at concessional conditions and donations), but at the same time contribute to the creation of internal resource mobilization capacity.[19]

The classification of developing countries according to the income base per capita does not reflect the use that each country makes of the instruments and modalities of cooperation they have access to. It also conceals the profound differences between countries with similar categories of income. Thus, we should *explore the possibility of transcending the use of income per capita as a criterion for classifying countries receiving international financing and cooperation* and move towards indicators that better reflect their capacity to mobilize resources.

18 In the case, for example, of the IDB Programme to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness (PRODEV), which invests in enhancing the capacity of the public sector in areas such as government purchasing, national systems of public investment, e-government, macroeconomic handling and management of international cooperation, among others. The core idea of this support is that after the process of improvement, the countries can access other sources, such as regular IDB sources in this case, to complement the implementation of the enhancement programme.

19 The UNDP provided support for a group of countries in Sub-Saharan Africa so that risk-rating agencies could draw up a profile and classify these countries, thus enabling them to issue sovereign bonds on the capital markets that could also be traded on secondary markets. These kinds of low-cost interventions create the conditions for these countries to access additional sources of finance.

2.3 FINANCIAL INSTRUMENTS AND MECHANISMS FOR CHANNELLING INTERNATIONAL COOPERATION TO DEVELOPING COUNTRIES

The financial mechanisms and modalities of cooperation give a specific form to the cooperation initiatives between donors and recipients. Each of these instruments has explicit or implicit rules of application, such as criteria for eligibility and access, conditionality, payment modalities, governance mechanisms, thematic areas, availability of resources, capacity to mobilize additional funds (leveraging) and complexity and requirements of administrative capacities. Table 3.2 presents a list of these instruments grouped together according to the type of instrument and category of actor. By analysing these instruments we can identify some of the trends that are worth highlighting.

First, although the size of the resources mobilized is different, the modalities of cooperation between Development Assistance Committee (DAC) countries and bilateral emerging donors are very similar. For example, China and Venezuela have established concessional loan programmes through their development agencies and public companies.[20] At the same time, following the financial crisis, some emerging donors have established contingency credit lines to support the finance of foreign trade, and others have supported South-South investments through guarantee and finance schemes similar to those of the Overseas Private Investment Corporation (OPIC) of the United States government, or the export credit facilities of the United Kingdom. In addition, countries such as Brazil have expressed their support for instruments to reduce carbon emissions and deforestation (REDDs). However, the new bilateral donors and those who participate in South-South cooperation have continued to use mainly the channels of technical cooperation, transfer of experts and provision of study and training fellowships.

Second, multilateral institutions have been more dynamic in terms of innovation in financial mechanisms (Grishankar 2009). To a large extend this is a result of their privileged position in the international system of development financing, where they function as a mediator between private sector initiatives, the capital markets, official donors and governments in developing countries (Sagasti and Prada 2004). In this way, their contribution to the range of instruments for mitigating and managing private investment risk in developing countries, above all for the provision of infrastructure, has been very important. For example, public-private associations have mobilized resources of private investors through concessions, structured finance, and the use of derivatives and risk mitigation guarantees (political, foreign-exchange, interest-rate, systemic). In addition, the support of these institutions has been key in strengthening the domestic capital markets, for example through the issue of local-currency bonds and the provision of information and technical assistance to regulatory bodies.[21]

20 In the meting between China and Africa in November 2009, China undertook to grant loans at low interest rates worth $10 billion over the following three years. This is in addition to a prior commitment for half of this amount in 2006. Equally, Venezuela supports various Caribbean countries with the PetroCaribe programme, which provides concessional loans and energy at subsidized prices.

21 The value of the instruments in circulation from domestic bond issues in 20 emerging economies increased from $2.9 billion to $5.5 billion between 2005 and 2009. In 2008, eight countries (Brazil, China, India, Malaysia, Mexico, South Africa, Thailand and Turkey) represented 90 percent of the total domestic-currency issues (World Bank 2009a, p. 77).

TABLE 3.2. Types of financial instruments for international cooperation[1]

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					

***Note:*[1]** *Bilateral DAC donors represent the traditional official aid donors, in contrast to emerging donors in the category of "other donors", which also includes South-South cooperation activities. In the case of multilateral actors, a division has been made between the MDBs (the World Bank and regional development banks – RDBs) and the sub-regional development banks (SRDBs), as the latter are examples of South-South cooperation. Finally, the global category implies a broad set of actors of various categories, such as multi-donor programmes in the case of specific-purpose funds or facilities, and consumers in the global market in the case of international taxes.*

Third, the entry of new actors, particularly in the non-profit private sector (made up mainly of foundations and organizations that channel individual donations) has benefited some sectors and thematic areas. For example, the intervention of the Bill and Melinda Gates Foundation has helped mobilize additional resources from multilateral banks, United Nations organizations, bilateral institutions and other donors to establish specific-purpose funds in the health sector (Lane and Glassmand 2009). Over a decade and a half, this has led to a quadrupling of resources targeted for this sector, to close to US$22 billion in 2007 (OECD 2009a). At the same time, financial innovation has been fostered through the design of mechanisms such as the purchase of medicines and patents to create or strengthen markets that have problems of asymmetrical information (for example the AccessRH, PG4Health, NetGuarantee and Affordable Medicines Facility for Malaria programmes). Something similar occurs with other foundations, such as the Moore Foundation and the World Wildlife Fund, which are providing financial resources to ensure a sustainable flow of resources for environmental conservation programmes.

Two other sectors in which it is possible to detect the presence of new financial mechanisms for mobilizing resources from additional sources are mitigation and adaptation to climate change and humanitarian assistance for relief from natural disasters. In the former case, within the framework of the Kyoto Protocol and the Copenhagen Accord, the focus is on internalizing the negative externalities associated with carbon emissions and establishing limits for these emissions by creating markets that facilitate trading in emission permits and help determine their price, as well as boosting the market in emission reduction certificates (CERs) that provide incentives for private investment in clean technologies. In addition, various bodies have established trust funds with the specific aim of channelling funds for such adaptation and mitigation (UN-DESA 2009, Prada 2009). In the case of aid for relief from natural events that turn into disasters, the response to recent tragedies such as the tsunami in South-East Asia and the earthquakes in Haiti and Chile has allowed the channelling and consolidation of donations from various sources, both official and private and individual,[22] by using means such as information technologies, social networks and volunteer contributions to common funds.

Fourth, there is a trend towards using financial market innovations (and the private sector in general) to channel and implement international cooperation programmes. In addition to the instruments for creating and supporting markets, and for mitigating and managing risks, there are those that combine both economic and social returns. For example, CSR initiatives are frequently complemented with schemes for socially responsible investment, which encompass the activities of investment funds that support firms that comply with environmental and social standards, provide start-up funds and equity investments for social investment projects, and that securitize future financial flows to guarantee liquidity in cooperation projects.

Some of these instruments may channel resources to the beneficiaries of cooperation programs and projects at a lower cost. For example, conditional transfer programmes, grants and donations, microfinance operations and remittances benefit from deepening of financial markets and greater banking penetration in developing countries. The presence of bank branches in remote locations means that beneficiaries can be reached directly, for example through the issue of credit and debit cards that do not generate additional costs of providing aid in kind and also help consolidate local financial markets.[23] Some innovations also allow donors to channel resources directly for certain purposes, as happens with "green" credit cards that set aside a small percentage of each transaction to support the development of clean technologies and (PRODUCT) RED, where the associated companies channel a percentage of their sales to social investment projects.

22 In the case of individual donations for development purposes, information technologies have allowed resources to be channelled through innovative mechanisms such as Kiva.org, MyC4.com, Babyloan and Wokai. There are also person-to-person mechanisms, where organizations allow individuals to channel their resources to people in developing countries (whose cases are presented so that potential donors can choose them) for productive projects, direct donations and specific programmes (breakfasts, meals, payment for education). However, these programmes may be controversial, as it is argued that rather than an innovative mechanism, these are marketing strategies to collect development funds (Roodman 2009).
23 “Payment cards and the poor: A plastic prop”, The Economist, 20 August 2009.

The financial crisis affects these trends in the use of cooperation instruments and modalities in various ways. The first impact is through the reduction in available resources from donors in both the private and public sectors. The pressure to reduce public spending, the opportunity cost for private companies and the restrictions facing individual donors will particularly affect those instruments that depend on voluntary contributions, which will see a drop in the resources channelled in the immediate future.

Second, during the financial crisis various contingency credit lines and implicit and explicit public guarantees were made available for developing countries to sustain trading operations and the capital markets. In addition, there are the negotiations for the increase in the capital of multilateral institutions[24] and the increase in resources for trust funds with specific objectives. This may represent the consolidation of a trend in the increase of public sources for mobilizing financing and international development cooperation. Although in the short and medium term this is important for mitigating the effects of the crisis, returning to the path of economic growth and consolidating achievements in social matters, the experience of recent years indicates that public sources are important and more effective to the extent that they can act as catalysts for resources from a variety of sources and not only the public sector. It is therefore important to maintain the capacity to innovate in the design and implementation of financial instruments, particularly those that involve private entities in development initiatives.

24 The IMF increased its capital available through the issue of special drawing rights (SDRs) by more than $250 billion, and at the end of March 2010 an increase of 70 percent to $170 billion was approved in the capital of the Inter-American Development Bank. This will allow annual loans to the region of US$12-15 billion on average, compared with an average of US$7-9 billion in previous years. The replenishment of IDA-16 is in the process of negotiation. An increase is expected in available resources of not less than 30 percent. At the same time, discussions are underway to increase the capital of the World Bank, the Asian Development Bank (the G-20 has initially undertaken to increase the capital by 200 percent) and the African Development Bank. At the sub-regional level, the Andean Development Corporation (CAF), whose operations are no longer limited to the Andean region, increased its capital by US$2.5 billion in 2009, as well as carrying out a share conversion to incorporate Argentina, Brazil, Paraguay and Uruguay as full members (US$1.5 billion extra). In addition, negotiations have concluded to establish a regional fund in Asia to operate in a similar way as the IMF to provide liquidity for temporary balance of payments problems as well as managing reserves and swaps between local and international currencies. This fund has been established for countries of the Association of South-East Asian Nations (ASEAN), China, Japan and South Korea. It has resources of more than US$120 billion and was approved in mid-March 2010, as part of the Chiang Mai Initiative Multilateralization Agreement (CMIM).

3. South-South Cooperation (SSC)

Since the Buenos Aires Action Plan was approved at the end of the 1970s, establishing the main general lines for technical cooperation between developing countries, SSC has been defined by its capacity to transfer experiences and knowledge between countries in a "horizontal" fashion, in contrast with the "vertical" technical cooperation between developing and developed countries.[25] SSC covers various dimensions, from political commitments, joint negotiations and trade integration treaties, to collaboration agreements on specific subjects (transport, education, monetary policy, working conditions, pension systems, science and technology). It is executed through various modalities (financing, exchange of experts, technical assistance, information on best practices and increased capacity for joint negotiation). Box 4.1 sums up a recent report that compiles 110 case studies and demonstrates that SSC involves a broad range of motivations, instruments and sectors (TT-SSC 2010).

A group of countries in Africa and Latin America promoted a consensus to include the SSC mechanism as part of the agreements within the framework of the Accra Agenda for Action (AAA). Three areas of work were established (paragraph 19 of the AAA): (1) adaptation of the principles of effectiveness of aid to the SSC; (2) enrichment of the debate on effectiveness with a systematization of the experiences; and (3) identification of the areas where North-South cooperation is complemented with SSC. This has led to the activation of a variety of regional mechanisms that should converge to avoid duplication of efforts. For example, organizations such as the Economic Commission for Latin America and the Caribbean (ECLAC), the Ibero-American General Secretariat (SEGIB), the Organization of American States (OAS), the United Nations Development Programme (UNDP) and various multilateral banks, have established programmes and facilities to promote triangular and South-South cooperation. From this point of view it would appear that SSC could become a core idea in the international development cooperation system.

BOX 4.1. A broad range of experiences in SSC and triangular cooperation

In March 2009 the Colombian government proposed the creation of an initiative to reduce the information gap in SSC experiences, as part of the OECD Working Group on Aid Effectiveness. The response to the call to document experiences was launched in November 2009 had a significant impact, as 110 case studies were compiled and presented in the High-Level Meeting for South-South Cooperation and Capacity Development (Bogota, 24-25 March 2010). The report points to various trends based on an analysis of the case studies:

- *The principles of cooperation effectiveness are broadly shared in the experiences registered.* Most cases explicitly refer to the Principles of the Paris Declaration on aid effectiveness, as there is the idea that SSC is an instrument that has advantages over other forms of development cooperation. For example, the report says SSC is characterized by: greater confidence between peers, respect for countries' internal processes, the design of projects generated by common interests and specific demands, the use of regional cooperation mechanisms that help scaling and by relatively lower technical cooperation costs than with other forms of cooperation.
- *Importance of making the experiences known.* There are still no specific definitions on what constitutes SSC, nor are there standard ways of quantifying financial contributions or contributions in kind. However, the

25 For a review of the history and motivations of this kind of cooperation, see Sagasti (2006).

number of cases complied in only the six months following the call suggests that there are many more SSC experiences that should be registered and made known.

- *The range of subjects, experiences and modalities is very broad* SSC is characterized by the use of a broad range of instruments such as: triangular cooperation, the establishment of financial facilities for the exchange of experiences (mainly through the offers of bilateral and multilateral donors), the exchange of experts, establishment of missions for technical cooperation, etc.
- *Regional platforms are very important.* SSC is characterized by having a strong regional emphasis, and sub-regional and regional banks, regional cooperation bodies and framework agreements play a key role in cooperation between developing countries.

Source: Task-Team on South South Cooperation (2010), *Boosting South-South cooperation in the context of aid effectiveness: Telling the story of Partners involved in more than 110 cases of south-south and triangular cooperation*, preliminary draft. The experiences are posted on: www.south-south.info

SSC has a broader range of motivations than traditional aid schemes. In addition, to strategic, political, commercial and solidarity questions, it also covers ideological and cultural affinity matters as well as pragmatic considerations referring to specific shared interests at regional levels, such as shared river basins, natural cross-border resources, joint vulnerabilities, among others.

Despite the obvious benefits of cooperation between developing countries, *it is necessary to move towards a more balanced vision of SSC*. This type of cooperation has often been seen from a rather idealistic perspective, but at first sight it would appear to suffer from the same limitations and confront the same challenges as other forms of development cooperation. SSC has often been defined in ideological terms and the contrast with traditional bilateral North-South cooperation, whereas in fact it is an additional mechanism for solving specific problems that countries can use according to their specific interests.

3.1 CAPACITY OF COUNTRIES IN THE SOUTH TO MOBILIZE RESOURCES

Developing countries are increasing the level of resources they allocate to South-South cooperation. Although there are no precise and consistent data available, estimates from the Economic and Social Council of the United Nations (ECOSOC, 2008) and Reality of Aid (2010) suggest that ODA between countries in the South has increased in a range of US$9.5-12.1 billion in 2006 to US$12.0-13.9 billion in 2008. This is equivalent to between 9.9 and 11.4 percent of the contribution in ODA of the members of OECD/DAC in 2008. The financial resources assigned to South-South cooperation show a high level of concentration: the three main donors (Saudi Arabia, Venezuela and China) provide about 72 percent of SSC funds, and more than 90 percent corresponds to the seven main contributors, that in addition to those already mentioned include Turkey, South Korea, India and Taiwan (see Table 4.1).

TABLE 4.1. Selected South-South ODA flows
($ million, 2008)

Country	Amount	% GDP	% total SSC
Saudi Arabia/3	5,564	1.5/a	40.0
Venezuela/1	1,166->2,500	0.71-1.52	18.0
China/1	1,500-2,000	0.06-0.08	14.0
South Korea/3	802	0.09	5.8

Turkey/3	780	0.11	5.6
India/2	568.6	0.05	4.1
Taiwan/3	435	0.11	3.1
Brazil/1	356	0.04	2.6
Kuwait/3	283	---	2.0
South Africa/1	194	0.07	1.4
Thailand/3	178	---	1.3
Israel/3	138	0.07	1.0
United Arab Emirates/3	88	---	0.6
Malaysia/1	16	0.01	0.1
Argentina/1	5-10	0.0025-0.0050	0.07
Chile/1	3-3.3	0.0026-0.0029	0.02
TOTAL	**12,076-13,915.9**		

Source: The Reality of Aid (2010) p. 6

Notes: /a – GDP data used are those for 2007; /1 ECOSOC, Background Study for the Development Cooperation Forum – Trends in South-South and triangular development cooperation, April 2008 – Table 2; /2 - Indian Ministry of External Affairs Annual Report 2008-2009 – Appendix VII; /3 – OECD/DAC, 2009 – Table 33 (Statistical Annex of the 2010 Development Cooperation Report)

Section 3.2 above presented a classification of countries according to their capacity to mobilize domestic and foreign resources, and pointed out that location of the countries in each of the four categories is associated with access to and use of different types of cooperation instruments.

One set of cooperation mechanisms is used within the first group of countries (high domestic and external resource mobilization capacity). They cooperate horizontally for three main aims: (1) to learn and exchange experiences; (2) to increase their negotiating capacity at the international and global levels; and (3) to join efforts to cooperate with less developed countries. For example, the group of BASIC countries (Brazil, South Africa, India and China)[26] is committed to fostering two-way negotiation mechanisms within the United Nations Framework Convention on Climate Change. Another example is the IBSA group of countries (India, Brazil and South Africa), which work through a trilateral cooperation alliance established in June 2003 via the Brasilia Declaration, and aim to make their voice heard on global issues and create links in various cooperation areas with less developed countries.[27]

A second set of cooperation mechanisms is between countries in the first group and those in other groups that have lower capacities for external and domestic resource mobilization. China has increased its cooperation as it has grown economically. Until 2008, China had provided aid to more than 160 countries around the world in various sectors and modalities including the following: individual projects in infrastructure, industry, agriculture, transport, telecommunications, education, health and other areas; exchange of experts for technical

26 The BASIC countries represent jointly almost 50 percent of the population of developing countries and just over 40 percent of world population. In 2005 they generated 43.1 percent of GDP in developing countries. This accounts for less than 25 percent of global GDP in international dollars using purchasing-power parity (Nayyar 2008: 3).

27 IBSA cooperates through specific projects and alliances with less developed countries. An example is the project they have in Guinea Bissau, where the programme is oriented towards the improvement of techniques for self-sufficient food supply and assisting local farmers to learn good skills. The programme lasted a year and had a budget of US$500,000 (see: http://www.ibsa-trilateral.org//index.php and http://www.impactalliance.org/ev_en.php?ID=49219_201&ID2=DO_TOPIC

assistance, as has been the case with the health sector, where more than 20,000 doctors were sent to more than 65 countries; financing through donations, credit lines and concessional loans, like the US$19 billion granted by Exim Bank of China to restore and construct infrastructure networks in various African countries; debt relief, for example through the unilateral cancellation of US$10 billion in debt with African countries in 2003; special tariff reductions, as in the case of imports from at least 29 of the least developed African countries; development funds to promote Chinese investment in other countries, (for example, in 2007 the Chinese State Council approved a fund of US$5 billion to be administered by the China Development Bank, aimed at providing capital for Chinese companies committed to development, investment and economic and commercial activities in Africa); and direct foreign investment, particularly in the hydrocarbon and mineral sectors, which in recent years has focused on Latin America.[28]

Brazil has operated more than 240 SSC projects to 2008 in areas where it has developed capacities, such as agriculture, biofuels, education, health (mainly in the fight against HIV/AIDS), support for elections (e-voting), urban development, information technologies (e-government), trade negotiations and sports. Brazilian aid is characterized mainly by adapting its successful experiences to other zones with similar social conditions, usually by sending experts, providing training grants and work experience, and by providing of equipment (Federative Republic of Brazil 2008). Some of the main motivations for Brazilian cooperation are to strengthen or open up new markets for its products, services and investments; preserve national interests in countries where they could be threatened; and to consolidate Brazil's international prestige and thus achieve greater power in negotiations on international issues.[29]

India has established a broad network of support for African countries. The *Pan-Africa e-network project for medical services*, in which India has planned finance for US$125 million, helps 53 countries in the African Union. This electronic network allows India to connect via satellite with African countries and transfer knowledge through medical tele-conferences and tele-consultations between leading figures in the two countries.

A third set of SSC initiatives is between countries with lower capacities to mobilize external and domestic resources. These exchanges focus on mutual learning and training, technological transfer to reduce gaps, progress towards joint objectives and achieve minimum conditions for development, in particular in compliance with the Millennium Development Goals. An example is the project between Cuba and Egypt for the joint manufacture of vaccines, which involves about US$1.8 million and consists of technical cooperation between the specialist vaccine producers Finlay and Heber Biotec in Cuba, and the Egyptian national vaccine producer, Vacsera.[30] Another example is a joint project between the Republic of Niger and the Argentine Republic to develop capacities in the provision of health services by distance learning to train human resources and organize mutual health societies.[31] A similar programme has been developed by Argentina with other countries in Latin America.[32]

28 See Lan (2010) and AFRODAD (2010).

29 For example, Ayllon (2010:2) highlights the interest of the President of Brazil in garnering support for Brazil's candidature for a permanent seat on the UN Security Council. Similar interests motivate other countries to continue improving their relations with countries that can give them support for these ends.

30 See: http://www.impactalliance.org/ev_es.php?ID=49069_201&ID2=DO_TOPIC

31 See: http://www.impactalliance.org/ev_en.php?ID=49123_201&ID2=DO_TOPIC

32 See: http://www.impactalliance.org/ev_en.php?ID=49196_201&ID2=DO_TOPIC

3.2 THE ROLE OF SOUTH-SOUTH COOPERATION IN REGIONAL INTEGRATION PROCESSES

Regional and sub-regional integration initiatives between developing countries in Africa, Latin America and Asia have multiplied in recent years. These alliances between neighbouring countries or those that belong to the same region have gained importance, largely through intensified trade and monetary exchanges. Despite not having fully complied with their broadest goals for integration, they have become platforms for SSC and triangular cooperation, both for political and strategic reasons and due to the need to provide regional public goods.

In the case of Africa the main areas of progress in regional cooperation and integration have been through monetary and exchange-rate policies. It is considered that "(...) with the two monetary unions the Central African Economic and Monetary Community (CAEMC) and the West African Economic and Monetary Union (UEMOA), stabilization of the exchange rate within the Common Monetary Area (CMA), and the future monetary union of the Southern Africa Development Community (SADC) and the West African Monetary Zone (WAMZ), Africa has taken the lead in the developed world in terms of regional monetary integration." (Metzger 2008: 26). Parallel cooperation programmes are being developed, such as the Pan-African Infrastructure Development Fund, initially between Ghana, South Africa and Tunisia to Kenya and in the future for all the countries of Africa. The mechanism consists in mobilizing resources from private investors and pension funds in member countries. The programme was launched in 2007 with an investment horizon of 15 years and aims to mobilize US$1 billion, of which it has already raised US$625m.[33]

Starting in 1960 there have been various attempts to create sub-regional areas for economic, social and institutional integration in Latin America. The most important have been the Andean Community, Mercosur, the Central American Common Market (CACM) and the Latin American Integration Association (ALADI). Later, to these were added organizations such as the Bolivarian Alliance for the Peoples of Our America (ALBA), Petrocaribe, the Union of South American Nations (UNASUR) and, finally, the Community of Latin American and Caribbean States (CELAC).

ALBA and Petrocaribe, two Venezuelan initiatives, have attained particular importance in the region. ALBA has launched joint initiatives through projects called "grandnational" in finance, education, health, infrastructure, science and technology, food, minerals, telecommunications, infrastructure, culture and fair trade, among others (Table 4.2). In addition, there are plans for creating a common monetary zone with ALBA member countries through the establishment of a common account unit called the SUCRE (*Sistema Unitario de Compensación Regional*, or unitary regional payment system) and a central clearing chamber (*Cámara de Compensación de Pago*). Petrocaribe was created as a "body to facilitate energy policies and plans, aimed at integrating the Caribbean peoples through the sovereign use of natural energy resources for the direct benefit of its peoples."[34] Since its creation on 29 June

33 See: http://www.impactalliance.org/ev_en.php?ID=49371_201&ID2=DO_TOPIC
34 See the Petrocaribe energy cooperation agreement on:
http://www.pdvsa.com/index.php?tpl=interface.sp/design/biblioteca/readdoc.tpl.html&newsid_obj_id=1349&newsid_temas=111 (revised in: February 2010)

2005, 18 countries have joined the organization.[35] The signing of the Petrocaribe Energy Cooperation Agreement in May 2009 was the start of a stage of cooperation through the provision of concessional finance for importing countries. The amount corresponding to the difference between the cost of concessional finance and market rates will be used to implement development projects, set up joint companies between Petróleos de Venezuela and state oil companies with eight of the member countries, and to develop an infrastructure for fuel refining, storage and delivery.[36]

The regional integration and cooperation initiatives in Asia have precedents that go back more than two or three decades, but they have gained ground since the 1997-1998 financial crisis. Among them are free trade and economic integration agreements such as the Association of Southeast Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Kumar (2007) identified the following priorities for regional integration and cooperation in Asia: financial and monetary cooperation to take advantage of the reserves in the region for their development and mutual benefit (notable is the recent signing of the agreement establishing the Asian Monetary Fund within ASEAN); cooperation on energy security to ensure the sustainability and energy security in the region and rational demand management, taking into account environmental issues; cooperation in key technologies to close the digital gap, and to address health and nutrition problems through the use of biotechnologies; and cooperation in order to improve global governance, promote peace and security, and achieve greater participation and influence in international institutions.

TABLE 4.2. ALBA *grandnational* projects

AREAS	GRANDNATIONAL PROJECTS
Finance	ALBA Bank
Education	Literacy and post-literacy
Infrastructure	Development of port, rail and airport infrastructure
Science and technology	Science and technology centre
Food	Company of food and agriculture products and a food company
Energy	Electrical energy, oil and gas company
Environment	Company for the management of forests, production and marketing of products of the wood industry
	Water and water treatment
Health	Company for the distribution and marketing of pharmaceutical products

35 The member countries are Antigua and Barbuda, the Bahamas, Belize, Cuba, Dominica, Granada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, the Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Surinam and Venezuela.

36 The following are some of the works and projects: the liquefied petroleum gas (LPG) filling plant operating since February 2007 in Saint Vincent and the Grenadines; the fuel storage and distribution plant opened in Dominica in June 2009; and the Camilo Cienfuegos refinery reactivated in Cuba and operating from December 2007 with a production capacity of 67,000 barrels a day. There are also electricity generation projects developed in Nicaragua, Haiti, Antigua and Barbuda, Dominica and Saint Kitts and Nevis (See: http://www.petrocaribe.org/).

	Regulatory centre for a health register
Mining	Cement company
Fair trade	Import-export company
	ALBA stores
Tourism	Tourism university
Industry	Social tourism
	Production complexes
Culture	ALBA cultural fund
Telecommunications	Telecommunications company

3.3 TRIANGULAR COOPERATION

Triangular cooperation refers to the set of instruments linking South-South cooperation with other actors such as donor countries in the North, international bodies and private for-profit or non-profit institutions in developed countries. There are many different possibilities for association, so the concept is fairly diffuse. Originally, triangular cooperation consisted of support given by a cooperating source, generally from a developed country (although it extended to international organizations as well) so that two countries with similar levels of development could carry out technical cooperation and knowledge transfer activities. However, the diversity of developing countries, as well as the new options of cooperating sources, has allowed the possibilities of association for triangular cooperation to increase considerably.

A major example is the *programme for the exchange of experience on development between China and Africa*. This initiative is financed by the Chinese government with the support of the World Bank and the International Poverty Reduction Centre in China, whose aim is to transfer the Chinese experience in poverty reduction to African countries. China finances around 81 percent of the activities that involve meetings, workshops and training programs, with the rest coming from the World Bank. Each event is estimated to cost around US$300,000.

Another modality is support for the development of regional public goods (RPGs), which links triangular cooperation with processes of regional integration. Since 2004, the Inter-American Development Bank (IDB), through the programme to promote regional public goods, has boosted more than fifty projects to supply RPGs in Latin America and the Caribbean. The programme offers non-reimbursable resources of up to $10 million per year so that groups of at least three countries can generate PRGs in a sustainable fashion.[37] The premise behind the IDB to support PRGs is that many shared opportunities or problems between the countries in the region may be used or resolved more effectively within the regional sphere through international cooperation. However, the generation of PRGs is usually not paid enough attention, primarily due to the limitations and difficulties in obtaining financial and institutional support for joint regional efforts. The IDB acts as a supplier for seed capital, assuming the fixed costs of creating institutions, establishing coordination mechanisms and designing implementation strategies that will lead to the production of these goods.

37 A list of the projects approved can be found on the website:
http://www.iadb.org/topics/government/rpg/proyectos.cfm?query=&lang=es&adv=true&page=1

The exchange of experiences and creation of platforms for dialogue and cooperation within SSC and triangular cooperation systems is generating knowledge, learning opportunities and increasing cooperation activities between developing countries. An example of these platforms is the Ibero-American South-South Cooperation Programme of the Ibero-America General Secretariat (SEGIB), which includes non-reimbursable financing lines to improve information and coordination systems, training of human resources, creation and maintenance of a database of good practices, and organization of forums and debates on this subject. Currently 16 Latin American countries participate in this platform. Its financial resources have been supplied by Chile (US$60,000), Colombia (US$100,000), El Salvador (US$10,000), Spain (US$600,000), Mexico (US$100,000), the Dominican Republic (US$90,000) and SEGIB (US$500,000).

Another experience of triangular cooperation in knowledge transfer is the programme for promoting social protection between Chile and the Caribbean with the support of the Organization of American States (OAS). The *Puente en el Caribe* programme aims to strengthen the social protection strategies in CARICOM countries through activities for capacity building through the transfer of knowledge and lessons learned in the *Puente de Chile* programme. The programme is financed by the government of Chile (US$324,000), the Organization of American States (US$200,000 in kind) and the Canadian International Development Agency CIDA (about US$680,000), as well as counterparties in the recipient countries.[38]

An interesting case of participation by the private sector in the triangulation of cooperation is the case of investment of US$10 billion over the next ten years granted by the Bill & Melinda Gates Foundation to help research, development and distribution of vaccines in the poorest countries. It involves research institutions in developed and developing countries in various parts of the world.[39] In another example of participation by private foundations in triangular cooperation, but to a much lesser extent, the Rockefeller Foundation provides financial and logistical support for representatives in developing countries to meet within the scope of their own projects in any of their facilities around the world.

3.4 SOUTH-SOUTH FOREIGN DIRECT INVESTMENT

The amount of foreign direct investment (FDI) from the South has been increasing in recent years, and it this is interesting for South-South cooperation for various reasons. First, it helps strengthen financial integration between countries in the South; second, it may follow different cycles than those of North-South FDI; third, the cross-border companies in the South in general hire more local managers and employees than companies in the North and have a greater knowledge of the economic conditions and local policies; and fourth, the increase in FDI has influenced the design of policies for attracting investment and led them to consider not only investments from the North, but also from the South (Bera and Gupta, 2009).

FDI from emerging countries amounted to 17 percent of global flows in 2005 and 13 percent in 2006, compared with 5 percent in 1990 (Santiso, 2008). According to United Nations

38 See: http://www.impactalliance.org/ev_es.php?ID=49331_201&ID2=DO_TOPIC
39 See: http://www.gatesfoundation.org/press-releases/Pages/decade-of-vaccines-wec-announcement-100129.aspx

World Investment Report, nearly 21,500 multinationals are based in developing countries. In addition, the *Financial Times* list of 500 main global companies indicates that the number of companies based in Brazil, China, India and Russia increased from 15 to 62 between 2006 and 2008 (The Economist, 2010),[40] and according to a report by *The Economist*, "the best of these, such as India's Bharat Forge in forging, China's BYD in batteries and Brazil's Embraer in jet aircraft, are as good as anybody in the world."[41]

Notwithstanding the persistence of barriers to trade and investment, several large Asian corporations have been increasing their presence in other countries of the region. For example, many South Korean companies such as LG, Samsung and Hyundai have aggressively penetrated the Indian market. Conversely, Indian companies such as Tata Motors, which signed an agreement to acquire Daewoo's Kunsan truck unit, and the information technology company Aptech, have entered South Korea from India. Such exchanges have been exerting pressure for dismantling the remaining barriers to trade and investment. (Sahoo, Kumar Rai and Kumar 2009).[42]

Asian FDI flows have also reached beyond the region. For example, in 2005, 53.7 percent of FDI from China went to Latin America, exceeding the share of Asia as a destination for the first time. However, a large proportion of Chinese investment in Latin America was directed to three tax havens: the Cayman Islands, the British Virgin Islands and the Bahamas, and it has been indicated that investments in these countries and other tax havens usually revert to other economies, including China. (Cheng and Ma, 2007:8).

The global economic crisis of 2008-2009 generated a contraction in investment, but also led to countries adopting special measures to attract foreign investment, which helped cushion the impact of the crisis. This also opened up new opportunities and has particularly benefited some of the relatively more advanced developing countries. For example, Chile increased its investment in other countries by 17 percent in 2009, although mainly in South America,[43] In general, although consolidated figures are still not available, emerging developing countries and also those with a greater capacity for internal resource mobilization have taken advantage of the opportunities to acquire assets, even in developed countries.

3.5 SOUTH-SOUTH REMITTANCES

Remittances to developing countries account for more than 75 percent of global remittances. The World Bank estimates that remittances to these countries amounted to US$317 billion in

40 The main companies in emerging countries are in China, followed by India and Brazil. According to the Boston Consulting Group, a study of the main 100 emerging multinationals identified that in 2006, 44 of them were from China, followed by India (21), Brazil (12) and Mexico (6), while in 2009 among the 100 main emerging multinationals 36 were from China, 20 from India, 14 from Brazil and 7 from Mexico. (BCG 2006 and BCG 2009)

41 The Economist (2010), "The world turned upside down", en The Economist, April 15 2010. Available at: http://www.economist.com/specialreports/PrinterFriendly.cfm?story_id=15879369

42 Trade relations between South Korea and India have been growing. Bilateral trade grew from US$0.55 billion in 1990 to US$8.86 billion in 2007. However, despite the increase in FDI between these countries in the 1990s, FDI by South Korea in India has been falling as a percentage of the whole. See: Sahoo, Kumar Rai and Kumar (2009)

43 Argentina was the main destination of accumulated Chilean FDI between 1990 and 2009 (US$15,671 million, 30.3 percent of the total invested abroad); Brazil was the second main destination (US$10,285 million, 20 percent of total FDI between 1990-2009); and Peru was the third destination, with US$8,170 million between 1990 and 2009 (16 percent of its FDI). Chile also invests in other regions, such as Australia (US$743m accumulated between 1990 and 2008), China (US$129m between 1990-2009) and the Middle East (US$127m), mainly for the prospecting and exploitation of oil fields in Egypt and for the production and commercialization of fertilizers and the management of a port terminal in Abu Dhabi in the United Arab Emirates. See: http://rc.direcon.cl/inversion/1414

2009, while global remittances were around US$420 billion in the same year. The impact of the global crisis generated a fall of 5.3 percent in global remittances and 6.1 percent in remittances to developing countries, compared with the all-time high of 2008 when these figures were US$443 billion and US$338 billion respectively (Table 2.1).

Estimating the amounts of remittances is a complex task because of the large number of informal channels used to transfer money and the problems of identifying the origin of these kinds of flows. This makes it very difficult for central banks in recipient countries to keep an official record of remittances, and it has been suggested that official figures underestimate real flows by 50 percent (Özden and Schiff, 2007).[44] Nevertheless, some estimates suggest that remittances to developing countries from other developing countries account for 30 percent of the total (Ratha and Shaw, 2007: 11).[45]

Remittances between countries in the same region have also increased, above all in neighbouring countries, and are a reflection of migration patterns. Within Latin America the main migration flows are from Bolivia to Argentina, Nicaragua to Costa Rica, Peru to Chile and Haiti to the Dominical Republic; some examples in Asia would include migration from Indonesia to Malaysia, and from India to the Middle East, while in Africa there is the case of migration from Lesotho to South Africa (Ratha and Shaw, 2007; Monge et al., 2009). In all of these cases remittances follow migration. Yet, there are indications that the global crisis has led to a reduction in South-South remittances, as exemplified by the decrease in flows from Costa Rica to Nicaragua in 2009 (Monge et al. 2009: 16).

44 For example, "the main channels that Nicaraguan households say are the most important [means] for sending money from Costa Rica are remittance transfer companies (52 percent), banks (24.28 percent) and informal non-financial means (12.7 percent) (Monge et al. 2009: 16).

45 Something similar occurs with the monitoring of migration, for which it is calculated that two out of every five migrants of a developing country moves to another developing country.

TABLE 2. Remittances
($ millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	% of total (2009)
All developing countries	82,537	93,122	112,609	140,420	164,370	198,932	235,403	289,376	337,761	317,237	75.5%
Low-income countries	5,654	8,131	10,410	11,472	13,214	16,097	19,940	24,600	31,567	31,799	7.6%
Middle-income countries (MICs)	76,884	84,991	102,198	128,947	151,157	182,835	215,463	264,775	306,193	285,438	67.9%
Lower MICs	47,494	52,163	65,373	80,628	90,625	111,092	131,726	169,895	205,645	194,908	46.4%
Upper MICs	29,390	32,828	36,825	48,319	60,531	71,742	83,737	94,881	100,549	90,530	21.5%
East Asia and Pacific	15,675	18,757	27,468	32,695	40,336	50,460	57,598	71,309	86,115	84,785	20.2%
Europe and Central Asia	12,143	11,647	12,844	14,418	20,955	30,089	37,341	50,777	57,801	49,279	11.7%
Latin America and the Caribbean	19,987	24,229	27,918	36,609	43,330	50,122	59,199	63,239	64,717	58,481	13.9%
Middle East and North Africa	12,898	14,653	15,211	20,361	23,034	24,958	26,112	31,364	34,696	32,212	7.7%
South Asia	17,212	19,173	24,137	30,366	28,694	33,924	42,523	54,041	73,293	71,955	17.1%
Sub-Saharan Africa	4,623	4,663	5,030	5,970	8,021	9,379	12,629	18,646	21,139	20,525	4.9%
Low-income countries	6,147	6,664	8,425	9,657	10,879	12,042	14,258	17,527	22,759	24,285	5.8%
High-income OECD	46,375	50,349	52,881	60,697	68,543	71,062	76,449	89,480	98,936	96,811	23.0%
High-income non-OECD	1,600	1,975	2,004	3,412	4,610	5,185	5,461	5,933	6,817	6,061	1.4%
High income	47,975	52,324	54,885	64,109	73,153	76,247	81,910	95,413	105,753	102,872	24.5%
World	**130,512**	**145,445**	**167,494**	**204,529**	**237,523**	**275,179**	**317,313**	**384,789**	**443,514**	**420,110**	**100.0%**

Source: World Bank (2010), http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Nov09(Public).xls

A problem with remittances between countries in the South is that they are relatively more expensive than remittances from developed countries. For example, a remittance to Mexico City from Los Angeles could cost an average of US$7.21, while if it was sent from Guatemala City it could cost US$9.95 (38 percent more); and charges for a transfer of funds from Singapore to Jakarta could be US$5.10, while from Jakarta to Kuala Lumpur the average cost could be US$13.25, this is, 160 percent higher. (Ratha and Shaw (2007).

The International Organization for Migration (IOM 2005) recommends a package of policies for remittances to have a greater impact on development. They include: (i) improve the measurement and collection of information on remittances; (ii) prepare more studies to identify the mechanisms for transfers and cost of remittances, and their impact at the macroeconomic level; (iii) promote the transfer of remittances through official channels by implementing transparent regulatory frameworks, increasing competition and reducing the costs of transactions by greater information, preferential exchange rates, favourable interest rates for sharing savings, among others; (iv) facilitate access to financial service and banking for migrants in their host countries and countries of origin; (v) promote the use of technology to reduce costs;[46] and (vi) promote savings in the recipient countries and the creation of small and medium enterprises to create employment and generate income, and to transform remittance flows into assets.

3.6 SOME PENDING ISSUES IN SOUTH-SOUTH COOPERATION

The main challenge when dealing with the policies and challenges for SSC is knowing what type of financial flows, modalities and instruments are involved. Estimations of the volume of financial resources associated with South-South cooperation have focused on quantifying the direct flows between countries. However, there is a set of financial flows that could be considered in a broader view of South-South cooperation. These include: (1) contributions to multilateral institutions, particularly sub-regional development banks (SRDBs), which can be seen as SSC mechanisms, as their partners are mainly developing countries; (2) interest payments made by developing countries to multilateral institutions, as they are one of the components of their net income and thus serve to finance items such as concessional windows to support the poorest countries; (3) financial support for capital increases in financial institutions, as has been the case of contributions by emerging and developing countries to the International Development Association and to increase the capital of the IDB, among others; (4) the regional mechanisms designed to support the balance of payments, as in the case of the Latin American Reserve Fund (FLAR) and the recently created Asian Monetary Fund; (5) mechanisms supporting trade, such as export credits or financial facilities for foreign-exchange swaps for intra-regional trade (CEPAL 2009b: 122); (6) the acquisition of sovereign bonds and securities from other developing countries through international capital markets, as in the case of the purchase by Venezuela of bonds from Ecuador and Argentina in 2006; (7) financial flows of South-South foreign investment, which increased from US$15 billion to US$45 billion between 1995-2003, and US$65 billion in 2006 (AT Kearney 2008; Gammeltoft 2007); and (8) the quantification of the contributions in kind for

46 The programme for transfer of remittances through mobile telephone banking services in Africa, M-pesa, has reduced the transaction costs for remittances. On this, see: http://www.mapesa.org/ or http://www.africaneconomicoutlook.org/es/in-depth/innovation-and-ict-in-africa/pro-development-innovative-applications/box-22-m-pesa-leads-mobile-payments-in-kenya/

technical cooperation, which includes the time of experts, volunteers, missions and the value of counterparties for investment projects, among other aspects.

Despite the fact that the amounts are growing in importance within the context of international cooperation, it has been pointed out (SEGIB 2008, TT-SSC 2010) that the value of SSC resides in its intrinsic characteristics and not in the amount of financial resources mobilized. First, *SSC helps solve specific problems, for which it can use the knowledge and experience acquired in resolving similar problems in analogous situations*. For example, with a modest investment (seed capital) and by promoting collective action the IDB's non-reimbursable cooperation programme for regional public goods has helped Latin American countries to mobilize additional resources for specific South-South cooperation projects (Bocalandro and Villa 2009).

Second, *SSC can be a complement for other sources of cooperation and extend the range of options for financing*. The financial crisis has made the potential of emerging donor countries and South-South cooperation to channel resources and cooperation a subject of keen debate, particularly given the greater selectivity of the ODA provided by traditional donors and its probable reduction in the future. However, it is important to stress that South-South cooperation faces the same problems that have reduced the effectiveness of other methods of cooperation. For example, China requires 70 percent of its cooperation to be channelled through the country's own companies (Financial Times 2009). In addition, in some cases there are conditionalities, lack of transparency in selection criteria, an emphasis on concessional loans rather than donations (e.g. Petrocaribe in Venezuela and China's concessional aid), little emphasis on evaluation and monitoring, and a reluctance to work with other donors (Reality of Aid 2010; Ellis 2009; Lederman, Olarreaga and Perry 2009).

Third, despite the obvious benefits in terms of pertinence and applicability in similar contexts, *the possibility of replicating or extending the scale of South-South cooperation is limited by administrative capacity and aid management constraints*. Unlike the case of official aid from OECD countries, which have standards for operations, information systems, mechanisms for evaluation and monitoring, offices in recipient countries, among other features of an institutionalized system, in general SSC programs do not have as yet the administrative resources to emulate these forms of cooperation. Only some countries with a high capacity to mobilize resources, such as China, India, Brazil, South Africa and Venezuela have been to establish special administrative structures, usually associated with their ministries for foreign affairs and of trade, to support cooperation programmes. For this reason, establishing regional cooperation mechanisms could be important for replicating, extending and consolidating SSC programs and experiences.

In this context, *triangular cooperation is a mechanism that could promote SSC* and is one of the main means for extending its impact. For example, work through networks of institutions of developing countries, supported by donations from developed countries, is a very effective mechanism for joint cooperation and learning. One instance is that of the Canadian International Development Research Centre (IDRC), which has forty years of experience in financing networks of researchers in developing countries, often with the involvement of other donors, and is a classic example of triangular cooperation and SSC.[47] In addition, numerous experiences suggest that it is possible to make progress towards more effective cooperation through knowledge transfer and joint work with multiple donors, in partnership

47 See: http://www.idrc.ca/en/ev-1-201-1-DO_TOPIC.html

with international agencies that have the capacity to channel resources and implement projects. As South-South relations become more firmly established on the basis of the countries' specific interests, it is most likely that triangular cooperation initiatives will multiply (TT-SSC 2010; Betancourt and Schulz 2009).

In addition, considering that in the medium term ODA flows from developed countries to developing countries may decline, and that it is highly probable that they will continue to focus increasingly on low-income countries, it is clear that flows towards middle-income countries will diminish. Thus in order to maintain the relevance and effectiveness of development cooperation for a broader range of developing countries, it would be necessary to link other sources of finance, such as foreign direct investment, capital markets, philanthropic donations, remittances and the creation of markets with official development cooperation flows (Sagasti 2006).

Some lines of action to respond to the challenges pending for South-South cooperation would include the following:

- **Strengthen the institutional framework for South-South development cooperation and finance,** primarily through improvements in the capacity for designing, implementing and monitoring cooperation programs and projects; the systematization of instruments and mechanisms to ensure the control, record and transparency of information; and through establishing targets and common visions for the evolution of SSC initiatives. In addition, an international forum should be set up to exchange experiences and coordinate the activities of organizations involved in financing South-South cooperation at a sub-regional level.

- **Promote synergies between the different types of countries**, by taking into account that apart from strengthening South-South relations and taking advantage of the opportunities provided by the horizontal links in equal conditions, triangulation has to be strengthened with international organizations and with developed country agencies. In addition, the diversity of developing countries has to be taken into account in promoting practices of solidarity and narrowing the gap between these countries, particularly between middle-income and less developed ones.

- **Continue accumulating and sharing experiences between countries in the South** by systematizing activities, transferring and developing joint capacities, training human resources, systematizing cooperation and financing instruments that have proved successful, carrying out independent evaluations that can be shared by the different actors, and by strengthening the systems for recording compliance with quantitative and qualitative targets for SSC.

4. Corporate social responsibility (CSR)

The corporate sector, or private for-profit sector, has various ways of supporting development apart from its strictly business activities and the use of economic return criteria for the investment projects it engages in. First, private corporations and foreign investors contribute to development by acting in accordance with the legal frameworks of the countries in which they operate (paying taxes, respecting labour and environmental regulations, acting in a transparent way, etc.), investing in productive and service activities and generating wealth.[48] The amount of resources that is not contributed by companies that do not behave properly could be highly significant. For example, Hollingshead (2010) calculated that the tax losses in developing countries resulting form price manipulation in legal global trade documents (reporting higher prices in imports or lower prices in exports) could have reached between US$98-106 billion a year or 4.4 percent of the total tax revenues for the 2002-2006 period. This figure is comparable to the total official development assistance.

In addition, private companies frequently self-impose rules of behaviour as part of their efforts to project a favourable corporate image, thus allowing them to better manage the impact of their activities. There are numerous reasons for this type of behaviour: adherence to international regulations, tacit pressure from shareholders and investors in the countries of origin, access to finance from socially responsible mutual funds (see section 3.3 on instruments of combined value), or through their adherence to codes of conduct promoted by unions and national and international associations.[49] A special case in this group of reasons is obtaining a local "social licence", which in some cases is required by national legislation and regulations, but may also be voluntary as a way of minimizing the possible negative social impacts of investments and generating a less conflictive environment in the company's relations with the communities. This is particularly important in the case of investment in the exploitation of natural resources when there are local communities, particularly indigenous peoples and non-integrated populations. The social licence gives the populations the "right to veto" the outcome of the investment. In principle, this increases their capacity to negotiate and obtain benefits from the private investments.

Third, private companies are becoming increasingly involved in activities that are directly aimed at improving the living conditions of the population in their areas of influence. This is done through actions that include the provision of technical assistance and management,

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48 The academic literature has studied the role of FDI in developing countries, as well as the incentives and motivations for investment. Among them are geographical closeness, the possibility of saving labour and supply costs, the abundance of natural resources, the lack of strict regulations such as those in the countries of the parent companies, the growth in emerging economies that ensures the possibility of corporate finance at comparable levels to those in the countries of origin, as well as the presence of tax incentives for starting operations in various developing countries (as in the case of exploiting natural resources). However, various studies have pointed to the negative side of these incentives. In the decade of the 1990s many countries at a similar level of development competed by relaxing national regulations and creating ad-hoc mechanisms to attract resources for their economies, using what became known as "race to the bottom" policies. This led to FDI presenting balance sheet that combined positive and negative aspects, as the power and influence of some transnational companies has allowed them to generate swift returns, but at the cost of negative externalities such as environmental damage, little connection with local economies, tax exemptions, extraordinary earnings, repatriation of earnings and, finally, the opposition of the population and the generation of social conflicts in the zones in which they operate.

49 The Institutional Investors Group on Climate Change (IIGCC 2009), which includes 181 investors with US$13 billion in financial assets under management, has agreed to promote more ambitious targets than Copenhagen (reduction of between 50 and 85 percent in emissions by 2050).

provision of their staff's time, and donations in kind and cash. Through these activities the companies aim to improve their image, create a favourable environment for their operations and increase the welfare of communities in areas where they operate. One example, which has been controversial in many aspects, is that of multinational corporations involved in resource extraction in Peru (Box 2.1). The Peruvian government has also launched a "tax for public works" programme by which some companies can obtain tax exemptions in exchange for building infrastructure in their zones of influence. The idea is to boost local economies, generate employment and strengthen the economic links between the company and people in the areas in which it operates.

BOX 2.1. The Mining Programme for Solidarity with the People

The Mining Programme for Solidarity with the People has been in operation for four years in Peru, where mineral metal exports account for six percent of national GDP, 56 percent of foreign currency from exports and 15 percent of foreign direct investment. In August 2006 a group of companies in the mining industry agreed with the Peruvian government to contribute 3.7 percent of their profits on a voluntary basis to local development programmes over a period of 5 years. Although it is subject to changes in the international prices of minerals such as copper, gold, silver and zinc, this agreement is estimated to contribute an annual average of 150 to 200 million dollars, around 0.1 percent of GDP and about 0.5 percent of the government's national budget. This was largely done to prevent the government from implementing a windfall profits tax that was being discussed by Parliament as a result of the major increase in mineral prices between 2004 and 2007.

The government indicated the precise proportions to be invested in strategic programs such as nutrition, health and education, and provided counterpart funds to align these resources to the existing strategic and territorial plans, establishing objectives, milestones, targets, indicators and baselines to ensure a quick and effective management of resources. According to the Ministry of Energy and Mining of the fund payments, as of December 2009, 37 percent of the programmed resources had been executed, which is more than was initially anticipated. However, the ministry itself indicates that since there are no data on the beneficiaries of the nutrition or literacy programmes, it has not been possible to measure the real impact of this voluntary contribution, and still less to register the specific achievements expressed as improvements in the quality of life of the populations. Another limitation has been that the regions benefiting are limited to the scope of action of the companies that exploit mining resources, and are not necessarily located in the poorest regions: 18 of the 26 regions in the country benefit from this fund, but only nine of them concentrate 90 percent of the resources available.

CSR practices transcend the traditional concept of public relations and involve more complex and sophisticated motivations that are linked to the role and projection of private business activities. In addition, they are giving rise to new alliances between the private sector, national and local governments and bilateral cooperation agencies in joint interventions in areas where the companies operate, particularly in the case of natural resources and energy. This is giving rise to the possibility of *linking CSR initiatives with efforts by the public sector and bilateral and multilateral cooperation agencies*. In this way, CSR opens up the possibility of mobilizing additional resources (technical, financial, materials and equipment, among others) for development projects and programmes, and also makes it possible to experiment and innovate with new institutional arrangements.

The acceptance and voluntary implementation of CSR policies by corporations involves an explicit or implicit cost-benefit calculation. The CSR option may respond to an ethical perspective of economic activity, or to practical considerations of business profit. Nevertheless, the gradual articulation of international and global initiatives for monitoring the activities of transnational companies, particularly in the case of natural resources, are generating reputational incentives that tend to focus companies towards increasingly responsible behaviour (see Box 5.2 for an example in Indonesia).

BOX 5.2. **The APRIL operation in Indonesia**

Indonesia's major economic development has been accompanied by significant processes of deforestation and soil deterioration. The country is considered one of the biggest emitters of greenhouse gases in the world. Population pressure, illegal logging and slash and burn agriculture have devastated more than half of the forests in the country during recent decades. In this situation, the presence of one of the biggest global pulp and wood products companies, Asia Pacific Resources International Limited (APRIL) may be considered a highly dangerous. Indeed, this company was harshly criticized by environmental organizations in recent years due to inappropriate practices of forest extraction.

However, in the last ten years APRIL has been implementing a strategy of sustainable forest management. As a result, it has gained the recognition and cooperation of many of its former critics, such as the World Wildlife Fund for Nature (WWFN). It is also the only company in Indonesia that forms part of the World Business Council for Sustainable Development (WBCSD). The zone of APRIL's concession in the Kampar peninsula sustains more than 100,000 people who live in hundreds of diverse villages in an area that until a few years ago was separated from the country's service and communications infrastructure. These people lead a precarious existence by illegal logging, burning forests for pasture, for growing rice and in some cases oil palms.

Starting in 1999 APRIL began a strategy of empowering local capacities and capital to achieve sustainable forms of life, as well as constructing transport and service infrastructure to act as a catalyst for community development. From 2002 to the present day, the Integrated Crop Systems programme has trained more than 4,000 families, organized by village groups. They have improved their skills for horticulture, livestock farming, fish farming, composting, recycling of waste and food processing, which enable subsistence activities with a low impact on the forest ecosystem. The programme also included a basic capital of livestock, fish, seeds and fertilizers, as well as on-hand advice for the proper implementation of these systems.

Since 2001 the company's training and skills development initiatives began to boost the creation of small companies among those local people with most skills, with various banks in the country giving advice and financial support.

The company's most ambitious initiative, which has had a great impact on the control of local deforestation, is the community tree-pulp cultivation plan, under which the local communities associate with APRIL to develop their traditional lands with acacia plantations. The company provides financial support, seeds and fertilizers, and supports the local community to maintain their plantations. After six years, the wood pulp is harvested and the people receive a 40 percent participation of the income from the industrial processing of the forests under their management. By converting these people into partners in the operation, the company takes advantage of the skills of traditional loggers, who operate with licences and permits and high profit levels, and have abandoned illegal logging practices, which now represent a threat to them.

In coordination with the government, the company has helped improve access roads, mobile health services, educational infrastructure and access to electrical energy. This is leading to a quicker integration of the territory and the replacement of the subsistence economies in the area. Also in coordination with the government and NGOs, the company is boosting a project to create a ring of acacia forests as an environmental buffer zone that can help stabilize the sustainable management of forests in the Kampar peninsula.

As part of its sustainable development plans for the coming years, the company expects that the funds resulting from the programme of reducing emissions from deforestation and degradation (REDD) may be focused on local populations and thus complement the income generated by the company's strategy of association.

Sources: **Wootliff (2009); APRIL (2007); www.aprilasia.com**

Many of the CSR initiatives are implemented as association or agreement with public or private non-profit organizations and involve the exchange of intangible goods or services or contributions in kind.[50] This makes it difficult to clearly distinguish the amount invested in

50 For example, the Canada Investment Fund for Africa (CIFA) is a public-private fund with more than 200 million dollars, designed to stimulate growth in Africa through investment focused on financial services, natural resources, logistics and agro-industry. The fund is managed privately, but the government through its development agency CIDA ensured that its

time, money or human resources by the companies and their partners in executing CSR programmes and projects. For example, information available for Costa Rica based on the global CSR survey of executive chairmen of 1,000 companies in 2003 indicates that the main forms of CSR investment are carried out in the following ways (in decreasing order of investment amounts): support in kind for social projects; donations to educational institutions; increasing the skills of staff in CSR subjects; support for environmental projects; sponsorship of CSR activities; contribution to community associations; development of community projects; and, finally, donations to NGOs. Most of these activities involve amounts of under US$10,000 and barely 3-15 percent of the contributions in these categories represent more than US$40,000 on average.[51]

One of the areas where it has been possible to organize a convergence of business interests with the aim of social development has been that of microfinance, where investment funds and private banking have provided resources to support increased banking penetration in developing countries. In this case, the search for economic returns is complemented by social returns, as banking penetration in economies has positive externalities, such as the formalization of productive activities, cost savings for social programmes (e.g. in conditional cash transfers) and the development of economies in remote rural areas. For this reason, multilateral banks have provided lines of finance (apex funds) to banks in line with the logic with which private foundations supported NGOs to promote micro-credits in the 1990s, although recently investment funds are also entering into this kind of business.[52] This is an example of progress in financing sources, as it represents a move from a scheme of solidarity to a business with high social and economic returns, in which the private sector can participate and make finance sustainable.

As indicated above, one way of involving the private sector in development programmes is through accepting standards of behaviour for the implementation of CSR programmes. Once more, multilateral banks have facilitated this process. For example, the Performance Standards of the World Bank International Finance Corporation (IFC) condition loans to the private sector to compliance with social and environmental standards prior to the evaluation of an investment. Some major investment projects have established amounts that must be destined to CSR programmes. These average, and at times exceed, one percent of total investment, and some international corporations have established these ratios as the minimum acceptable for their social investment processes. Under the Equator Principles, signed in 2003, ten banks from seven countries use the IFC social and environmental policies and guidelines to evaluate responsible investment in projects of more than US$50 million. Currently 26 international banks require this kind of evaluation. In all, they represent more than 60 percent of available finance for large private projects globally.

The lack of transparency and reporting standards makes it very difficult to learn the real size, impact and effectiveness of CSR considered as within a broader framework of development cooperation initiatives. Many private companies are reticent when it comes to providing information on their CSR activities and to coordinate their activities with public institutions or civil society (Porter and Kramer 2008). In addition, it is not possible to estimate the real

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Limited Partnership Agreement stipulated social, environmental and health and safety objectives as a basis for managing the fund. See: http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/csr-strategy-rse-stategie.aspx

51 Price Waterhouse Coopers (undated) “Responsabilidad Social Corporativa”, at: http://pwc-interamerica.com/RSC/Informe%20resultados%20RSC-CR.pdf

52 Pension funds are calculated to have invested close to $3.1 billion in microfinance through support to banks in developing countries. For example, the Dutch company PGGM has committed $200 million in this field, while the pension fund TIAA-CREF in the United States plans to invest an additional $180 million (Burguess 2009).

capacity of CSR to mobilize additional development resources. For example, companies in the United States have reported that they contribute US$6.8 billion for aid programmes, while other OECD countries generated US$12.2 billion in 2008, although the latter figure also includes private donations from individuals (Hudson Institute 2009).

4.1 TOWARDS THE INTEGRATION OF NEW ACTORS INTO THE FRAMEWORK OF THE INTERNATIONAL SYSTEM FOR DEVELOPMENT COOPERATION, AND FINAL COMMENTS

The international system of development finance and cooperation is being transformed rapidly, particularly with the entry of new actors and innovations in the modalities of cooperation and financial instruments. This makes it necessary to re-examine the justifications supporting the system, the motivations of the actors involved in it, the modalities and instruments used and the form in which use of financing and international cooperation is made in recipient countries. The period of change and turbulence at the start of the 21st century offers a window of opportunity for making progress towards an international system for financing and cooperation leading to fairer, more equitable, efficient and effective development.

The new actors in development financing and cooperation may help mobilize additional resources, allow a diversification of sources of finance, provide additional capacities, and generate pressure for innovation and implementation of institutional reforms.

At the same time as new actors enter the scene, new issues are appearing, many of them linked to the provision of regional and global public goods, which require joint action in the international field and exercise pressure on the sources of official finance. Among them are: mitigation and adaptation to climate change, prevention and control of pandemics, preservation of financial stability, conservation of biodiversity, prevention of violent conflicts, response to humanitarian disasters, financial regulation and the fight against drug trafficking, money laundering and international terrorism. Although the multiplication of actors, sources of finance and modalities may generate instability and uncertainty in the development financing and cooperation system, it may also help the joint efforts to confront the challenges that arise in these areas in the medium and long term.

It is thus necessary to adopt an integrated vision for the reform of the system, establish new spaces for coordination between the new and traditional actors, jointly adopt new rules for the system, create mechanisms for collective action, and gradually advance towards a comprehensive development finance and cooperation system. Although framework agreements have been adopted to improve the effectiveness of aid, such as the principles of the Paris Declaration and the Accra Agenda for Action, these only involve a small part of the wide range of institutions that actively participate in development finance and cooperation.

All this makes it necessary to re-examine the motivations behind international cooperation, review the range of financial instruments for channelling flows to developing countries and to take into account explicitly the capacity of the various groups of developing countries for domestic and external resource mobilization.

However, it is important to stress that, despite the influence acquired in the new context of the international development finance system, the new actors in the field of international cooperation, including private sector and South-South Cooperation donors, are still not in a position to replace the role of traditional donors in financial terms. Their main contribution is linked to their capacity to innovate, the synergies that they can create in conjunction with traditional donors, the capacity to generate additional cooperation resources and instruments and the capacity to exercise pressure to generate institutional changes that increase the effectiveness of the international system of development cooperation.

The financial crisis has significantly affected the capacity of new private-sector donors to mobilize development resources. Both the assets of the main foundations and corporate resources available for CSR activities have suffered significantly in recent years, although there is no evidence that the effects will be permanent, as the major corporations have already begun to recover their sales and improved their financial situation in the first quarter of 2010. In addition, the capacity of individual donors and consumers to mobilize resources does not appear to have been affected to a significant extent, as can be seen in the results of humanitarian aid campaigns.

Based on the above considerations, it is possible to identify some initiatives that can reinforce the positive impact of the presence of new actors in the international cooperation scene:

- Some of the subjects dealt with in this document include fragmentary information that is not standardized and the efforts to compile it are just beginning their transition from the academic world to the field of public policy. It is thus necessary to support efforts for a systematic monitoring of the changing context of international cooperation through specialized studies, the compilation of data and statistics on new actors and financial instruments and the preparation of case studies that give a more detailed knowledge of what is really happening.[53]

- The institutions of the international system for development cooperation have various limitations in terms of effectively incorporating the approaches and activities of the new actors. For this reason, a broad forum would have to be established with the participation of a wide diversity of actors to exchange experiences and knowledge on the new trends and features of the system of development finance and cooperation, as well as the responses that are being organized in various sources and recipients of finance and cooperation. For example, the Accra Agenda for Action included some elements of a new financial architecture, including the importance and potential of South-South cooperation. However, various countries linked to SSC activities have expressed doubts about the OECD/DAC as the best forum for coordinating public policies for these new subjects and actors in the structure of development finance.

- Broader sets of instruments and policies have to be used to realize the potential contribution of new private actors. Many of them combine public, private and international initiatives, such as guarantees for investment, creation and strengthening of domestic markets, trust funds administered by multilateral bodies, public-private associations and issuance of bonds on domestic capital markets. There is no contradiction

53 For example, in the case of South-South cooperation, various institutions such as the Organization of American States (OAS), the Ibero-American Secretariat General (SEGIB), the Development Effectiveness Working Group, the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Economic and Social Council (ECOSOC) are compiling statistics and case studies for good practices worldwide. This diversity of institutions is not found in the case of CSR, whose main source of information are still the reports from the corporate sector itself.

between mobilizing private and public resources: the two complement and reinforce each other, both at the domestic and international level.

- Before the financial crisis, there was already a trend to guide ODA from bilateral and multilateral donors towards the poorest countries as emerging and middle-income countries gradually accessed private sources of finance and international capital markets. Among the latter there are various successful cases of "gradation", in the sense of gradual progress towards forms of finance that depend less on ODA and international bodies, but without abandoning these sources completely. (China, the Korean Republic, Vietnam and Peru, among others). The challenge consists of learning from experience and designing mechanisms so that more developing economies can move freely towards the use of a more extensive and varied range of financial instruments and modalities of cooperation.

- SSC is becoming the new fashionable subject in discussions on reforms of the international development cooperation system.[54] However, SSC has a long way to go before it becomes an effective instrument that can extend the flows of international development aid significantly, without recurring to North-South cooperation practices that have been widely criticized by recipient countries. So South-South cooperation has to be extended and strengthened by exchanging experiences, creating funds to cover the incremental costs of this kind of cooperation and by extending the dimension of cooperation with developed countries through triangular cooperation.

54 Countries such as Venezuela and Saudi Arabia claim they have exceeded the target of 0.7 percent of GNI in their international aid budgets. Currently the most optimistic estimates put it within the range of 10 percent of official aid (ECOSOC 2009), but some countries with a high capacity for mobilizing resources are trying to increase these budgets, even at a time of financial crisis.

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Appendix

APPENDIX 1: List of financial instruments by functional categories and actors offering them

Financial instruments			Actors									
			Bilateral		**Multilateral**				**Private sector**			
Type	**Sub-type**	**Specific instruments** (examples)	**DAC**	**Other**	**United Nations**	**World Bank, RDBs**	**IMF/regional**	**SRDBs**	**For-profit**	**Non-profit**	**Capital markets**	**Global**
Loans	Projects / Programmes		X	X		X	X	X	X		X	
	Mixed with donation to reduce interest	IBRD-IDA: blended loan	X	X		X	X	X		X		
	Microfinance	Facility: Apex Fund	X	X		X		X	X	X		
	Contingent credit lines	Disaster: Catastrophe deferred drawdown option (CAT DDO)				X						
		Liquidity: IMF ESF, FLAR					X					
		General: Counter-cyclical DDO	X	X		X						
		Sovereign lending	X	X		X		X				
	Concessional loans		X	X		X	X	X				

Financial instruments			Actors									
			Bilateral		Multilateral				Private sector			
Type	Sub-type	Specific instruments (examples)	DAC	Other	United Nations	World Bank, RDBs	IMF/regional	SRDBs	For-profit	Non-profit	Capital markets	Global
	Trade financing / export credits	US OPIC, UK Export Credit Department	X	X				X				
	Multidonors: rescue programmes		X	X		X	X	X				
Donations	Result-based	Cash on delivery, Output-based aid, result-based aid	X		X	X						
		Millenium Challenge Corporation	X									
	Conditioned transfers		X	X		X		X				
	Budget support	EU MDG Contract	X									
		Global Fund, IDA Performance-based	X	X		X		X				
	Private donations	Philanthropy, CSR, individuals, pro-bono							X	X		
	Project / Programmes / Pre-investments		X	X	X	X	X	X	X	X		
	Technical cooperation		X	X	X	X	X	X		X		
Bonds	Sovereign, MDB, corporate			X		X		X	X			

Financial instruments			Actors									
			Bilateral		Multilateral				Private sector		Capital markets	Global
Type	Sub-type	Specific instruments (examples)	DAC	Other	United Nations	World Bank, RDBs	IMF/regional	SRDBs	For-profit	Non-profit		
	Bonds indexed against various risks	Carbon, GDP, commodity prices, inflation							X		X	
		For catastrophes				X		X			X	
	Other	Diaspora bonds									X	
	Social criterion	Green bonds				X						
Foreign direct investment (FDI)	Includes incentives, as well as modalities (acquisitions, additional investment, investment in company securities)								X			
Remittances	For consumption, social investment									X		
Market creation / support	Purchase agreement by contract	AccessRH, PG4Health			X					X		
		Combat malaria			X					X		
	Buy-out	Patent purchase			X					X		
	Auction / sale of emission permits	CERs, limits for carbon emission	X	X					X		X	
	Bonds for the domestic capital market					X		X	X		X	
Specific	Via 2% sales of	Adaptation									X	

Financial instruments			Actors									
			Bilateral		Multilateral				Private sector			
Type	**Sub-type**	**Specific instruments** (examples)	**DAC**	**Other**	**United Nations**	**World Bank, RDBs**	**IMF/regional**	**SRDBs**	**For-profit**	**Non-profit**	**Capital markets**	**Global**
purpose funds / facilities	CERs	fund										
	Via 1% sales of companies	Digital solidarity tax							X			
	Various contributions	Carbon fund				X			X		X	
	Securitization of aid flows	Global FFI, Finance Facility for Immunization										
	Funds / programmes / investment		X		X					X		
	Counter-cyclical funds			X							X	
Taxes and fees	Global taxes	Arms, air tickets, transactions										X
Payments for services	User fees, contributions	Environmental services	X	X					X			
		REDD	X	X					X			
Combined value instruments	With social criterion	Sustainable investment							X		X	
	Via consumption	(PRODUCT)RED, Visa green card								X		
	Corporate social responsibility (CSR)								X	X		
	Global lotteries for charity											X
	Person-to-person donation / loans	Kiva.org,MyC4, Babyloan,								X		

Financial instruments			Actors									
Type	**Sub-type**	**Specific instruments** (examples)	**Bilateral**		**Multilateral**				**Private sector**		**Capital markets**	**Global**
			DAC	**Other**	**United Nations**	**World Bank, RDBs**	**IMF/regional**	**SRDBs**	**For-profit**	**Non-profit**		
		Wokai										
	Securitization	Microfinance bonds mutual funds				X			X	X		
Risk mitigation /management	Provision of insurance	Disasters: Index-based insurance	X			X		X	X		X	
		Micro-insurance	X	X		X		X	X			
	Derivatives	CAT swap				X		X			X	
		Cool Bonds				X						
	Loans	In local currency	X			X		X				
	Securitization	Aid flows	X			X			X		X	
	Guarantees (partial, credit, based on policies, politics, regulatory, among others)		X			X		X	X			
	Risk investment	Venture funds and securities	X	X		X		X				
	For default	CACs									X	
Cancellation of debt	Repurchase of debt	Debt Reduction Facility - IDA	X			X						
		Multilateral Debt Relief Facility				X	X	X				
	Debt exchange	Debt-for-	X	X		X		X				

Financial instruments			Actors									
			Bilateral		Multilateral				Private sector			
Type	Sub-type	Specific instruments (examples)	DAC	Other	United Nations	World Bank, RDBs	IMF/regional	SRDBs	For-profit	Non-profit	Capital markets	Global
		nature, Debt2Health										
	HIPC initiative		X			X	X	X				
	Unilateral cancellation of debt		X	X		X		X				
	Consultative groups	Brady, Paris Club	X									
International liquidity	FED credit lines – Central Banks		X									
	Special drawing rights (SDRs)						X					
	Monetary funds (Asian Monetary Fund)			X			X					

APENDIX 2: Methodology for estimating the index of domestic and external resource mobilization

(with Néstor Aquiño)

A principal component analysis (PCA) and factor analysis has been used to calculate the two indexes of resource mobilization (domestic and external) Briefly, the econometric method of the main components allows information from a group of diverse indicators to be integrated through the extraction of their elements in common or principal components. These common elements are those that best explain the combined variation of the group of indicators. Thus this method allows the information of various indicators to be "compacted" into a few factors, ideally only one, that can be used as an index to establish a ranking among a group of countries, in the specific case of this work. This research has used the STATA statistical program to estimate the principal components (see Table A2.5 to see the code).

PREPARATION OF THE STATISTICAL DATA AND VARIABLES

The database used for the analysis has been constructed according to the indicators of internal and external resource mobilization available in the World Bank's World Development Indicators and Global Development Finance (GDF). The analysis has been carried out with developing countries according to the classification provided by the World Bank.[55] The index was calculated with information for 130 developing countries, but 20 of them did not have information in any of the indicators, so they were excluded. Of the remaining 110 countries, nearly 80 percent had information for all the indicators in both the internal and external mobilization index; the remaining 20 percent had at least information for one of the indicators in each index. With at least one indicator per index, it is possible to calculate its value. Although this is less precise, it does describe the relative position of these countries.[56]

A number of indicators were initially identified for this purpose. In the case of *internal resource mobilization*, a country has greater capacity when it has more domestic savings, tax revenues, capital investment, domestic lending for the private sector, and a lower fiscal deficit. In the case of *external resource mobilization*, a country has greater capacity when it can attract more foreign direct investment, there is a greater level of exports and imports, more international reserves and lower levels of foreign debt, as well as when it receives a greater flow of official development aid.

55 See: Groups of countries by type of economy – World Bank.

56 Some of the countries presenting limited information from 2000-2002 for the construction of the index are: i) American Samoa; ii) Kiratibi; iii) Marshall Islands; iv) Montenegro; v) Palao; vi) Saint Kitts and Nevis; vii) Saint Lucia; viii) Saint Vincent and the Grenadines; ix) Sao Tome and Principe; x) Somalia. For 2006-2008 the data were limited in the following countries: i) American Samoa; ii) Saint Kitts and Nevis; iii) Saint Lucia; iv) Saint Vincent and the Grenadines; v) Somalia; vi) St. Vincent and the Grenadines; vii) Turkmenistan; vii) Zimbabwe. In general, it should be taken into account that the poorest countries do not have good statistical information.

For reasons of availability of information[57], particularly for those countries with lower relative levels of development in their statistics, the following indicators were chosen for calculating the two indices: (1) Gross fixed capital formation, domestic credit to the private sector (both as a proportion of GDP), gross national income per capita for the *index of internal resource mobilization*[58]; and (2) levels of foreign direct investment, volume of exports of goods and services, and net international reserves, all expressed in logarithms to reduce dispersion, for the *index of external resource mobilization*. The figures used for each indicator correspond to the average for the years 2006-2008.[59]

One aspect that should be taken into account when using the analysis of principal components is that the calculation is on the basis of total variance in the series, which is distributed proportionally among its components. This proportion is calculated through the accumulation of the characteristic roots or eigenvalues (see tables of the calculation of the principal components). This analysis is used to calculate the factors that each of the indexes will represent and they are calculated for each of the countries in the sample.

ESTIMATE OF THE INDEX OF EXTERNAL RESOURCE MOBILIZATION

Tables A2.1 to A2.4 show the criteria for selecting the factors that arise after the analysis of the principal components for each of the groups of indicators of external and domestic mobilization. In the case of mobilization of external resources (Table A2.1 and A2.2) it can be observed that only one of two factors presents a characteristic root greater than one, so that a unique index can be calculated for each period. In addition, the accumulated proportion explained for each of the factors indicates that the explanation of the combined variance is fairly high. In the case of the period 2000-2002, the first factor explains 61 percent of the combined variance, while in the period 2006-2008 it explains 60 percent.

57 The index is calculated for 110 countries for which there is sufficient information. About 80 percent of these countries have data for all the indicators, and the remaining 20 percent have less information for some of the indicators in each index. It is possible to make a calculation of the relative position of these countries with at least one indicator for each index, although less precisely.

58 Initially it was attempted to include a domestic savings indicator (as a proportion of GDP). However, the use of this indicator presented two problems: lack of information for many countries, which reduced the number of countries with information available for calculating the index of domestic mobilization; and the high variability from year to year, which distorted the calculations. For this reason gross national income per capita was used as a proxy variable. It has a very high correlation to internal domestic savings (more than 80 percent), is more stable and information for it is available for a greater number of countries.

59 Averages were taken for three years to avoid the effect of atypical years or large variations that could distort the calculation of the index and to give greater stability (lower year-on-year variation). The calculation of the index through the main components allows the absolute values to be determined and ordered for countries in accordance with the capacity for resource mobilization, and to monitor the process over time.

TABLE A2.1. Extraction of the external resource mobilization factor (years 2000-2002)

Factor analysis/correlation			Number of obs = 114	
Method: principal-component factors			Retained factors = 1	
Rotation: (unrotated)			Number of params = 3	
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor1	1.83464	0.83495	0.6115	0.6115
Factor2	0.99969	0.83401	0.3332	0.9448
Factor3	0.16568		0.0552	1.0000
LR test: independent vs. saturated: chi2(3) = 133.61 Prob>chi2 = 0.0000				

TABLE A2.2 Extraction of the external resource mobilization factor (years 2006-2008)

Factor analysis/correlation			Number of obs = 110	
Method: principal-component factors			Retained factors = 1	
Rotation: (unrotated)			Number of params = 3	
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor1	1.78829	0.81305	0.5961	0.5961
Factor2	0.97524	0.73878	0.3251	0.9212
Factor3	0.23647		0.0788	1.0000
LR test: independent vs. saturated: chi2(3) = 95.81 Prob>chi2 = 0.0000				

In the case of the domestic resource mobilization (Table A2.3 and A2.4) it can also be seen that only one of the factors presents a characteristic root greater than one in each period. In this case, the accumulated proportion explains 55 percent of the combined variance in the 2000-2002 period and 53 percent in the period 2006-2008.

TABLE A2.3 Extraction of the domestic resource mobilization factor (years 2000-2002)

Factor analysis/correlation			Number of obs = 120	
Method: principal-component factors			Retained factors = 1	
Rotation: (unrotated)			Number of params = 3	
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor1	1.65123	0.83315	0.5504	0.5504
Factor2	0.81808	0.28740	0.2727	0.8231
Factor3	0.53068	0.0000	0.1769	1.0000
LR test: independent vs. saturated: chi2(3) = 39.33 Prob>chi2 = 0.0000				

TABLE A2.4 Extraction of the domestic resource mobilization factor (years 2006-2008)

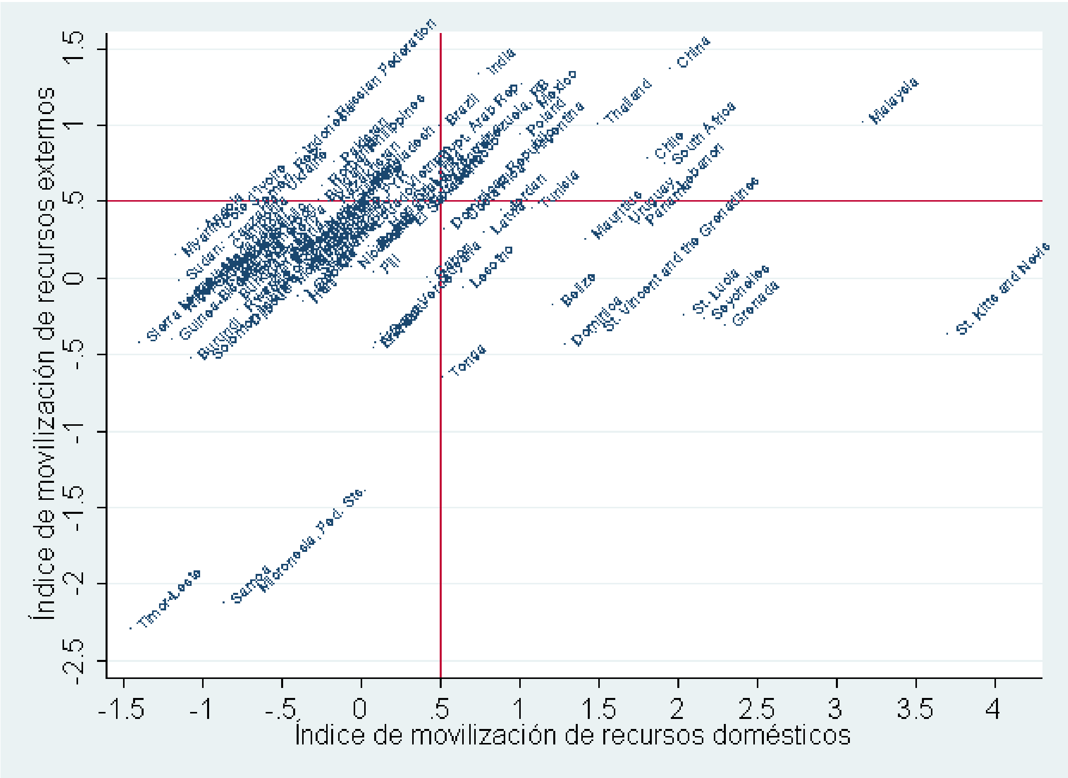
Factor analysis/correlation			Number of obs = 108	
Method: principal-component factors			Retained factors = 1	
Rotation: (unrotated)			Number of params = 3	
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor1	1.57548	0.70824	0.5252	0.5252
Factor2	0.86724	0.30996	0. 2891	0.8142
Factor3	0.55728	0.0000	0.1858	1.0000
LR test: independent vs. saturated: chi2(3) = 28.94 Prob>chi2 = 0.0000				

The next step consists of rotating the results to linearize them and allow a greater correlation between the factors, so that the values of the factors are more consistent and comparable in other cases. By estimating the rotated factor, this factor can be applied to calculate the value of each country and obtain each of the indexes of resource mobilization.

CALCULATION OF THE INDEX OF EXTERNAL AND DOMESTIC RESOURCES MOBILIZATION

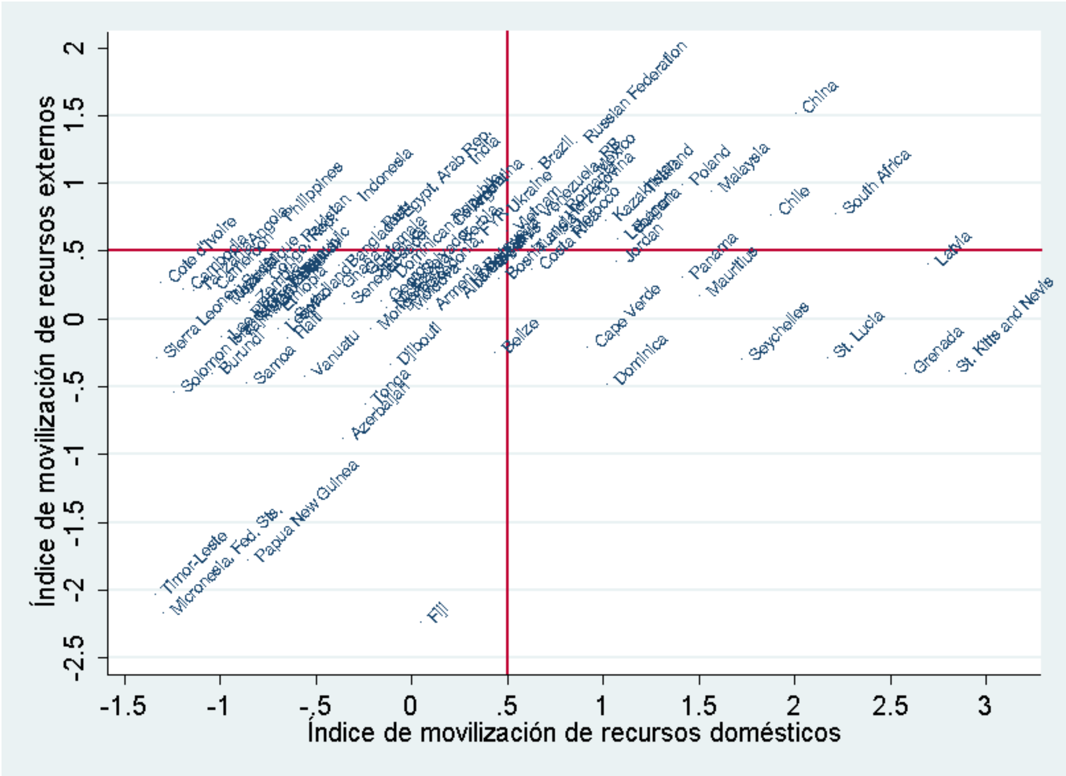
The indexes of external and domestic resources obtained provide a scatter graph that shows the distribution of countries taking into account eight indexes for the periods 2000-2002 and 2006-2008. Graph A2.1 and A2.2 compares the index of external resource mobilization with the index of internal resources in order to define the categories of the countries.

Graph A2.1 Distribution of developing countries according to their indexes of resource mobilization
(2000-2002)



[eje vertical] Index of external resource mobilization
[eje horizontal] Index of domestic resource mobilization

Graph A2.2 Distribution of developing countries according to their indexes of resource mobilization
(2006-2008)



[eje vertical] Index of external resource mobilization
[eje horizontal] Index of domestic resource mobilization

It should be made clear that for purposes of presentation, the text has reduced the scale for two reasons. First, the aim is to exclude those countries with external values, particularly the smallest and those with data that vary a great deal during the period. Second, by reducing the scale, it is easier to appreciate the four main categories of the countries. In addition, it should be remembered that the level of 0.5 in the graphs is arbitrary and only corresponds to a number that allows comparison between the categories of the countries.

Below are described the command lines used in the cases explained. The data may be requested from naquino@foro-nacional-internacional.pe The name of the variables is that used in the database files.

TABLE A2.5. STATA codes for obtaining the indexes of external and domestic resource mobilization

```
• sum IED XBS REN
• sum IED
• gen IED1 = IED - r(min) + 1
• gen logIED = log(IED1)
• gen logXBS = log(XBS + 1)
• gen logREN = log(REN + 1)
• factor logIED logXBS logREN, pcf
• rotate, promax
• predict f1
• label variable f1 "Índice de movilización de recursos externos"
• sum CDSP FBCF GNI
• factor CDSP FBCF GNI, pcf
• rotate, promax
• predict f2
• label variable f2 "Índice de movilización de recursos domésticos"
• graph twoway scatter f1 f2, yline(0.5) xline(0.5) mlabel(CountryName) mlabsize(tiny)
```

TABLE A2.5: Glossary

IED	Foreign direct investment (FDI), net flows (Balance of payments, current USD)
XBS	Export of goods and services (balance of payments, current USD)
REN	Total reserves (includes gold, current USD)
CDSP	Domestic lending to the private sector (% GDP)
FBCF	Gross fixed capital formation (GFCF) (% GDP)
GNI	Gross national income per capita