Financing Options for Development

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Financing for Development: New Era, New Modality, South-South Cooperation

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Traditional international credit system in the new era

- **Traditional Models of Financing for Development:**
  - International Credit System, Foreign Government Loans, Mixed Credit
  - Bretton Woods System MDBs: the World Bank and the IMF
  - Official Development Assistance (OECD-DAC)

- **Major Contributions of Traditional models:**
  - Global Financial Integration
  - Monetary Cooperation
  - Sustainable Economic Growth
  - Crucial Development Financing for Fragile states and LICs

- **However, traditional models are built based on Western post-World War II contexts**

- **Issues:**
  - Policy conditionality, “a process-driven approach” to development
  - Debt financing is trade-oriented

- **Need new modality to complement traditional model**
Exploration of new modality of Development Financing in the New Era – South-South Cooperation

• With the rise of emerging economies, especially the BRICS, developing countries are playing an ever-more important role in global development and world economic order.

• This contributes to the increasing prominence of South-South Cooperation in development cooperation and financing landscape.

• South-South Cooperation is built upon:
  - Mutual respect for Sovereign right
  - Non-interference
  - Solidarity and equality
  - Mutual benefit

• South-South Cooperation is more of “a growth-driven approach” to development
  - Expanding Mutual Investment Areas
  - Focusing on Infrastructure Development
  - Enhancing Development Capacity
Exploration of new modality of Development Financing in the New Era – BRICS and China experience

- Emergence of new development partners, notably the BRICS group of countries (Brazil, Russia, India, China, South Africa), as the new sources of financing for Development

- China is largest foreign aid provider among developing countries, estimated net amount in 2013 is roughly $7 billion, with its net foreign aid ranking on DAC members’ net ODA increased from 16 in 2003 to 6 in 2013

- Continuous efforts of China to support the development of the global South:
  - 2 billion aid fund for SSC and 3 billion fund to address climate change issues
  - Exemption of Outstanding Debts
  - 40 billion Silk Road Fund

- China’s experience in utilizing international credit system to develop infrastructure is worth drawing on
  - Development-oriented
  - Investment-driven
  - Using Hong Kong as a window to connect with the international capital market, facilitating PPP
Private sector has accumulated vast resources due to rapid economic development in recent decades

Factors restraining private participation:
- Uncertainty of political influence
- Unfamiliarity to foreign countries
- Large Investment Volume
- Uncertainty of revenue streams

The engagement of MDB is viewed as an external credit enhancement

The catalytic role of AIIB is of great significance – leveraging and mobilizing private resources

AIIB especially stresses the important of no political interference

AIIB will concentrate its firepower on infrastructure investment-driven projects. Estimated Capacity of AIIB is 60%-70% greater than ADB in infrastructure areas, boosting potential GDP of non-China Asian Developing Countries by 1% - 1.5%

AIIB aims to promote interconnectivity and economic integration

AIIB targets are focused on:
- Co-Financing
- Syndication

The engagement of MDB is viewed as an external credit enhancement
New Modality under the South-South Cooperation framework
NGO - the Finance Center for South-South Cooperation

◆ Innovating Financial platform

- **PPP model**
  - Directing private capitals to supplement the public sector capacities to meet financing demands for development
  - PPP is a way of introducing private sector technology, management and operation experiences into development projects
  - Enhance operational efficiency and returns for all stakeholders

- **Triangular Cooperation**
  - Conventional bilateral business relationship lacks effective channel for communication and resolution of misunderstanding
  - Promote synergies between both parties by actively participating in the project
  - Provide financial supports and services to both parties
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◆ Development Think Tank
  • FCSSC is one of 43 founding members of the Silk Road Think Tank Network established last month in Madrid.
  • FCSSC provides strategic consultancy and propagates successfully development experiences of the global South
  • FCSSC incorporates the underlying political, socio-economic and culture conditions of developing countries when formulating strategic consultancy

◆ Resources and Solutions database of South-South Cooperation
  • FCSSC is establishing partnership with UN agencies to create a demand and supply matching and solution exchange platform
  • Accessing the demand and supply of resources and solutions for development
  • Categorizing into predetermined priority areas based on the impact to sustainable development
  • Facilitating the matching of supply and demand
  • Linking solutions and resources to seed funding and financial mechanism
Thank You