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**High-level segment: Development  
Cooperation Forum**

### **Letter dated 25 April 2008 from the Permanent Representative of Egypt to the United Nations addressed to the President of the Economic and Social Council**

I have the honour to transmit herewith the report of the Cairo High-level Symposium: Preparing for the Development Cooperation Forum, which was held in Cairo, on 19 and 20 January 2008 (see annex).

I would be grateful if you would circulate the present letter and its annex as a document of the Economic and Social Council, under agenda item 2 (b) of the provisional agenda to the 2008 substantive session of the Council.

(Signed) Maged **Abdelaziz**  
Permanent Representative

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\* E/2008/100.



**Annex to the letter dated 25 April 2008 from the Permanent Representative of Egypt to the United Nations addressed to the President of the Economic and Social Council**

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

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

**19-20 January 2008**

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## **I. Introduction**

1. As part of efforts to strengthen the Economic and Social Council, Member States, at the 2005 World Summit, mandated the Council to convene a high-level biennial Development Cooperation Forum to 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, decided to launch the Forum in Geneva in July 2007 and to hold the first biennial Forum in New York in 2008.

2. To facilitate dialogue among stakeholders at the 2008 Development Cooperation Forum, the Department of Economic and Social Affairs of the 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.<sup>1</sup> The theme of the symposium was “County-level experiences in coordinating and managing development cooperation”.

## **II. Cairo High-level Symposium**

3. 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 Development Cooperation Forum in 2008, 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.

4. 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:

(a) Exploring the prospects of broadening the current agenda of making aid more effective, based on principles such as national leadership and mutual accountability;

(b) Examining the current practices and future prospects of conditionality;

(c) Providing a better understanding of the principles and priorities that guide South-South and triangular development cooperation.

5. 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 from Egypt, Eritrea, Mozambique and the United Republic of Tanzania and high-level representatives

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<sup>1</sup> E/2007/80.

from United Nations organizations, bilateral and multilateral aid agencies, regional and international organizations and civil society and parliaments.<sup>2</sup>

### III. Opening of the Symposium

6. In his opening statement, Mr. Ahmed About Ghelt, Minister for 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, which is 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 efforts by developed countries to live up to the commitment of increasing the volume of aid.

7. It was emphasized that these commitments have to be implemented with special consideration for 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.

8. Making aid more effective was considered a joint responsibility of developed and developing countries, which is 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.

9. 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.

10. Mr. Leo Merores, President of the Economic and Social Council, highlighted the added value of the Forum 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 Forum lies in its ability to promote an informal and open dialogue among diverse actors with the aim of influencing debates and decision-making in relevant intergovernmental bodies.

11. Accordingly, Member States and other stakeholders have high expectations that the Forum will be able to contribute new perspectives and approaches that can further improve the effectiveness and coherence of international development cooperation. Thus, the Forum's deliberations are expected to provide policy

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<sup>2</sup> For the agenda and the list of registered participants please see: [www.un.org/ecosoc/newfunct/dcfcairo.shtml](http://www.un.org/ecosoc/newfunct/dcfcairo.shtml).

guidance and recommendations that will be broadly owned by the international community.

12. Ms. Asha-Rose Migiros, Deputy Secretary-General of the United Nations, welcomed the increase in the number of 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 Forum will aim, in particular, to foster greater coherence among the collective development cooperation efforts of different international actors.

13. 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 Forum a cornerstone in the global partnership for development.

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

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

16. 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 Forum was seen as a potential venue to foster an inclusive dialogue on this issue.

## **IV. The aid framework revisited**

### **A. Aid architecture: still need for reform**

17. 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, while it was also noted that if improvements were to take place, difficult decisions would have to be made with regard to the division of labour among aid providers.

18. It was mentioned that the shortfalls in the international aid architecture could be addressed constructively at the global level, in part since lack of strong accountability at that 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 regard to the strengthening of the aid framework. Considering that in the past the “wheel has been 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.

19. 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, as well as others, such as the *Global Monitoring Report* of the World Bank and the International Monetary Fund (IMF), which takes stock of whether developing and developed countries are living up to their commitments.

20. 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 Millennium Development Goals through national development strategies. In discussing whether the Paris 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.

21. Enhancing the coherence and effectiveness of the aid architecture is invariably linked to reform of institutions of aid distribution as well as the system for international and financial governance, which was seen as being imbalanced. 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 continue to play a leading role in aid and debt relief. This implies the need for the reform of international financial institutions by enhancing the voice and representation of developing countries in relevant decision-making processes.

22. These issues were also seen as closely associated with the discussion on multilateral and bilateral trading agreements and 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.

## **B. Priorities in aid quality: country-level perspectives**

### **1. Aligning with national priorities**

23. Despite broad agreement that donors’ aid policies need to be aligned with the 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 Millennium Development Goals as guiding principles for development assistance, it was recognized that the Goals should inform the drafting of medium-term development plans in programme countries. It was also

emphasized, however, that such planning should ultimately be anchored in and guided by domestically formulated development priorities.

24. Programme countries regularly experience challenges in identifying priorities in their medium-term planning since most donors understand pro-poor expenditures mainly as spending on areas related to the achievement of the Millennium Development Goals, 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 those sectors and that advice should be provided as to how programme countries may best pursue such priorities.

## **2. Capacity development in practice**

25. It was highlighted that national ownership would only come through adequate domestic capacities and that 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 specific country. Owing to weak capacities, a donor-driven plan was developed in lieu of a domestically conceived agenda. The plan was set aside for a number of years, however, because the capacities needed for implementation were not present. Only when sufficient capacities were eventually developed was a renewed plan drawn up and implemented.

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

27. Development actors were also urged to look critically at what kind of technical assistance is being provided to programme countries. The field of technical assistance was seen as an area of great ineffectiveness, which sometimes 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.

## **3. Avoiding a veneer of accountability**

28. Programme countries have a particularly strong need for capacity-building in monitoring, analysing 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. These factors



highlighted the importance of accelerating the sharing of “best” and innovative practices among programme countries at the global and regional level.

29. A similar scenario 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 support in terms of input or leadership from the Government of the programme country. 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 the conduct and performance of donors in earnest.

#### **4. Predictability and flexibility**

30. Information on aid flows has so far only been backward-looking, but a new system introduced by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) is expected to provide information on projected donor aid flows. The 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 IMF in terms of medium-term fiscal planning, which in the past was recognized as suffering from a downward bias because of a pessimistic outlook on aid flows.

31. 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.

32. 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 that go beyond initial predictions. Considering that development activities often stretch over several years, preceded at times by lengthy negotiations, problems defined at the outset may be less relevant or even supplanted by new and more pressing issues as time goes by. 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, including natural disasters or commodity fluctuations, by setting sufficient funds aside for such contingencies.

#### **5. Inclusiveness and participation**

33. A suggestion was made that the aid framework should be turned on its head by making the poor and 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 a democratic nature. A better definition of ownership and government leadership would therefore be helpful in the debate on aid quality.

34. 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 thus be accountable to local stakeholders.

35. 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. Public access to policy documents was thus considered to be a critical part of broadening the debate on that relationship. The influence of parliaments was also noted in ensuring checks and balances in government, especially in terms of the relevance of its priorities and fiduciary control. It was suggested that programme countries with strong parliaments are more likely to receive the positive attention of donors.

### **C. Measuring aid quality: easier said than done**

36. The challenges associated with measuring aid quality were outlined in discussing decisions on what to measure and what to reward in such an exercise. It was emphasized that it is extremely difficult to develop measures of aid quality that have both wide consensus and practical implementation. 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.

37. In presenting possible ways of measuring aid quality, one approach highlighted was to conduct more work along the lines set out in the Paris Declaration, that is gathering data on aid to measure various issues, including predictability and volatility. Another idea suggested was to assess the steps required for programme countries to access aid, which would build on Hernando de Soto's work in 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.

38. 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 employs good people who are empowered at the country level to make judgement calls based on local circumstances.

39. With regard to interpreting the data supporting the Paris process, it was mentioned that donors and programme countries disagree to a great degree on how much aid should be devoted to budget. In addition, donors give very different answers depending on the country in question. 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 introduced a healthy process in which donors and recipients may be able to come to terms on basic questions.

### **D. Exiting aid: the need for consistent and coherent policies**

40. 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 need to be strengthened. In particular, an integrated approach to development cooperation was called for since domestic actors in donor countries are often considered part of the challenge in ensuring predictable and stable financing.

41. There was also a call for greater consistency in the policies of developed countries that have a bearing on programme countries. It was questioned whether scaling down conditionality while also continuing efforts to reach the 0.7 per cent target<sup>3</sup> would have a positive impact if trade policies were not changed accordingly in order to accommodate the integration of least developed countries into the world economy. Similarly, the practice of developed countries of promoting development cooperation on the one hand while offering incentives for skilled labour to emigrate from developing countries on the other was highlighted as an area of inconsistency, which prompted questions of who is actually aiding who.

42. In addition to discussing coherent and consistent donor policies, it was suggested that the international community should increasingly look at how to plan responsibly for exit strategies. It was emphasized that this did not imply that aid would cease, but that the focus would rather shift 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 help in generating more resources. Achieving revenues would include strengthening trade, local taxation systems and access to private capital for the purpose of long-term investment. Yet experience shows that some donors are reluctant to fund trade-related activities.

43. Effective exit strategies were to a large extent seen as a coherence issue. It was asked how programme countries would be able to develop sources of revenue to enable them to become independent of aid if they are expected to depend largely on trade and foreign direct investment while at the same time being encouraged to eliminate all kinds 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 that have successfully renegotiated contracts with multinationals, and have consequently experienced increasing budget revenues, and countries that want to make such a change yet find themselves in a situation where virtually no major multinationals are taxed.

44. 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 that reward programme countries moving out of aid dependency and whether any incentives reward aid agencies for successfully rendering themselves obsolete.

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<sup>3</sup> 0.7 per cent of GNI as official development assistance (ODA) from donors.

## **V. Conditionality**

### **A. Words matter — does conditionality?**

45. Conditionality was seen as an attempt at external control of domestic issues that 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 policymaking in programme countries was viewed as one of the major 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 than Governments in programme countries what should be done 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.

46. Regular attempts by donors to impart new meaning to conditionality have failed thus far. 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 one 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 a focus on providing incentives to achieve results.

47. While the limits of conditionality were widely acknowledged, it was highlighted that some elements of conditionality may work if the conditions are set by the 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.

### **B. Conceptual and practical difficulties**

48. 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 influencing policies albeit in a highly disruptive manner. For the most part, conditionality was considered to have had limited positive impact in programme countries.

49. The impact of international financial institutions was also considered to have been exaggerated. It was suggested that they neither deserve as much credit as they sometimes claim for success stories nor to be chastised for failures to the extent that they occur. One reason for their lack of leverage was seen to be internal pressure within the institutions to keep lending and disbursing regardless of results.

50. 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, however, 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.

51. On a conceptual level, it was argued that measuring the performance of a given country towards achievement of the Millennium Development Goals is difficult considering the intricate fabric of conflicting interests, the disparate political aspirations and the opposing economic forces present in every society. Since the achievement of the Goals 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, which do have responsibilities, however, as well as a key role to play in this regard, are still dependent on the actions of other stakeholders such as citizens, businesses and the international community.

52. 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 that require the cooperation of an active opposition may not always be realistic in countries with minority Governments. By requiring cooperation while stipulating certain actions by Governments, donors may create perverse incentives for the opposition not to cooperate since the Government in power may be locked-in by way of partnership with the donor.

53. 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 and that 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.

### **C. Backdoor conditionality**

54. 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 weaken focus on the priorities of the proposed project under consideration.

55. The partnerships between programme countries and donors may also become subject to “conditionality creep”, which implies that conditions are added over time. For example, unforeseen events may prompt more conditions to enhance performance. Donors were strongly encouraged to refrain from this practice. One example focused on donors offering cooperation in the area of environmental protection, where 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.

56. Another predicament for programme countries was the requirement of donors that national resources be spent as counterpart funds for initiatives not strictly in line with existing national development priorities, a practice that undermines the principle of national ownership and the effective use of national resources, in particular resources otherwise earmarked for infrastructure investment.

#### **D. Throwing the baby out with the bathwater?**

57. Amid 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. 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, even broader areas. This was pointed out as a significant point of divergence between OECD/DAC donors and South-South cooperation partners.

58. While recognizing that programme countries often prefer development assistance from Southern contributors, it was acknowledged that these countries, like other countries 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.

59. 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, 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.

60. 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 by 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.

61. 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, for example in the context of negotiations of bilateral investment treaties and trade concessions. It was noted, however, 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.

62. The elimination of conditionality in multi-donor budget support groups was perceived as being 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 may need to apply conditionality in order to be part of such arrangements.

## **E. Mutual accountability and development contracts**

63. 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 it simultaneously implies conditionality combined with little or no opportunity for programme countries to review the performance of donors.

64. The tendency for mutual accountability to focus on process rather than results, that is, how things are done rather than what is achieved, was also noted. The primary accountability of donor and programme country Governments should instead be to their respective parliaments and public sectors with regard to what has been achieved and how money has been 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.

65. 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. That process should be steered by programme countries through the domestic identification of priorities for support by the international community. A clear agreement between 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.

66. 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 a contract, in particular if at some point under the contract it would not be possible to deliver the results that made it domestically justifiable in the first place.

67. 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 restricted in imposing sanctions on donors that do not perform well. In addition to the lack of reciprocity, the question remains as to whether sanctions are conducive to bringing a partnership process back on track.

## **VI. South-South and triangular development cooperation**

### **A. Trends in South-South cooperation**

68. 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 (UNCTAD), 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.

69. 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 it is expected to reach half of the total global trade volume in the coming years.

70. In general, foreign direct investment used to flow from advanced economies to poor economies, but recent trends show an increasing outflow of investment from the South, mainly to other developing countries. Of approximately \$1,400 billion in global foreign direct investment, developing countries now account for around \$130 billion.

71. At least 29 per cent of total concessional lending is presently carried out 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.

72. Regional trade agreements are proliferating in 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.

73. In the broader context of the global economic system, the Secretary-General of UNCTAD called attention to the emergence of strong developing economies that 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 emphasized and the adverse effect of ensuing calls for protectionist measures in developed countries was also noted.

74. The dismal outlook for the successful outcome of the Doha trade negotiations was discussed. It was highlighted, however, that the Doha Development Agenda has helped broaden South-South cooperation beyond the areas of trade, investment and aid to include trade negotiations. Experience points to developing countries increasingly grouping together in certain areas of negotiations in order to strengthen their position, including in the context of the reform of agricultural trade.

75. As part of the Doha negotiations, 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 the treatment of 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 medications and generic medicine is now being produced in developing countries.



76. Attention was also called to the discussions on global and regional public goods, including 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.

77. 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 such a transfer there would not be real participation by developing countries in climate change discussions, and that without triangular cooperation no real transfer of technology would take place.

78. 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 trade between developing countries, progress has so far been dismal. Thus developing countries were urged to consider engaging constructively with one another in this area.

79. 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.

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

## **B. Balancing the gains of South-South cooperation**

81. South-South economic cooperation was still considered to be limited, with primarily large, emerging economies driving the process and a number of countries not fully benefiting from such opportunities. It was also questioned whether market mechanisms would be able to achieve a more balanced distribution in terms of the 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.

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

83. Surging oil prices have resulted in huge accumulation of gains concentrated in certain countries. However, the wealth transferred from oil importing countries to parts 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.

### **C. Comparative advantages**

84. 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.

85. While the growing volume of South-South development cooperation is recognized as a significant trend, developing countries often highlight the responsiveness of such support as its 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.

86. 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 South-South cooperation. It was also emphasized that using developed countries as benchmarks only goes to show the size of the development challenges facing developing countries, whereas South-South development cooperation bears witness to the fact that the process of capacity development is actually taking hold.

### **D. Different horses for different courses**

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

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

89. A general reluctance was voiced against viewing South-South development cooperation through the existing North-South prism, using 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 being

an ill suited term for a number of developing countries. 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 Development Assistance Committee. Furthermore, the term bilateral “donor” was suggested to be exclusively associated with developed countries.

## **E. Current challenges**

90. Despite significant progress, there are still obstacles to the expansion of South-South development cooperation. 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 a lack of credible project data, reliable records of financial flows and a standardized methodology ensuring that the typical “in kind” contributions of South-South technical cooperation projects are properly documented in financial terms.

91. 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 also noted as being a constraint to furthering South-South cooperation.

92. 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 partners from the South since their knowledge may be 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.

93. The United Nations system was encouraged to strengthen its support for South-South and triangular development cooperation, in particular by:

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

## **F. Possible avenues for coordination**

94. 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 impact.

95. 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 have become too demanding and complex.

96. 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 and to 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 that could further a more coordinated approach to South-South development cooperation.

97. 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 General Assembly High-level Committee on South-South Cooperation as well as the follow-up to the Buenos Aires Plan of Action in 2009.

## **VII. Key policy messages**

98. The following key policy messages were derived from the discussions held at the Cairo High-level Symposium:

(a) Enhancing the coherence and effectiveness of the aid architecture will require reform of the institutions of aid distribution and the system of international and financial governance;

(b) National ownership will not take place without adequate domestic capacities, yet there are currently few incentives for individual donors to go beyond coordinating technical cooperation to contribute towards that goal;

(c) Conditionalities regularly fall short either by failing to influence policies or by actually influencing policies but in a disruptive manner; they have undermined

the development of domestic planning and policymaking capacities in programme countries;

(d) 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;

(e) 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 the larger donors insist on conditionality, donors willing to move beyond non-reciprocal relationships with programme countries will face challenges;

(f) Mutual accountability processes are too often donor-led with little to support them in terms of programme country input and leadership. The primary accountability of donor and programme Governments should be to their respective parliaments and public sectors;

(g) Programme countries need to assume more ownership of the quality of the aid agenda by assuming leadership in the design of instruments for assessment and measurement;

(h) 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;

(i) The growing volume of South-South development cooperation is significant, yet the responsiveness of such 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;

(j) With a growing number of developing countries cooperating with each other, it is vital to identify a suitable and practical mechanism or mechanisms to propel this alternative approach forward and to coordinate efforts in a more structured manner.

## **VIII. Looking forward: engaging stakeholders**

99. As the final key preparatory event for the 2008 Development Cooperation Forum, a multi-stakeholder event will be held in collaboration with the Government of Italy. The objective of the Rome Stakeholders Forum will be to engage representatives primarily from parliaments, local governments and civil society in an open and inclusive dialogue on concrete issues related to development cooperation in their respective areas of work.