

UNITED NATIONS DEVELOPMENT PROGRAMME



COUNTRY CASE STUDIES ON INTERNATIONAL COOPERATION BEHIND NATIONAL BORDERS: A BACKGROUND NOTE

A UNDP/ODS Background Paper

Prepared for the Book Project
The New Public Finance: Responding to Global Challenges

Office of Development Studies
United Nations Development Programme
New York
- 2005 -

Note: The views expressed in this paper do not necessarily reflect those of UNDP.
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CONTEXT

As part of the background research undertaken in connection with the book project on *The New Public Finance: Responding to Global Challenges* a series of country case studies were conducted in developing and industrial countries (see annex I for a list of country studies and authors). The studies examined international cooperation *behind national borders*, that is, national-level public policy measures taken with international cooperation purposes in mind.

DEFINING INTERNATIONAL COOPERATION BEHIND NATIONAL BORDERS

To offer some illustrations, international cooperation *behind national borders* is exemplified by the way countries adjust nationally to global exigencies such as global warming; how they translate international agreements or norms—suggested by state or nonstate actors—into national-level policy; or how they seek to reduce or prevent negative crossborder spillovers or encourage positive ones.

THE KEY ISSUES ADDRESSED

The detailed terms of reference for the country case studies are presented in annex II of this note.

To uncover national component of international cooperation, the studies were asked to undertake a positive analysis of the many ways in which national public policy approaches, including public finance measures, try to take the outside world into account:

- Do global concerns reflect themselves in the *allocation of public resources* and in how allocation patterns may shift over time?
- Do global challenges encourage the creation at the national level of new *institutional mechanisms* (for example, the establishment of new government entities for international terrorism control or fighting epidemics)?
- Does the globalization of policy issues lead to added emphasis being placed on *harmonization of national and international-level policy approaches* so as to promote enhanced international integration of markets, transportation and communication networks or judicial systems?
- Do *delivery modalities* change and become more uniform, e.g. with more and more states moving from direct delivery of public programs to greater use of incentives, including guarantees and tax expenditures?

THE FINDINGS

The main finding emerging from the country case studies perhaps is that a considerable amount of international cooperation behind national borders is actually happening. The evidence on this point — including facts and figures on changes in allocation patterns, institutional reform, the linkages between national-level and international-level policy actions on global challenges, and behind-the-border adjustments of public finance modalities — have been woven into the chapter analyses of the book, notably the chapter on the intermediary state (by Kaul).

Another important finding (or perhaps, lesson learned from the case study process is) that the concept of *international cooperation behind national borders* was puzzling for many authors. International cooperation is traditionally seen as something taking place outside the borders of countries, like the work of embassies and international organizations, foreign aid or the negotiation of international agreements.

Authors from developing countries seemed to understand the concept more easily than those from industrial countries. The reason certainly is that their countries have more experience with “incoming requests” from donors and international organizations—such as conditionality. Authors from industrialized countries paid more attention to “outgoing cooperation”, that is, foreign aid delivery, or their country’s contributions to international organizations.

Another point emerging from the studies is that the government machinery is often not yet ready to deal with global concerns. There is still a rather clear divide between “domestic” and “foreign” affairs, although this is gradually changing. The awareness is growing that the current government structures have to be revamped: in industrial countries to develop more systematically the “incoming” policy arm of international cooperation at the national level, and in developing countries, to strengthen the “outgoing” policy arm.

POSSIBLE NEXT STEPS

The concept of international cooperation behind national borders is a relatively new one, which requires further exploration and elaboration. It is hoped that the series of country case studies, together with the *The New Public Finance* book will encourage further debate and studies on this topic; and that based on these debates and studies the concept could be revisited in due course.

ANNEX I: LIST OF COUNTRY CASE STUDIES AND AUTHORS

- § **Argentina:** Humberto Petrei, Consultant, Inter-American Development Bank
- § **Canada:** François Vaillancourt, Professor of Economics, University of Montreal
- § **China:** Ramgopal Agarwala, Asian Development Bank
- § **Egypt:** Heba Handoussa, Nivine El Oraby, Mahmoud Mohieldin, and Doha Abdelhamid, Economic Research Forum for Arab Countries, Iran and Turkey (ERF)
- § **Germany:** Dirk Messner and Imme Scholz, German Development Institute
- § **India:** Tarun Das, ICRIER
- § **Japan:** Toshihiro Ihuri, Professor of Economics, University of Tokyo
- § **Kenya:** Francis M. Mwega, Associate Professor of Economics, University of Nairobi
- § **Niger:** Saidou Sidibe, Mahaman Sanoussi Tidjani Alou, and Joelle Bolho, CAP2
- § **Nigeria:** Akpan H. Ekpo, Professor of Economics, University of Uyo
- § **Peru:** Francisco Sagasti, Alvaro Espinoza, and Fernando Prada, Foro Nacional/Internacional Agenda Perú
- § **Philippines:** Cielito F. Habito, Director, Director, Ateneo Center for Economic Research and Development (ACERD), Ateneo de Manila University
- § **Republic of Korea:** Joonook Choi, Korea Institute of Public Finance
- § **Russian Federation:** Sergei Sinelnikov and Said Batkibekov, Institute for the Economy in Transition
- § **Sweden:** Stefan Sjölander, Swedish Aid and Agencies Consultants
- § **Switzerland:** Renate Schubert and Markus Ohndorf, Center for Economic Research Swiss Federal Institute of Technology
- § **Netherlands:** Harrie A. A. Verbon and Hanneke Wieland, Tilburg University
- § **United States:** Carol Lancaster, Associate Professor of the School of Foreign Service, Georgetown University
- § **United Kingdom:** Alan Ingram, Graham Lister, and Malcolm Prowle, The Nuffield Trust and KPMG

ANNEX II: TERMS OF REFERENCE FOR COUNTRY CASE STUDIES

BACKGROUND

The study forms part of the research project, *The New Public Finance: Responding to Global Challenges*. In particular, the study will contribute to the discussion of the issues in part I of the book project, on national-level policies and fiscal tools of international cooperation or what we termed as *international cooperation behind national borders*.

THE ISSUES TO BE ADDRESSED

For the purposes of this research project, international cooperation is seen as occurring both *behind national borders* (e.g. in terms of policy harmonization) and *at the international level* (e.g. through the creation and use of joint, pooled mechanisms such as the World Bank or the Global Environment Facility). The study described in this note will address the former aspect, viz. national-level public policy measures and related decision-making processes that are being taken with international cooperation purposes in mind. More specifically, the study will focus on the financial implications of these national-level public policy measures.

The financial implications of national-level public policy measures to support international cooperation purposes can be of two main types. First, they themselves may require funding; and second, they may impact on the allocation of public and private resources to particular purposes through non-financial tools, such as regulation or norm and standard setting. The study is expected to cover both sets of measures.

Moreover, national-level policy measures for international cooperation purposes also include instruments and processes such as that of foreign aid—revolving around the national-level dimensions of these instruments and processes (e.g. the issue of how foreign aid allocations are being requested, negotiated and accounted for).

The following points discuss each of the major sections of the research project in more detail:

Categorizing national-level initiatives that have a bearing on the financing of international cooperation purposes

It would be useful for the study to begin by presenting a list and categorization of the relevant policy initiatives to be found at the national level. Depending on the country context (i.e. industrial or developing), this might call for, among other things, identifying such initiatives as:

- Allocations to the *regular* budgets of various international agencies; contributions to international peacekeeping;

- Costs of embassies abroad and other costs relating to international negotiation purposes and conference participation;
- Subsidies/tax preferences foreseen for national private actors (e.g. corporations) engaging in cross-border activities (e.g. pharmaceutical companies exporting/providing medicines to developing countries to reduce the risk of HIV/AIDS transmission from mother to child, or companies helping to disseminate at affordable prices clean energy technology, or to cushion the risk of financial crises in developing countries);
- Financing of R&D on global issues (e.g. through the national public research institutes or private companies);
- Public-finance support to global initiatives of institutions such as the Centers for Disease Control and Prevention (www.cdc.gov) in the United States;
- National energy or other environmental measures (such as taxes), intended to serve both national as well as international purposes;
- Allocations to national agencies involved in promoting such global public goods as the control of money laundering, drug trafficking, terrorism (including airport security), communicable diseases and the promotion of food safety, etc. (It would be interesting to check how much of these allocations are disbursed nationally and how much abroad.);
- Currency reserve holdings aimed at fostering financial stability;
- Bilateral foreign aid (differentiated according to the main purpose of aid, e.g. development, military or "political alliance building");
- Multilateral foreign aid (again differentiated according to purpose, e.g. official development or other finance or technical assistance);
- National programmes designed to facilitate the implementation of international agreements, such as those comprising the multilateral trade regime or the World Trade Organization (WTO), by providing support for structural adjustment initiatives at home;
- Harmonization efforts to streamline aid disbursement practices, noting in particular, the results of and follow-up to the Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC) High Level Forum on Harmonization held in Rome, February 2003;
- Relevant off-budget, contingent government liabilities.

It would be desirable to indicate the amount of the resource allocations to each of these purposes, in absolute terms and as a percentage of the total national budget. In addition, the lists should also indicate the government agency to whom the expenditure for each type of activity is issued (e.g. to Ministry of Foreign Affairs, or that of health or the environment, or to a sub-national authority?).

Moreover, the list should also include initiatives that are 1) aimed at withdrawing funds from purposes that may generate negative cross-border externalities (e.g. coal-burning) and 2) correcting relevant allocations through non-financial (i.e. regulatory) measures.

Two different dimensions of behind-the-border policy adjustments are of special interest:

- *Shifts in national spending priorities*—Are traditional top-level spending items being *de-emphasized* (e.g. public spending on pension schemes or physical infrastructure)?
And which new items (responding to global concerns) are receiving added attention in terms of *increased* allocations (e.g. poverty reduction and other MDGs [i.e. Millennium Development Goals], fighting global diseases, implementing TRIPS, keeping adequate foreign currency reserves, addressing global environment challenges, fighting terrorism)?
- *Changes in policy instruments*—Is it possible to discern a trend along this line, e.g. less direct procurement of goods and services by states and more reliance on incentive measures? More outsourcing in government programmes? Or, more public-private partnerships? Increased decentralization?

Institutional challenges to financing international cooperation

In some countries, notably industrial countries, it is not possible for technical (sector) ministries to effect expenditures abroad. Such expenditures can often only be made by the so-called “aid agencies”. As a result, we see that a growing volume of aid is flowing into non-aid (viz. global public good) areas that are of primary interest to industrial countries. This raises the following issues:

- Do such institutional—or mandate—constraints of international cooperation financing exist in the country under study (whether it is an industrial or developing country)? Put differently, which government agencies can request resource allocations that are destined to be disbursed abroad?
- Have institutional constraints of this type been discussed in the country? What are the problems identified? What are some of the proposed solutions?

Guideposts to national-level policy harmonization with public finance implications

What are some of the main international treaties, agreements, or other reference points that serve the government as “guideposts” to policy harmonization and encourage the adoption of measures that could potentially offset its fiscal policies? Possible points for discussion here could include, among others:

- Bank for International Settlements (BIS), Financial Stability Forum (FSF) or International Monetary Fund (IMF) recommendations on fiscal and monetary policy;
- Credit rating agency views on what constitutes sound economic policies or sustainable budget deficits; or,
- International agreements calling for increased budgetary allocations to such issues as: public health (notably the control of HIV/Aids, malaria and tuberculosis) and food safety, environmental preservation, international peacekeeping, basic education or the fight against international terrorism.

A further aspect of interest in the present context is to what extent, if at all, international (global) demands for policy harmonization overlap with those emanating from regional cooperation initiatives.

Political-economy aspects of the budgetary process

Following the analyses in the earlier three sections, this section of the study is expected to discuss the politics that underpin the decision-making on the financing of different types of international-cooperation expenditures. Do some activities find it easier than others to attract political support and financing? Does *the public* (people at large) have a preference for budget allocations, private or voluntary spending for cooperation purposes? How informed is the public about the level and structure of the present spending pattern? How have various expenditure items "made it into the budget" (or become accepted as off-budget, contingent liabilities). That is, from where did the request from various expenditure items (most likely) emerge and which government agency submitted the request to obtain a budgetary authorization?

This section will address these questions, analyzing among others, the various forces that shape the budgetary process particularly as it applies to, and impacts on, international cooperation expenditures. Besides the internal political dynamics, the interplay between national interest groups and external actors for certain allocations will also be examined.

Overall assessment and policy options for the future

Does the current pattern of public spending for international cooperation purposes appear to be adequate, when compared to:

- Stated policy priorities;
- Resources now spent on correcting possible consequences of lack of international cooperation; or
- International criteria of fair burden-sharing?

What could be done to enhance, if at all necessary, the willingness-to-pay for international cooperation of various parts of the general public, or on the part of politicians and policymakers? What could be done to remove any existing institutional constraints to enhanced financing of various international-cooperation purposes?

ORGANIZATIONAL ASPECTS

The study will have a length of some 7,000 to 8,000 words. The case study will be written in English and will follow Oxford University Press guidelines for footnotes and literature references.