Session 1. What types of resources are required by developing countries?

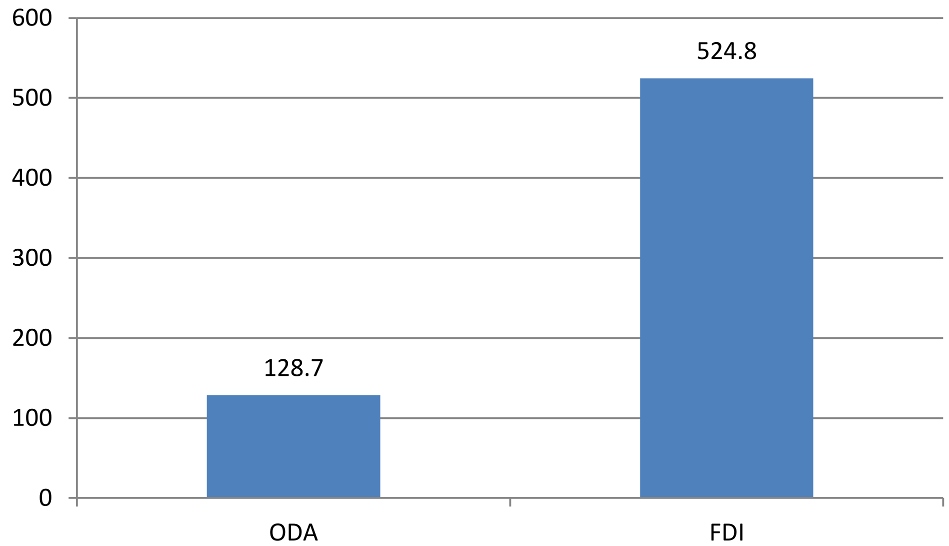
FDI from the BRICS

Structure of the session

- Types of external resources, which come and concentrate in developing countries:
  - FDI;
  - ODA and other types of development finance.
- The role of the private capital in the socioeconomic development of the poorest countries;
- How bilateral and multilateral ODA and private capital from BRICS differ from the investments from other donors?
- What developing countries do to attract private and public resources from developed countries?
- What types of FDI are most important for developing countries and for particular sectors of developing countries?

Types of external resources in developing countries

ODA and FDI flows to developing countries in 2010



Official Development Assistance, provided by emerging economies
(2006 – 2010)

Country	2006	2007	2008	2009	2010
Brazil	365	437	350	400	**1 200**
China	1000-1500	1400	1750	1900	-
India	600	392,6	609,5	510	-
South Africa	-	**61**	-	-	-

Source: Economist, Devex

Reasons

- Companies can invest on a large scale to developing countries;
- they may have expert skills and knowledge, even the ability to develop their own technology, taking advantage of their scale;
- encourage pro-growth policy outcomes and associated governance improvements;
- visible to the public and their leaders and they may feel, especially when foreign to the country in which they operate

Innovative Development Finance in Corporate Sector

- Optimizing the development impact of the corporate sector also requires innovation around new types of financing arrangements:
  - foreign exchange liquidity facilities;
  - subordinated equity funds;
  - loan guarantees;
  - challenge funds:
    - designed to encourage businesses to develop new approaches to development,
    - DFID's Africa Enterprise Challenge Fund (AECF).
- Impact investing:
  - Global Impact Investment Network (GIIN)
    - 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.' (GIIN, 2012)
  - Ghana's Venture Capital Trust Fund (VCTF) (2004):
    - the VCTF aims 'to provide low cost financing to businesses so they can grow, create jobs and wealth' (VCTN, 2012);
    - The Government provided USD15 million in seed funding, and through collaboration with local and foreign investors,
    - The VCTF now has USD55 million in funds under management.
    - Since its inception, the trust estimates that it has financed 3,500 farmers directly, as well as 2,500 others jobs directly, and 4,500 indirectly.

Interaction of donors and international business' interests

What is an added value of interaction between business and donors?

Added Value for Donors

- Cooperation with business can form a basis for effective achievement of objectives, rather than a separate objective or program in its own right;
- Business engagement forms a part of many familiar development approaches: private sector development, M4P, value chain development.

Added Value for Business

- Donors may actually play more of a facilitating role as brokers of knowledge and relationships;
- Value brand reputation and promotion.

Types of business in developing countries

- Large multinational companies;
  - addressing cross-border issues,
  - developing complex or specialised technological solutions;
  - more impact in addressing problems created by particular local challenges.
- State owned companies
- Social enterprises
- Home country companies:
  - less cost effective choice.

Modes of engagement

- **Consultation and dialogue:**
  - mobilizing information and views that can inform governments, donors and donor advocacy efforts.
- **Establishing information exchange and networking platforms focused on particular issues:**
  - Global Alliance for Improved Nutrition (GAIN), 2005;
  - Global Greenhouse Gas Flaring Reduction Partnership, 2002.
  - Company Community Partnership for Health in Indonesia, 2008.
- **Linking businesses to create new opportunities:**
  - providing companies in developed and developing countries with information about trade and investment opportunities;
  - Linking stakeholders:
    - SME linkage to lead firms;
    - Farmer linkage to lead firms;
    - Value chain forums
- **Mobilising funds and expertise from business:**
  - Traditional philanthropic or 'corporate social responsibility' activities
  - 'expertise model' in which businesses contribute manpower and specialised expertise rather than funds to a project.
- **Advocating for positive business practices:**
- **Providing technical or management advice to companies;**
- **Sharing investment risk to stimulate innovation;**
  - loan guarantee mechanisms;
  - matching grants;
- **Co-funding shared value:**
  - scaling-up the programs, rather than pilot;
- **Contracting private sector entities to provide services.**

Vietnam Business Forum, 1997 (World Bank and IFC)

The Malawi Cotton Seed Treatment programme, funded under the DFID Business Linkage Challenge Fund, 2005

Global Development Alliance (GDA) programme

Scholastic Books: 'Centers of excellence in teacher training – Latin America' programme

Intel, Cisco Systems, Microsoft and USAID to develop ICT provision in the Kenyan education system

Mechanisms of cooperation

- **Private sector development (PSD):**
  - interventions to create a positive business enabling environment, in terms of government policy and regulation, and therefore involves significant donor engagement with government policy makers and regulators
- **Sharing investment risk to stimulate innovation;**
- **Value chain development:**
  - Analysis of the impact of external factors such as regulation, government policy and market conditions that effect the sector as a whole;
- **Inclusive business**
  - Sustainable business model which benefits low income communities;
- **Local economic development –**

collaboration between local government, business and civil society organisations.

- **Development corridor approach;**
- **Cluster approach to economic development.**

The Effects of FDI at the markets of developing countries

- Factors of FDI Effects:
  - domestic policy;
  - the kinds of FDI that a country receives;
  - strength of domestic enterprises.
- Types of FDI
  - Greenfield investments vs M&A
    - M&A may not lead to any increase in the physical capital of a host country and have adverse macroeconomic externalities:
      - appreciating the exchange rate;
      - discouraging investment for export markets;
      - borrowing by MNEs on domestic financial markets may displace investment by domestic firms
- Extra Assets of FDI in developing countries
  - Technologies
  - Management
  - Skills,
  - Channels for marketing products internationally,
  - Product design, quality characteristics, brand

Positive effects:

- Foreign investments that introduce goods and services that are new to the domestic economy (Romer, 1993);

- The relationship between FDI and domestic investment is likely to be complementary when investment is in an undeveloped sector of the economy.

Negative effects:

- competition and take away of investment opportunities that were open to domestic entrepreneurs prior to the foreign investments;

- FDI is likely to reduce domestic investments that would have been undertaken