

Preparing for the Development Cooperation Forum:
Cairo High-level Symposium

*Trends in development cooperation:
South-South and triangular cooperation and
aid effectiveness*

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Contents

Background	1
Cairo High-level Symposium	1
Opening of the symposium.....	2
The aid framework revisited	4
Aid architecture: still need for reform	4
Priorities in aid quality: country-level perspectives	5
<i>Aligning with national priorities</i>	<i>5</i>
<i>Capacity development in practice.....</i>	<i>5</i>
<i>Avoiding a veneer of accountability.....</i>	<i>6</i>
<i>Predictability and flexibility.....</i>	<i>6</i>
<i>Inclusiveness and participation.....</i>	<i>7</i>
Measuring aid quality: easier said than done	7
Exiting aid: consistent and coherent policies needed.....	8
Conditionality	10
Words matter – does conditionality?.....	10
Conceptual and practical difficulties	10
Backdoor conditionality	11
Throwing the baby out with the bathwater?	12
Mutual accountability and development contracts.....	13
South-South and triangular development cooperation.....	15
Trends in South-South cooperation	15
Balancing the gains of South-South cooperation	16
Comparative advantages	17
Different horses for different courses.....	17
Current challenges.....	18
Possible avenues for coordination.....	19
Key policy messages.....	21
Looking forward: engaging stakeholders	22

Background

As part of strengthening the United Nations Economic and Social Council, Member States, at the 2005 World Summit, mandated the Council to convene a high-level biennial Development Cooperation Forum (DCF). The Forum will review trends in international development cooperation, including strategies, policies and financing; promote greater coherence among the development activities of different development partners; and strengthen the normative and operational link in the work of the United Nations. The General Assembly, in its resolution 61/16, further decided to launch the DCF in Geneva in July 2007 and to hold the first biennial Forum in New York in 2008.

To facilitate dialogue among stakeholders at the 2008 Development Cooperation Forum, the Department of Economic and Social Affairs of the United Nations Secretariat is supporting the organization of several nationally-led high-level symposiums, with particular focus on the key challenges facing development cooperation. The first High-level Symposium, organized in cooperation with the Government of Austria, was held in Vienna, on 19 and 20 April 2007. The theme of the symposium was “*Country-level experiences in coordinating and managing development cooperation*”¹.

Cairo High-level Symposium

The second symposium, organized in cooperation with the Government of Egypt, took place in Cairo, on 19 and 20 January 2008. The theme of the Cairo High-level Symposium was “*Trends in development cooperation: South-South and triangular cooperation and aid effectiveness*”. As a key preparatory event for the 2008 DCF, the discussions and key policy messages captured in the present report are expected to inform the consultative process and analytical preparations for the upcoming Forum.

The symposium aimed at improving the understanding of salient trends in international development cooperation and providing an inclusive venue for open and constructive dialogue between stakeholders by:

- Exploring the prospects of broadening the current agenda of making aid more effective, based on principles such as national leadership and mutual accountability.
- Examining the current practices and future prospects of conditionality; and
- Providing a better understanding of the principles and priorities that guide South-South and triangular development cooperation; and

Organized as a multi-stakeholder event, with the participation of high-level officials and individuals in an expert capacity, the symposium consisted of three plenary meetings. The event was attended by approximately 180 participants representing a wide range of stakeholders, including Ministers

¹ The report of the meeting, “*Vienna High-level Symposium: preparing for the Development Cooperation Forum*” (E/2007/80), is available at: www.un.org/ecosoc/newfunct/dfvienna.shtml.

from Egypt, Eritrea, Mozambique and Tanzania and high-level representatives from United Nations organizations, bilateral and multilateral aid agencies, regional and international organizations as well as civil society and parliaments².

Opening of the symposium

In his opening statement, Mr. *Ahmed Aboul Gheit*, Minister of Foreign Affairs of Egypt, drew attention to the global partnership for development and the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus to be held in Doha in December 2008. The discussion at the international level has so far revealed that most countries agree on the need to make further efforts in realizing the Monterrey Consensus, including for developed countries to live up to the commitment of increasing the volume of aid.

It was emphasized that these commitments have to be implemented with special consideration to the principles of aid effectiveness and national ownership, in particular, through the alignment of development assistance with national priorities in programme countries. With the support of donors, such priorities should be pursued through building and developing human and institutional capacities in order to enable effective absorption of development assistance at the country-level.

Making aid more effective was considered a joint responsibility of developed and developing countries. This becomes even more important in an increasingly complex environment where the vestiges of traditional development cooperation are still evident in the form of conditionality. Whether economic or political, imposing conditionality was seen as interfering in the internal affairs of countries and therefore in conflict with the principle of national ownership of development programmes and strategies.

The Minister concluded by noting that South-South development cooperation has been strengthened in recent years due to rapid economic growth in some developing countries which has resulted in enhanced capacity to offer assistance to other developing countries. However, South-South development cooperation should not be carried out to the detriment of North-South cooperation, but complement it, since capacities of developing countries are still limited.

Mr. *Leo Mérorès*, President of ECOSOC, highlighted the added value of the DCF in bringing together a broad range of development actors, including programme and donor countries, South-South cooperation partners, civil society, parliamentarians, foundations, private sector entities and global funds. The strength of the DCF is the ability to promote an informal and open dialogue among these diverse actors with the aim of influencing debates and decision-making in relevant inter-governmental bodies.

Accordingly, Member States and other stakeholders have high expectations that the DCF will be able to contribute new perspectives and approaches that can further improve the effectiveness and

² For the agenda and the list of registered participants please visit: www.un.org/ecosoc/newfunct/dcfeairo.shtml

coherence of international development cooperation. Thus, the Forum's deliberations are expected to provide policy guidance and recommendations which will be broadly-owned by the international community.

Ms. ***Asha-Rose Migiro***, Deputy Secretary-General of the United Nations, welcomed the increase in development actors while also cautioning that the resulting complexity of the aid architecture posed unprecedented challenges in terms of coordination. It was emphasized that the DCF will particularly aim to foster greater coherence among the collective development cooperation efforts of different international actors.

The Forum will also serve as a venue for discussing recent trends in international development cooperation, including topics such as South-South and triangular cooperation, decentralized cooperation and philanthropic actors. Contributing to the understanding of these and other new trends will mark the start of a serious process of review that will aim to make the DCF a cornerstone in the global partnership for development.

As such, the first Development Cooperation Forum will contribute to the preparations for Monterrey Follow-up Conference in Doha, particularly by informing the deliberations in the area of financial and technical cooperation for development. The Accra High-level Forum on Aid Effectiveness in September 2008 will provide another opportunity of influencing negotiations on international development cooperation.

Mr. ***Sha Zukang***, Under-Secretary-General for Economic and Social Affairs, concluded by outlining the main items for discussion at the Cairo High-level Symposium. The symposium would aim to generate ideas and suggestions on ways to further strengthen the existing *aid quality framework*, particularly to ensure equal and comprehensive ownership by both donors and programme countries.

Participants would also be expected to discuss the future of *conditionality*, especially whether conditionality has a place in an aid environment based on the global partnership for development. Finally, the symposium would focus on *South-South and triangular development cooperation* to learn about the approaches and potential of such cooperation. The DCF was seen as a potential venue to foster an inclusive dialogue on this issue.

The aid framework revisited

Aid architecture: still need for reform

With 24 international development banks, more than 250 bilateral and regional aid agencies and over 30 United Nations organizations engaged in development cooperation, attention was called to the broader structure of international development cooperation. A stronger focus was suggested on the challenges facing the aid architecture, yet it was also noted that if improvements were to happen, difficult decisions involving division of labour among aid providers would have to take place.

It was mentioned that the shortfalls of the international aid architecture could be addressed constructively at the global level, in part since lack of strong accountability at this level may ease the pressure on development partners in respect of living up to commitments relating to the delivery and use of aid. However, it was also emphasized that a number of important building blocks are already in place with the aim of strengthening the aid framework. Considering that the past has seen the wheel reinvented on numerous occasions with new mechanisms and concepts placing additional burden on programme countries, it was stressed that development partners should make better use of existing instruments.

The Monterey Consensus affirmed the global partnership for development which serves as a shared vision for the realization of the globally agreed development agenda. This partnership is currently being monitored by a number of instruments, including several focusing on monitoring the Millennium Development Goals (MDGs) and others, such as the Global Monitoring Report of the World Bank and the International Monetary Fund which take stock of whether developing and developed countries are living up to their commitments.

As part of the broader framework on financing for development, it was noted that the Paris Declaration on Aid Effectiveness contains a number of concrete commitments to support the achievement of the MDGs through national development strategies. Contemplating whether the Declaration could have been more ambitious, it was explained that the document was a negotiated outcome. While noting that aid delivery by non-governmental organizations is largely exempt from the present global framework for policy review and monitoring in the area of development cooperation, programme countries were also encouraged to develop a framework that would go beyond the Paris Declaration in guiding the donor-recipient relationship.

Enhancing the coherence and effectiveness of the aid architecture invariably is linked to reform of institutions of aid distribution as well as the system for international and financial governance which was seen as imbalanced and asymmetrical. It was pointed out that real ownership of the processes of aid delivery will be difficult to achieve unless the current balance of power is redressed, in particular in those institutions that play a continuing signaling role in aid and debt relief. This implies the need for reform of international financial institutions by enhancing the voice and representation of developing countries in relevant decision-making processes.

These issues were also seen as closely associated with the discussion on multilateral and bilateral trading agreements as well as international financial flows – all of which have an impact on the development trajectory of developing countries and their efforts to move out of aid dependency.

Priorities in aid quality: country-level perspectives

Aligning with national priorities

Despite broad agreement that aid policies of donors need to be aligned with national priorities of programme countries and that national ownership is a key precondition for enhancing the impact of aid, it was questioned whether programme countries are indeed in the driving seat in the partnership with donors. With most donors looking to the MDGs as guiding principles for development assistance, it was recognized that these goals should inform the drafting of medium-term development plans in programme countries, yet it was also emphasized that such planning should ultimately be anchored in and guided by domestically formulated development priorities.

Yet programme countries regularly experience challenges in identifying priorities in their medium-term planning since most donors understand pro-poor expenditures mainly as spending on MDG-related areas such as education and health. Many programme country governments, on the other hand, claim that such expenditures cannot be recuperated without spending on productive sectors that spur economic development. This point was appreciated by some donors who acknowledged that resources are necessary for these sectors and that advice should be provided as to how programme countries may best pursue such priorities.

Capacity development in practice

It was highlighted that national ownership would only come through adequate domestic capacities and conditionality, however well-intended, would not enable programme countries to leapfrog this process. A recent example was provided of a peer-review programme which stipulated that an action plan had to be developed for improving public financial management in a given country. Due to weak capacities a donor-driven plan was developed in lieu of a domestically conceived agenda. The plan, however, was set aside for a number of years since the capacities needed for implementation were not present. Only when sufficient capacities eventually were developed, a renewed plan was drawn up and implemented.

Recognizing the importance of building and developing national capacities, it was asked how this would translate into practice. Would it entail that national structures should always be used by donors, whether well-functioning or not, thereby abandoning completely the use of parallel implementation units? Or could a more pragmatic approach be pursued since the development needs of many countries cannot always wait for the establishment of adequate institutions and accountability structures through the national budget and national programmes?

Development actors were also urged to look critically at what kind of technical assistance is being provided to programme countries. Technical assistance was seen as an area of great ineffectiveness

which occasionally takes up more than its fair share of aid. It was proposed that the Paris process should consider putting a cap on the share that can be provided as technical assistance, instead of the current practice of focusing on the extent to which it is coordinated. Programme countries were encouraged to work out principles of good donor behaviour in this area since there are limited incentives for individual donors to exercise such leadership.

Avoiding a veneer of accountability

Programme countries have a particular strong need for capacity building in monitoring, analyzing and negotiating with donors in order to hold them effectively to task for pledges made at the national and international level. In addition, information asymmetries exist between donors and programme countries. Countries that are trying to improve donor behaviour and genuinely hold them to account do not have access to information on donor practices in other settings. This highlighted the importance of accelerating the sharing of 'best' and innovative practices among programme countries at the global and regional level.

A similar picture can be found with regard to current mutual accountability processes which to a large extent are either donor-led, in the sense that they rely on peer pressure among donors, or are independent structures with little underneath them in terms of programme country government input and leadership. With a few notable exceptions in which priorities have been developed domestically before engaging with donors, programme country governments were not seen to be monitoring in earnest the conduct and performance of donors.

Predictability and flexibility

Information on aid flows has so far only been backward-looking, but a new system by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC) is expected to provide information on projected donor aid flows. This system will be able to better assist programme countries in their medium-term planning and macroeconomic management, in particular as parliaments in donor countries generally only approve aid expenditures for one year ahead. The new system may also help the International Monetary Fund in terms of medium-term fiscal planning which in the past was recognized to suffer from a downward bias because of a pessimistic outlook on aid flows.

Examples were mentioned of how strategic planning in programme countries is made difficult by the short-term outlook of aid commitments by donors. In one recent case, a country adopted a five-year poverty reduction strategy with only three years of committed financing, assuming that it would be possible to mobilize resources at a later stage. Such conditions are not conducive to effective planning and often the result is that aid of lesser quality is matched by plans that are not sufficiently strong and clear.

Flexibility and the ability by donors to make quick adjustments were called for in respect of adapting projects and programmes to changing conditions in the external environment which go beyond initial predictions. Considering that development activities often stretch over several years, preceded at times by lengthy negotiations, initially defined problems may be less relevant or even

supplanted by new and more pressing issues during the course of these activities. It was also noted with concern that the international community was currently not giving due attention to the risk of exogenous shocks in developing countries such as natural disasters or commodity fluctuations by setting sufficient funds aside for those contingencies.

Inclusiveness and participation

A suggestion was made that the aid framework should be turned on its head by making the poor in their communities the focus of analysis. By empowering poor people to claim their rights, development would be put into a proper perspective. The definition of national ownership and government leadership in the current framework was seen as too narrow, particularly as national ownership does not simply assume democratic nature. A better definition of ownership and government leadership would therefore be helpful in the debate on aid quality.

With regard to budget support, it was asked whether it was appropriate for donors to stipulate that civil society should be part of consultations and policy dialogue at the country-level. In some donor countries, non-governmental organizations view budget support less favourably since dialogue with local stakeholders may be neglected. Rather than donors exerting control, a framework was proposed whereby programme country governments could be supported to conduct such consultations and hence be accountable to local stakeholders.

In addition to emphasizing the participation of stakeholders at the country level, it was highlighted that the details of the contractual relationship between donors and recipients are often negotiated in closed environments. Thus public access to policy documents was considered a critical part of broadening the debate on this relationship. The influence of parliaments was also noted in ensuring checks and balances of government, especially in terms of the relevance of its priorities as well as fiduciary control. It was suggested that programme countries with strong parliaments are more likely to receive the positive attention of donors.

Measuring aid quality: easier said than done

The challenges associated with measuring aid quality were outlined in discussing the choices of what to count and reward in such an exercise. It was emphasized that it is extremely difficult to develop measures of aid quality that both have wide consensus and can be practically implemented. One way for programme countries to assume ownership of the aid agenda would be to take more leadership in the design of instruments for measurement.

In presenting possible ways of measuring aid quality, one approach highlighted was to conduct more work along the lines of the Paris Declaration by gathering data on aid in order to measure issues such as predictability, volatility, etc. Another idea suggested was to assess the steps required for programme countries to access aid which would build on Hernando de Soto's work of measuring the number of steps to license a business in a given country. A more subjective approach could focus on surveying government perceptions of donor performance in terms of policies and procedures.

It was noted, however, that there are limits in defining aid quality with formulas. A good aid agency does not necessarily follow a formula, but has good people working for it who are empowered at the country level to make judgment calls based on local circumstances. Yet this begs the question of what constitute good agencies while at the same time illustrating the problems in exhausting definitions.

With regard to interpreting the data supporting the Paris process, it was mentioned that donors and programme countries disagree by a wide margin as to how much aid goes on budget. In addition, donors give very different answers from country to country. This shows that it is complicated to execute on grand ideas of aid quality and establish measurements that can be agreed on. On the other hand, it also indicates that the Paris Declaration has induced a healthy process in which donors and recipients may come to terms on basic questions such as how much aid goes on budget.

Exiting aid: consistent and coherent policies needed

With calls for integrated approaches in programme countries, it was also noted that donors should increasingly broaden the scope of domestic collaboration in the area of development cooperation. In achieving greater policy coherence, dialogue with policy sectors such as environment, trade, economy and finance would have to be strengthened. An integrated approach to development cooperation was particularly called for since domestic actors in donor countries are often considered part of the challenge in ensuring predictable and stable financing.

There was also a call for greater consistency in the policies of developed countries which have bearings on programme countries. It was questioned whether scaling down conditionality while also reaching the 0.7 per cent target³ would have a positive impact if trade policies were not changed accordingly to accommodate the integration of least developed countries in the world economy. Similarly, the practice of developed countries, on one hand, to promote development cooperation, while on the other offering incentives for skilled labour to emigrate from developing countries was highlighted as one area of inconsistency and prompted questions of who is actually aiding who.

In addition to discussing coherent and consistent donor policies, it was suggested that the international community should increasingly look at how responsibly to plan for exit strategies. It was emphasized that this did not imply that aid would cease to exist; instead it would shift attention to building self-reliance in programme countries. Considering that aid is a substitute for domestic resources, it was argued that it should be used to pursue activities that directly will help in generating more resources. Achieving revenues would include strengthening trade, local taxation systems as well the access to private capital for the purposes of long-term investment. Yet experience shows that some donors are reluctant to fund for example trade-related activities.

³ 0.7 per cent of GNI as Official Development Assistance from donors.

Effective exit strategies were to a large extent seen as a coherence issue. It was asked how programme countries will be able to develop the sources of revenue to become independent from aid if they are expected to depend largely on trade and foreign direct investment while at the same time being encouraged to eliminate any kind of revenue from trade in respect of tariffs or revenue from investment in the form of taxation of foreign enterprises. In one example, the contrast was highlighted between countries which have successfully renegotiated contracts with multinationals - and consequently experience increasing budget revenue - and countries which want to change this yet find themselves in situations where virtually no major multinationals are taxed.

While discussing exit strategies it was contemplated whether international development cooperation is currently driven by an incentive system. Questions were posed as to whether there are currently any incentives which reward programme countries moving out of aid dependency and whether any incentives reward aid agencies for successfully rendering themselves obsolete.

Conditionality

Words matter – does conditionality?

Conditionality was seen as an attempt at external control of domestic issues which runs counter to the commonly agreed notion that development strategies require internal acceptance and ownership. The tendency for untrammelled conditionality to supplant domestic planning and policy-making in programme countries was viewed as one of the big failures of international development cooperation, undermining the development of national capacities. Emphasizing the importance of national ownership, it was asserted that external donors do not necessarily know better what governments in programme countries should do to achieve economic growth, poverty reduction and sustainable development. In particular, it was noted that using aid to buy reform from unwilling governments will never work.

Regular attempts by donors to impart new meaning to conditionality have so far failed. Continued reliance on conditionality should rather be seen as a testament to the perceived failings of international development cooperation in delivering long-lasting results. Considered an egregious concept and heavily burdened with negative connotations, conditionality strongly implies disempowerment of programme countries. The partnership between donors and programme countries should instead be couched in positive terms and based on shared values with the focus on providing incentives to achieve results.

While the limits of conditionality were widely acknowledged, it was highlighted that some elements of conditionality may work if the conditions are set by programme countries themselves. Rather than coerce, conditionality should strengthen domestic policy and decision-making with the aim of reinforcing nascent or existing development efforts. In this regard, indicators and targets should be drawn from a nationally-owned development agenda, which would render the approach less intrusive while at the same time making it easier to show results. Thus to the extent that conditions or targets emanate from national development strategies, the notion of conditionality was considered tenable.

Conceptual and practical difficulties

There was consensus that conditionality will not work in the way it has been applied so far. Traditionally conditionality has fallen short by either failing to influence policies in programme countries or by actually influencing policies, but in a highly disruptive manner. For the most part, conditionality was considered to have had limited positive impact in programme countries.

The impact of international financial institutions was furthermore considered often to be exaggerated. It was suggested that they neither deserve as much credit as they sometimes claim for success stories, nor do they always deserve to be chastised for the failures to the extent these happen. One reason for their lack of leverage was seen to be internal pressure in the institutions to keep lending and disbursing regardless of results.

While subjecting the disbursement of funds to certain conditions may in some instances enhance aid effectiveness, misguided implementation has regularly had the opposite effect, with ample evidence that ex-ante policy-based conditionality does not work. The solution, at the same time, is not necessarily to shift the focus from policy to outcome-based conditionality. Although some participants argued in favour of outcome-based conditionality, others expressed concern with regard to the inclusion of indicators beyond the control of the executive branch of government and impractical monitoring with extraordinarily long lead-time.

On a conceptual level, it was argued that measuring the performance of a given country towards the MDGs is difficult considering the intricate fabric of conflicting interests, disparate political aspirations and opposing economic forces which are present in every society. Since the achievement of the MDGs cannot be attributed to any specific set of actions at the country-level, it is difficult to apply conditionality based on the attainment of such outcomes. Governments, however, do have responsibilities, as well as a key role to play in this regard, yet they are dependent on the actions of other stakeholders such as citizens, businesses as well as the international community.

The political context in programme countries is not always given due consideration in the design of conditionalities, with indicators sometimes disregarding such realities. As an example, it was mentioned that including indicators which require the cooperation of an active opposition may not always be realistic in countries with minority governments. By requiring cooperation while stipulating certain government actions, donors may create perverse incentives for the opposition not to cooperate since the government is locked-in by way of partnership with the donor.

Despite the fact that conditionality has been on the agenda for decades, a basic dilemma still exists in terms of interpreting the implications of the concept: if performance does not live up to expectations should this imply the allocation of more or less aid? On one hand, sub-par performance may indicate that there are problems hence more assistance is needed, but, on the other hand, good performance may suggest that assistance is well spent and thus warrants additional allocation. This dilemma is further compounded by the difficulty in attributing the achievement of results to any particular type of assistance or intervention.

Backdoor conditionality

In addition to pronounced conditionality, it was emphasized that the concept is sometimes applied in a more subtle manner. When it comes to funding, for example, donor priorities and criteria may only become evident during appraisals in programme countries or financing may be contingent on certain projects or initiatives not being implemented. Usually the argument is that engaging in other projects will take away attention from the priorities of the proposed project under consideration.

The partnerships between programme countries and donors may also become subject to ‘conditionality creep’ which implies that conditions are added over time. Unforeseen events may, for example, prompt more conditions to enhance performance, yet donors were strongly

encouraged to refrain from this practice. One example focused on donors offering cooperation in the area of environmental protection. In this area, milestones established in relation to a given programme may actually end up being reintroduced as conditionalities in other settings such as trade negotiations. In this respect, it was noted that environmental issues increasingly are tied to trade and discussed in such settings.

Another predicament for programme countries was considered donors requiring national resources to be spent as counterpart funds for initiatives not strictly in line with existing national development priorities. This practice undermines the principle of national ownership as well as the effective use of national resources, in particular for resources otherwise earmarked for infrastructure investment.

Throwing the baby out with the bathwater?

Amidst calls for putting an end to conditionality, some participants argued not to completely discount the notion, especially with regard to rule of law, governance and human rights since such cross-cutting issues are an integral part of the internationally agreed development agenda. Without respect for minimum standards in these areas development cooperation will not likely take hold, but it was also noted that governance conditionality in many instances is heavily driven by the ambition of donors with large numbers of intrusive and detailed conditions relating to public financial management, procurement and in some cases wider than that. This was pointed out as an important point of divergence between OECD/DAC donors and South-South cooperation partners.

While recognizing that programme countries often prefer development assistance from Southern contributors, it was acknowledged that these countries, as any other country in the world, give consideration to political interests. With a number of DAC donors increasingly providing development assistance in the form of budget support, it was suggested that programme countries now have more alternatives in terms of financing country-led development, in particular if OECD/DAC donors would become less involved in all dimensions of the budget process.

In contrast to the previous near-monopoly of DAC donors, it is now possible for developing countries to choose from multiple sources of funding, including emerging economies with a proven track record of spurring economic growth and whose development experiences may be of great interest and inspiration to other developing countries. This new context was seen as an opportunity for OECD/DAC donors to refocus and update their approaches in order to further strengthen their partnerships with programme countries.

The perception that Northern donors and Southern contributors of technical and financial support essentially focus their work on agendas that are completely separate, such as infrastructure and governance, was countered with the argument that progress in these areas is closely interlinked. For example, effective infrastructure development is dependent on the governance system since contracting is an important part of infrastructure development.

It was noted that while some developing countries are receiving less than flattering attention because of a comprehensive approach to the issues of aid, trade and investment, OECD/DAC donors have been seen to insist on aid conditionality in similar circumstances, e.g. in the context of negotiations of bilateral investment treaties and trade concessions. It was noted, though, that smaller donors are generally less inclined to insist on conditionality and that the declining importance of development assistance could eventually make donors less inclined to push for conditionality in development cooperation.

The elimination of conditionality in multi-donor budget support groups was seen to be difficult to achieve if such initiatives are not led by the larger donors. As long as international financial institutions insist on conditionality, donors willing to move beyond non-reciprocal relationships with programme countries will be faced with challenges. This may even mean that developing countries looking to join multi-donor groups may find themselves in a situation where they would need to apply conditionality in order to be part of such arrangements.

Mutual accountability and development contracts

Conditionality was criticized as a one-way accountability mechanism which more than anything else serves to disenfranchise programme countries. Within this flawed arrangement, donors were further criticized for adding specific accountability requirements thereby exacerbating an already skewed relationship. Promoting mutual accountability was seen as disingenuous if this at the same time implies conditionality combined with little or no opportunity for programme countries to review the performance of donors.

The tendency for mutual accountability to focus on process rather than results, i.e. how things are done rather than what is achieved, was also noted. The accountability of donor and programme country governments should instead be primarily to their respective parliaments and publics for what has been achieved as well as how money is being spent. It was also pointed out that the expected scaling up of development assistance is likely to intensify public scrutiny and debate on aid effectiveness in donor countries.

As a means of parting with conventional perceptions of conditionality, it was suggested that the notion should rather be understood as a development contract evolving from an open and sincere dialogue on development priorities. This process should be steered by programme countries through domestic identification of priorities for support by the international community. A clear agreement by programme countries and donors on the objectives and performance expectations would not only strengthen predictability in terms of financial flows but also in terms of behaviour.

Far from being a panacea, a number of open-ended questions were raised regarding development contracts. It was contemplated whether it would be understood and accepted if a programme country decided to terminate the contract, in particular if at some point the contract would be considered unable to deliver the results which made it domestically justifiable in the first place.

Even though a development contract would imply mutual accountability, the asymmetry of possible sanctions for breach of contract was also noted. While donors may contemplate an array of sanctions if a programme country does not live up to its obligations, programme countries are severely limited in imposing sanctions on donors to perform better. In addition to the lack of reciprocity, the question remains as to whether sanctions are at all conducive to bringing a partnership process back on track.

South-South and triangular development cooperation

Trends in South-South cooperation

In setting the stage for the discussion on South-South and triangular development cooperation, Mr. **Supachai Panitchpakdi**, Secretary-General of the United Nations Conference on Trade and Development, emphasized that as a subset of the global economic system, South-South cooperation is intricately linked to other means of international cooperation. Several key trends were highlighted:

- *South-South trade* has been growing relatively faster than trade at the global level. The volume of South-South trade currently stands at around 43 per cent of total global trade - and is expected to reach half of the total global trade volume in coming years.
- *Foreign direct investment* (FDI) used to be mobilized from advanced economies to poor economies, yet recent trends show an increasing outflow of investment from the South, mainly to other developing countries. Of approximately US\$1,400 billions in global FDI flows, developing countries now account for around US\$130 billions.
- At least 29 per cent of total *concessional lending* is presently among developing countries, with very limited conditionality. It was noted that there is need to discuss the type of contributions and framework which would provide alternative options in terms of responsive financing for developing countries.
- *Regional trade agreements* are proliferating in regions such as Asia and Africa, yet these instruments are not always structured in a way that provides the full extent of benefits to participating economies. In respect of regional cooperation and integration, it was also cautioned that those efforts should not be confined only to trade market access negotiations.

In the broader context of the global economic system, Mr. Supachai called attention to the emergence of strong developing economies which have been instrumental in fostering a decoupling from the current financial turmoil in some markets. In this regard, the growing role of sovereign wealth funds was also emphasized while noting the adverse effect of ensuing calls for protectionist measures in developed countries.

The dismal outlook for the Doha trade negotiations was furthermore noted, however, it was highlighted that the Doha Development Agenda has helped broaden South-South cooperation beyond the areas of trade, investment and aid to also include trade negotiations. Experiences point to developing countries increasingly grouping together in certain areas of negotiations in order to strengthen their position in the context of, for example, reform of agricultural trade.

As part of Doha, the Agreement on Trade-Related Aspects of Intellectual Property has further broadened opportunities for South-South cooperation in trade and assistance, especially in the area of public health including pharmaceuticals for malaria, tuberculosis and HIV/AIDS. Accordingly,

exemptions from some of the intellectual property rules have made it easier for poor countries to gain access to essential medication and generic medicine is now being produced in developing countries.

Attention was also called to the discussions on global and regional public goods which include issues such as climate change, water management, transportation, standardization and financial stability. It was mentioned that debate at the South-South level would be critical in these areas in order to inform solutions and agreements at the global level.

The transfer of technology was highlighted as a key issue that developing countries would like to advance through the global discussions on climate change. It was argued that without this transfer there would not be real participation by developing countries in climate change discussions - and without triangular cooperation no real transfer of technology would take place.

Achieving progress in the third round of negotiations on the so-called Global System of Trade Preferences was seen as critical in furthering South-South cooperation. Conceived as a framework for exchanging trade preferences among developing countries in order to promote intra-developing country trade, progress has so far been dismal. Thus developing countries were urged to consider engaging constructively with one another in this area.

With regard to financial support for trade financing, the focus should be on trade rules and market access to enhance South-South cooperation. It was noted that it is sometimes easier to secure financing for North-South rather than South-South trade. As a remedy, it was suggested that developing countries should identify measures to guarantee adequate financing, especially in times of great shortages of financing for South-South trade.

Shortage of financial support was seen as a general constraint to South-South cooperation, and developed countries were therefore urged to live up to their commitment in terms of official development assistance, reduce debt for poor countries and provide more support for triangular cooperation as well as eliminating trade protectionism.

Balancing the gains of South-South cooperation

South-South economic cooperation was considered still to be limited with primarily large, emerging economies driving the process and a number of countries not fully experiencing the benefits of such opportunities. It was also questioned whether market mechanisms would be able to achieve a more balanced and even distribution in terms of involvement of developing countries in this process. In addition to geographic focus, South-South activities tend to be confined to certain sectors, with a significant share of activities concentrated in extractive industries. Countries were encouraged to broaden the scope of these activities in order to better link up with national endowments of developing countries participating in South-South economic cooperation.

With investment in extractive industries growing rapidly, in particular among transnational corporations involved in mineral and energy-related activities, there is need for better cooperation between host and home countries. In order to make these investments work well so that rental gains will be captured in the local communities, enhanced revenue transparency will be required. Thus support for the Extractive Industries Transparency Initiative was encouraged even though few countries and transnational corporations have signed on.

Surging oil prices have resulted in huge accumulation of gains concentrated in certain countries. However, the wealth transferred from oil importing countries to the part of the world that have net oil exporting revenues is not always from the North to the South. Most of the time, it is mainly from the poor net oil importing countries to other developing countries, including middle income countries.

Comparative advantages

In the general discussion, it was emphasized that South-South development cooperation has been playing a growing role as a complement to traditional North-South cooperation. Even though the volume of South-South development cooperation remains limited, the relative decline in North-South development cooperation has made its growth seem even more spectacular.

While the growing volume of South-South development cooperation is recognized as a significant trend, developing countries often highlight the responsiveness of this support as a more important feature. It was noted that traditional North-South development cooperation actors would do well to emulate some of the successful principles of South-South cooperation. It was also contemplated whether the continuing impasse in the Doha trade negotiations has contributed to the growth in South-South cooperation in recent years.

It was pointed out that developing countries tend to share common views on national development strategies and priorities when faced with similar development challenges. This proximity of experiences was considered a key feature in the South-South cooperation. It was furthermore emphasized that using developed countries as benchmarks only goes to show the size of the development challenge facing developing countries, whereas South-South development cooperation bears witness to the process of capacity development actually taking hold.

Different horses for different courses

South-South development cooperation, in some instances, is limited to technical cooperation, scholarships and training, while in others it includes financial support, joint public investment and humanitarian assistance. Some developing countries have opted to consolidate the management of South-South cooperation under a distinct entity, whereas others employ a more decentralized approach with different focal points depending on the type of support provided.

On the receiving end the picture is also varied since central bodies responsible for coordination and management of technical and financial support do not always exist in developing countries. To deal with such a constraint, it was seen important to engage appropriate local entities which would not rely on a ready-made solution. Similarly, it was pointed out that Southern providers of support are also gaining valuable experiences as well as enhancing professional skills and institutional capacities by cooperating with other developing countries.

Yet a general reluctance was voiced against viewing South-South development cooperation through the existing North-South prism, with terms such as donors and recipients since the existing framework and taxonomy imply a relationship based on conditionality. In particular the notion of ‘emerging donors’ was seen as poorly fitting for a number of developing countries currently awarded those epithets. It was suggested that to the extent this term would be applied, it should be used to describe OECD donors that are not members of the DAC. Furthermore, the term bilateral ‘donor’ was suggested to be exclusively associated with developed countries.

Current challenges

There are still obstacles to the expansion of South-South development cooperation despite significant progress so far. This is particularly true in countries lacking both well-defined national policies for economic development and effective institutional support structures. There is also limited information on success stories in South-South development cooperation and lack of credible project databases and reliable records of financial flows as well as standardized methodology to ensure that the typical “in kind” contributions of South-South technical cooperation projects are properly documented in financial terms.

Lack of incentives for developing countries to expand South-South and triangular development cooperation was noted as another constraint to continued growth in this area, in part because North-South cooperation may be easier and provide more direct benefits. It was also stressed that addressing a number of public sector inefficiencies in developing countries could help to accelerate the process of South-South cooperation. Insufficient data and information, particularly relating to resources, products and investment opportunities was similarly noted as a constraint to furthering South-South cooperation.

It was noted that the support of the international community for South-South cooperation, particularly at the operational level, was sometimes wanting. For national actors, for example, it may be exceedingly difficult to engage with regional and other Southern partners since their knowledge is often limited to a particular local context. More support from regional and international aid agencies to support this process was encouraged, in particular to make new or existing mechanisms to connect developing countries with regional and international actors more visible.

The United Nations system was particularly encouraged to strengthen its support for South-South and triangular development cooperation by:

- Conducting assessments of the impact and sustainability of South-South development cooperation initiatives;
- Setting up mechanisms to guide the increasing participation of non-governmental organizations and businesses in South-South and triangular development cooperation projects;
- Improving the management of South-South development cooperation through tailor-made quality control mechanisms as well as the formulation of international guidelines regarding the dissemination of information on projects and results derived from them; and
- Standardizing and monitoring internationally exchanged information on South-South development cooperation.

Possible avenues for coordination

South-South development cooperation was particularly lauded for respecting the different visions of different development actors. At the same time, it was emphasized that this approach may weaken more coordinated dialogue among developing countries on common strategies. In addition, considering that some modalities of South-South development cooperation cover the same topics, geographic areas or populations, it was noted that there may be scope for harmonizing the various concepts and perspectives that apply to such cooperation in order to maximize the impact.

It was mentioned that some developing countries may be reluctant to accede to international frameworks such as the Paris Declaration on Aid Effectiveness since such commitment may potentially create a conflict with ongoing or planned engagement in South-South cooperation. Southern providers of support, on the other hand, were complimented for taking a more active role in the international dialogue on development cooperation issues. These actors were also encouraged to contribute to the discussion on the current aid architecture, in particular as to whether the current processes are becoming too demanding and complex.

With South-South development cooperation increasingly offering an important complement to the traditional North-South framework - and a growing number of developing countries cooperating with each other - it was seen as vital to identify a suitable and practical mechanism that would be able to propel this alternative approach forward as well as help coordinate efforts in a more structured manner. The Development Cooperation Forum was expected to further this process of dialogue among developing countries involved in development cooperation. It was suggested that an initial approach could focus on the sharing of experiences which could serve as the basis for agreeing on a mechanism which could further a more coordinated approach to South-South development cooperation.

It was highlighted that efforts to promote South-South development cooperation should be informed by the framework established by the South Summits of the Group of 77 and China in Havana (2000) and Doha (2005). In addition, attention was brought to the coordinating role of the United Nations General Assembly High-level Committee on South-South Cooperation as well as the Buenos Aires Plan of Action Follow-up in 2009.

Key policy messages

The following key policy messages were derived from the discussions held at the Cairo symposium:

1. Enhancing the coherence and effectiveness of the aid architecture will require reform of institutions of aid distribution as well as the system of international and financial governance;
2. National ownership will not happen without adequate domestic capacities, yet there are currently little incentives for individual donors to go beyond coordinating technical cooperation in order to contribute towards this end;
3. Conditionalities regularly fall short by either failing to influence policies or by actually influencing policies but in a disruptive manner. Conditionalities have undermined the development of domestic planning and policy-making capacities in programme countries;
4. The use of outcome-based conditionality has contributed to enhanced focus on achieving development objectives and improved policy dialogue between donor and programme countries, yet experiences suggest methodological difficulties in assessing its impact;
5. Elimination of conditionality in multi-donor budget support groups will be difficult to achieve if such initiatives are not led by the larger donors. As long as they insist on conditionality, donors willing to move beyond non-reciprocal relationships with programme countries will be faced with challenges;
6. Mutual accountability processes are too often donor-led with little underneath them in terms of programme country input and leadership. The accountability of donor and programme governments should be primarily to their respective parliaments and publics;
7. Programme countries need to take more ownership of the aid quality agenda by assuming leadership in the design of instruments for assessment and measurement;
8. Donor countries need consistent policies in areas such as development, trade and investment, as well as coherent policies across government portfolios, in order to provide programme countries with better possibilities of exiting aid dependency;
9. The growing volume of South-South development cooperation is significant, yet the responsiveness of this support is an even more important feature. There is scope for traditional North-South development cooperation actors to emulate some of the successful principles of South-South cooperation; and
10. With a growing number of developing countries cooperating with each other, it is vital to identify a suitable and practical mechanism(s) to propel this alternative approach further as well as help coordinate efforts in a more structured manner.

Looking forward: engaging stakeholders

As the last key preparatory event for the 2008 DCF, a multistakeholder event will be held in collaboration with the Government of Italy. The objective of the Rome Stakeholder Forum will be to engage representatives primarily from parliaments, local governments and civil society in an open and inclusive dialogue on concrete development cooperation issues in their respective areas of work.