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Gaëlle Despierre Corporon

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THÈSE

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Gaëlle DESPIERRE CORPORON

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Three essays on development financing. From failure to new perspectives

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« Ne laisse personne définir tes limites en raison de l'endroit d'où tu viens. Ta seule limite est ton âme » (Gusteau, 2007).

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List of acronyms and abbreviations

AfDB: African Development Bank

ADB: Asian Development Bank

AFEE: Association For Evolutionary Economics

AIIB: Asian Infrastructure Investment Bank

ASE: Association for Social Economics

ASEAN: Association of Southeast Asian Nations

ASSA: Allied Social Science Associations

BAPA: Buenos Aires Plan of Action

BRICS: Brazil, Russia, India, China, South-Africa

CAF: *Corporacion Andina de Fomento* or Development Bank of Latin America

CCSI: Columbia Center on Sustainable Investment

DAC: Development Assistance Committee

DCs: Developing Countries

DIIS: Danish Institute for International Studies

ECOSOC: United Nations Economic and Social Council

EIB: European Investment Bank

EU: European Union

FDI: Foreign Direct Investments

FOCAC: Forum on China–Africa Cooperation

GDP: Gross Domestic Product

GFC: Global Financial Crisis

GNI: Gross National Income

IADB: Inter-American Development Bank

IBRD: International Bank for Reconstruction and Development

IBSA: India, Brazil and South Africa

IE: Institutional Economics

IFI: International Financial Institution

ILO: International Labour Organization

IMF: International Monetary Fund

ISDB: Islamic Development Bank
LDCs: Less Developed Countries
MDB: Multilateral Development Bank
MDGs: Millennium Development Goals
MERCOSUR: *Mercado Común del Sur* or Southern Common Market
NAM: Non-Aligned Movement
NDB: New Development Bank
NGO: Non-Governmental Organisation
NIE: New Institutional Economics
NIEO: New International Economic Order
NSC: North-South Cooperation
ODA: Official Development Assistance
ODI: Overseas Development Institute
OECD: Organisation for Economic Co-operation and Development
SAPs: Structural Adjustment Programs
SSC: South-South Cooperation
SDGs: Sustainable Development Goals
SDR: Special Drawing Rights
SU/SSC: Special Unit for South-South Cooperation
TCDC: Technical Cooperation among Developing Countries
TTSSC: Task Team on South-South Cooperation
UN: United Nations
UNCTAD: United Nations Conference on Trade and Development
UNDP: United Nations Development Programme
UNECLAC: United Nations Economic Commission for Latin America and the Caribbean
UNOSSC: United Nations Office for South-South Cooperation
UNSF: United Nations Special Fund
USA: United States of America
WAIPA: World Association of Investment Promotion Agencies
WB: World Bank
WHO: World Health Organisation
WTO: World Trade Organisation

General introduction

The global financial crisis (GFC) of 2007-2008, through its various effects on both advanced and developing/emerging economies, appears to have caused a shift in development financing from the traditional North-South one-way operations towards some peculiar South-South multilateral relationships. Two reasons can be particularly highlighted (Barrowclough and Gottschalk, 2018). First, it is a response by Southern countries to find more stability in a world where they cannot continue to rely solely on development financing from International Financial Institutions (IFIs) (such as the World Bank and the International Monetary Fund, IMF) and Northern countries. Second, it is also linked to a long-term impasse in the architecture of the international financial system which fails to produce a sustainable and steady long-term financing system for Developing Countries (DCs).

Since the 1960s, the various economic crises have prompted reactions from the South in an attempt to change the architecture of the international financial system and, more specifically, to change the way development financing is provided. The debt crisis in Latin America in the 1970s and the Asian crisis in the 1990s, in particular, led DCs to turn to regional cooperation and to make greater use of their own development banks. Some of the DCs in Latin America, Asia and other regions started their regional integration process or the creation of development banks well before the various debt crises and of course before the GFC. The creation of the African Development Bank (ADB) in 1963 is noteworthy. Its aim is to finance projects and infrastructures to reduce poverty and to allow better mobilisation of resources for development in member countries. The Southern Common Market (MERCOSUR) was established in 1991 and is composed of Argentina, Brazil, Uruguay, Paraguay and Venezuela (since 2012). It was created with the aim of allowing the free movement of goods, services, capital, labour, and people amongst the member countries of the community, but it has reached an impasse (Carranza, 2003; Dabène, 2012). However, these initiatives by Southern countries have not prevented the emergence of new crises in DCs.

Thus, it could be argued that the GFC of 2007-2008 is just another attempt by DCs to change the development financing system in an environment that is likely to generate recurrent instabilities. Nevertheless, this crisis differs from other crises that DCs

have experienced since the 1970s. Indeed, the GFC began by affecting advanced economies and then spread to DCs. Griffith-Jones and Ocampo (2009) have studied the mechanisms by which the crisis propagated and identified four factors that favoured its spread: strong global growth (on average 7% per year between 2003 and 2007), a sharp increase in commodity prices, massive remittances from migrants and the rise of China as an “engine” of world trade. The combination of these factors would explain the transmission of the crisis from developed countries to DCs. From mid-2008 onwards, the crisis in developed countries affected DCs with the drop in global growth, the fall in commodity prices and the fall in migrant remittances (Griffith-Jones and Ocampo, 2009).

The GFC, as well as the previous crises, have led to reflections on the need to seek solutions so that the repercussions of the instability of the capitalist system are less violently felt in developing countries, in particular through greater control over capital flows. Grabel (2011, 2015a, 2015b, 2017) refers to these reflections as “productive incoherence” and argues that the responses of DCs to this crisis, which may have appeared incoherent, nevertheless help to create space for more comprehensive solutions to the problem of crisis recurrence. The analysis conducted in this thesis does not directly address the need for capital controls and the solutions that have been provided by DCs on this issue. Nevertheless, the use of the concept of productive incoherence allows the responses to the various crises in the international financial system to be seen as milestones that make possible the emergence of an alternative mode of financing development that is more respectful of the interests of the South.

The introduction provides a brief analysis of the various crises in DCs, namely the Latin American debt crisis and the Asian crisis, and their management by the IFIs, in order to explain how these crises paved the way for the first steps towards cooperation between countries of the South, in other words, South-South Cooperation. I then explain the approach taken in the three chapters that answer a research question presented in this general introduction.

The vision of development defended in the analysis

Development is often defined by economic growth (Rist, 2001). A country must increase its output at a faster rate than its population growth to develop (Rostow, 1960). The overall economic well-being of a population is therefore measured by the growth rate of real Gross National Income (GNI) per capita¹ or more generally by its Gross Domestic Product (GDP) (Todaro and Smith, 2014). Thus, a DC² would seek maximum growth in order to develop, regardless of the “sustainable”³ objective displayed (Latouche, 2001). I refer to long-term development alternately as “sustainable” or “durable”. These adjectives have a strong environmental connotation that must be taken into account in the development process, but this is not the main focus of the analysis. The use of the concepts of sustainability and durability thus refers to a development process that is perpetuated over the long term.

I do not support the view that opposes the qualitative concept of development to the quantitative concept of growth (Boukari, 2014). Development should rather be conceived as a multidimensional process. François Perroux (1961) lays the foundations for this multidimensional view of development by defining it as “the combination of mental and social changes in a population that enable it to increase, cumulatively and sustainably, its overall real product” (Perroux, 1961, p.155, translated by the author). Development also implies major changes in social structures, people’s mindsets (Perroux 1961), their behaviours and in national institutions (Bairoch, 1990), as well as accelerated economic growth, reduced inequality, eradication of poverty (Seers 1969) and more opportunities for access to income and employment, education and health care, and a clean and safe environment (World Commission on the Environment and Development, 1987; Todaro and Smith 2014).

In other words, development was seen until the late 1980s as an economic phenomenon in which rapid gains in GNI and per capita growth are transmitted to people. Issues of poverty, discrimination, unemployment and income distribution were of

¹ GNI is defined as “gross domestic product, plus net receipts from abroad of compensation of employees, property income and net taxes less subsidies on production.” (OECD, 2021, p.1). Real GNI removes the effects of inflation.

² The use of the term “Southern countries” includes developing and emerging countries, while “Northern countries” refers to developed countries.

³ Latouche (2001) discusses “sustainable” development in the sense of ecologically viable.

secondary importance (Todaro and Smith, 2014). Economic development theories have focused mainly on technical and physical aspects based on short-term analysis of resource allocation.

Compared with this view, I adopt a holistic approach that considers the development process as a societal whole and not as a linear result of the functioning of market activities that are assumed to rely on rational individual decisions. Thus, the analysis carried out in this thesis takes into account the complexity of the process in a long-term perspective, but also several definitions provided by institutions or economists. Development should represent the set of changes and choices available to the population within a social system that is adapted to the basic needs and evolving aspirations of individuals and social groups within that system (Streeten, 1984; Sen, 1999; International Labour Organization, 1976, 1977). These choices make development more democratic, participatory (United Nations Development Programme, 1991) and imply an increased desire for autonomy, both at the individual and collective levels (South Commission, 1990). To achieve this, development relies on a nation's resources, both human and material. External aid can promote development, but this requires that it be integrated into the national effort and subordinated to the objectives of those for whom it is intended (South Commission, 1990).

The genesis of development economics and the study of the different theories of economic development that analyse the past or present situation of DCs have been the subject of multiple literature reviews (Meier and Seers, 1984; Cue Rio, 2013; Vázquez and Sumner, 2013; Boukari, 2014). From the literature, it is obvious that traditional models of development economics are mainly concerned with the means by which economic growth in DCs could be financed. In the 1950s, the United Nations General Assembly passed several resolutions that showed the need for action to provide more international funds to DCs (United Nations, 1950, 1952, 1954)⁴. The merger of the United Nations Special Fund (UNSF) and the Expanded Programme of Technical Assistance (EPTA) in 1965 led to the creation of the United Nations Development Programme (UNDP), which reinforces the United Nations' commitment to mobilise more

⁴ These resolutions refer to DCs as “underdeveloped countries”.

international funds to ensure that DCs achieve sustainable growth rates for long-term development through Official Development Assistance (ODA).

The birth of the IMF and Official Development Assistance (ODA)

Historically, ODA has been the privileged tool for financing development. It is defined as:

“Those flows to countries and territories on the DAC [Development Assistance Committee] list of ODA Recipients [...] and to multilateral development institutions which are:

i. provided by official agencies, including state and local governments, or by their executive agencies;

and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). This calculation helps determine whether a loan is concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as ODA”⁵ (OECD, 2008a, p.1).

The use of ODA began at the end of the Second World War. All nations of the world suffered the devastating effects of the war: unemployment, poverty, inflation and recession affected most of the world’s economies. Forty-four countries met at Bretton Woods in July 1944 to establish two institutions to govern international economic relations: the International Bank for Reconstruction and Development (IBRD) (the forerunner of the World Bank) to organise post-war reconstruction and the International Monetary Fund (IMF) to manage the international financial system and maintain the international economic order as it was (Girón, 2008). John Maynard Keynes, the

⁵ It should be noted that the definition of ODA has changed since 2018, since when statistics no longer take into account the same grant element rates to be qualified as ODA (i.e. “a mathematical index [...] influenced by the loan’s interest rate, its maturity (time to last repayment), its grace period (time to first repayment of principal) and the pace of its repayments” (Charnoz and Severino, 2007, p.7, translated by the author). For the new definition of ODA, see OECD (2020). This change in definition does not affect the statistical analysis developed in the chapters as the statistics used cover periods up to 2018.

economist heading the British delegation, and Harry Dexter White, representing the US delegation, helped draft the Fund's founding agreement (IMF, 1947).

In 1947, countries agree on a massive aid plan in the form of loans from the United States to Europe, called the Marshall Plan. It amounted to US\$ 13 billion lent to the 14 countries most affected by the war between 1947 and 1952, marking the emergence of development cooperation as a concept (UNOSSC and UNDP, 2019).

The IMF is conceived as a specialised agency of the Bretton Woods system of the United Nations, created to promote the stability of international monetary relations by managing balance of payments and exchange rate imbalances among the partner countries of the agreements through the provision of temporary financial support and "technical" advice. Its objectives are to promote international cooperation in the field of monetary policy, to facilitate the expansion and growth of international trade, to strengthen confidence among member countries, to work towards correcting imbalances in the balance of payments of member states and to promote exchange rate stability (IMF, 1960).

The massive US aid to Europe prompted the US, France and Britain in the late 1950s and 1960s to assist African countries that were becoming independent (such as Ghana in 1957, Kenya in 1963, Malawi and Zambia in 1964) through ODA. This wave of decolonisation coincided with an increase in the number of ODA donor countries and the creation of new institutions to better manage aid.

DCs were deemed unable to mobilise their internal capital such as private savings (United Nations, 1950), mainly due to the absence or weakness of accumulation, which allowed the justification of external aid policies in the 1950s and 1960s by arguing that external capital is absolutely necessary to enable development.

In 1961, the Development Assistance Committee (DAC) was created to promote the expansion of aid to DCs and to improve the effectiveness of the resources allocated. It had nine founding members: Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, the United States and the Commission of the European Economic Community. The DAC currently has 30 members (OECD, 2006a) which are part of the Organisation for Economic Co-operation and Development (OECD) and manage development co-operation and development finance defined as:

“[...] a strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity. We⁶ reaffirm and build on the 2002 Monterrey Consensus and the 2008 Doha Declaration. Our goal is to end poverty and hunger, and to achieve sustainable development in its three dimensions through promoting inclusive economic growth, protecting the environment, and promoting social inclusion. We commit to respecting all human rights, including the right to development. We will ensure gender equality and women’s and girls’ empowerment. We will promote peaceful and inclusive societies and advance fully towards an equitable global economic system in which no country or person is left behind, enabling decent work and productive livelihoods for all, while preserving the planet for our children and future generations.” (United Nations, 2015, p.1)

The DAC moved in the same direction as the IMF and the World Bank as from 1960 in providing ODA to DCs and followed the recommendations of both institutions even when crises arose (OECD, 2006a).

⁶ “We” corresponds to the “Heads of Delegation and Government Representatives” meeting in Addis Ababa from 13 to 16 July 2015 (United Nations, 2015, p.1).

The Latin American Debt Crisis, the Washington Consensus and Structural Adjustment Policies

The “Washington Consensus” was born out of the relationship between the two International Financial Institutions (IFI), the WB and the IMF, whose official aim was to generate economic growth in DCs (Nubukpo, 2008). Williamson (1990) was the first to describe these relationships as the “Washington Consensus”, which refers to:

“the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarised in 10 propositions: Fiscal discipline; A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; Tax reform (to lower marginal rates and broaden the tax base); Interest rate liberalization; A competitive exchange rate; Trade liberalization; Liberalization of inflows of foreign direct investment; Privatization; Deregulation (to abolish barriers to entry and exit); Secure property rights” (Williamson, 2000, pp. 252-253).

These ten liberal proposals were intended to provide solutions to the debt problems faced by Latin American (and later by other developing and emerging countries). Marangos (2009) details Williamson’s original proposals (1990) which have evolved as the concept of the “Washington Consensus” has circulated widely. Fiscal discipline implies a zero or limited budget deficit. Public spending must be reduced and subsidies stopped. The “tax base” must be expanded and capital flight stopped. The market must be allowed to determine interest rates, which requires the liberalisation of financial markets. The exchange rate must allow for competitive exports. Imports must be free and unrestricted. Barriers to entry must be abolished and free competition between domestic and foreign companies ensured. Companies should be privatised because they will be more efficient. The state should not regulate the entry or exit of companies in the market. Property rights should be secured by the legal system. These recommendations are for Williamson (1996) the key to the prosperity of DCs.

The debt crisis in Latin America made it possible to justify the application of the Consensus principles, presented as objective rules likely to respond to the economic imbalances that the DCs were suffering (external deficit, inflation, unemployment, exchange rate crises, etc.). Behind this scheme lies a very liberal orientation of the economic reforms advocated by the IFIs. Since the 1980s, DCs (and emerging countries) have experienced several debt crises. The World Bank (2020) identifies four different crisis periods:

- 1970-1989: the debt crisis in Latin America, the Caribbean and low-income countries.
- 1990 to 2001: the East Asian and Pacific debt crisis⁷.
- From 2002 to 2009: a brief crisis in Europe and Central Asia.
- Since 2010: a crisis affecting all developing and emerging regions.

The origins of the Latin American debt crisis lie in the first oil shock of 1973. Latin American countries borrowed heavily and budget deficits continued to rise, particularly in Mexico between 1970 and 1980. The increase in external debt (mainly public sector debt) was marked in Argentina, Mexico and Venezuela in the early 1980s (World Bank, 2020). After the second oil shock in 1979, the increase in interest rates on variable-rate loans contracted by Latin American countries increased their debt by more than half of the total debt in 1982 (World Bank, 2020). In addition to rising interest rates and debt servicing, the pace of economic growth has slowed around the world⁸ since the mid-1970s, reducing export opportunities. The Latin American debt crisis began in 1982 with Mexico's announcement that it would not be able to service its debt (World Bank, 2020). The crisis spread to other Latin American countries, 16 of which restructured their debt (Federal Deposit Insurance Corporation, 1997).

The IFIs reacted differently to the first and second oil shocks. The first oil shock led to an increased inflow of ODA to Latin American and African countries, while for the second they opted for higher interest rates to control inflationary pressures (which automatically increased debt service) (Moyo, 2009). To guarantee monetary and financial

⁷ This crisis also includes some developing and emerging countries in Europe and Central Asia (World Bank, 2020).

⁸ The United Nations (2017) note that the world gross product growth rate was 5.3% before the first oil shock in 1973, then 2.8% during the rest of the 1970s and 1.4% from 1980 to 1984.

stability in the international system, the IFIs restructured the debt of DCs by requiring them to accept new 3-year loans via the IMF's Structural Adjustment Facility from 1986⁹ (IMF, 1997). This restructuring of DCs' loans marks the beginning of Structural Adjustment Programmes (SAPs) based on the opening and liberalisation of financial markets. The countries whose debt is to be restructured see this approach as a form of interference by the IMF and a failure to take their specificities into account. Regardless of their situation, all countries had to apply the same reforms following the "one-size-fits-all" principle that is constructed for all DCs without distinction (OECD, 2018). This model is based on the principle that a DC that has succeeded in developing by following it, can be followed by all others without being adapted to the specificities of the country.

Between 1980 and 2000, the 98 DCs that followed the recommendations of the Washington Consensus did not obtain better results, particularly in terms of growth and development, than those that did not implement the consensus (Berr and Combarrous, 2005). The debt crisis in Latin America has thus favoured the rise of neo-liberal policies in which the market must be at the heart of strategies, with poor results in terms of development. The World Bank counts 120 million poor people in 1980 and 220 million in 1990 in Latin America (World Bank, 2003), while the external debt increased from nearly US\$ 500 billion in 1991 to more than US\$ 800 billion in 2002 (UNCTAD, 2003) in a context of austerity. The application of SAPs in Latin America and its poor results did not prevent the IMF and the World Bank from continuing to try to apply this "recipe" to Asian countries when they were in crisis.

Indeed, the emergence of the debt crisis in Latin America (1st period) and the Asian crisis (2nd period) is particularly instructive in the evaluation of the policies carried out by the IFIs, as the IFIs' response to these crises involved the application of the principles of the Washington Consensus and represents a textbook case of the harmful effects of the neo-liberal policies that were carried out. They also allow us to see the responses of the DCs that resulted from these crises and that lay the foundations of a development financing system based on regional cooperation and DC development banks.

⁹ For example, the Brady Plan was introduced by the US Secretary of Treasury, Nicholas Brady, in 1989 as a strategy to reduce indebtedness of DCs. Mexico was the first country to implement the plan.

The Asian crisis, the instrumentalisation of the concept of “good governance” and the rise of South-South Cooperation

The Asian crisis started with speculative attacks in the early 1990s¹⁰ in Asian countries that had undergone financial deregulation and liberalisation of capital causing a recession (IMF, 2000; Lim, 2018). Some countries, such as Thailand, Korea and Indonesia, accepted the IMF’s US\$ 35 billion restructuring plan in 1997 (IMF, 2000). This plan – supported by financial sector reforms in the assisted countries – failed to restore confidence in these three countries and the recession continued to deepen beyond the IMF’s expectations with capital outflows, collapsing exchange rates and a sharp currency depreciation (IMF, 2000; Lim, 2018).

This crisis has led the IMF to slightly revise its positions on financial liberalisation and capital controls (Grabel, 2015b). The IMF’s position had previously been to advocate financial liberalisation for all countries, regardless of their situation. Surprisingly, Prasad *et al.* (2003) explain that financial liberalisation has increased the vulnerability of some countries to crises. This is the first time that the IMF has acknowledged that financial liberalisation may have triggered a crisis in a DC.

At the same time, the IMF recommends that financial integration be addressed more “cautiously, with good institutions” (Prasad *et al.*, 2003, p.5). Indeed, countries that have opened up their capital markets and are fully financially liberalised are increasingly linked to developed countries, which increases the likelihood and speed at which shocks propagate, especially in the presence of “bad institutions” (Prasad *et al.*, 2003).

The end of the 1990s marked a turning point in the history of traditional IFI aid, as the IMF and the World Bank noted the failure of SAPs. In order to exonerate themselves, they point the finger at the institutions in DCs as being responsible for this failure. In other words, the existence of “bad institutions” in the context of “bad

¹⁰ Initially, Asian countries made poor investment choices and took on massive foreign currency debt (Navarro, 2008). Thus, speculative attacks caused the depreciation of the currencies of the debt, which mechanically increased the amount of debt. After the depreciation of the Thai baht, the currencies of Indonesia, the Philippines and Malaysia were affected, followed by Korea, Singapore and Taiwan (Navarro, 2008).

governance” in DCs is a justification for the failure of SAPs (World Bank, 1992, 1994, 1998).

Michel Camdessus (1998), Managing Director of the IMF at the time, explains that we are at a historic moment following the Asian crisis. According to him, a new architecture of the financial system was necessary and he proposed that the IMF rely on “good governance” to reduce the recurrence of crises. This instrumentalisation of the question of institutions by the IFIs (Nubukpo, 2008) is nevertheless followed and validated by numerous studies in the 2000s showing a positive correlation between good institutions and development (we can cite Acemoglu *et al.*, 2001; Kaufmann *et al.*, 2002; Rodrik *et al.*, 2004), whereas the final goal of the IFIs is the proper functioning of the market (Nubukpo, 2008). Various institutional criteria are evaluated, such as corruption or the efficiency of the judicial system, and they reinforce the position of the IFIs by concluding that good institutions are more conducive to development than bad ones and that a new architecture of the international financial system based on this concept is desirable.

Joseph Stiglitz was appointed Chief Economist and Vice President of the World Bank in 1997 and was forced to resign three years later after he strongly criticised the IMF’s policies, particularly its inability to stabilise the international financial system and its handling of the Asian crisis. Another criticism concerned the development policy of the World Bank (Abraham-Frois and Desaignes, 2003). These criticisms question in particular the conditionality of IMF loans and the speed with which the IFIs impose reforms on DCs without really accompanying them in the changes (Stiglitz, 2002; Nubukpo, 2008). This questioning of the Washington consensus intensified from 2001 onwards, when Stiglitz held a series of conferences in which he was described as a “Rebel within”. In his book “Globalization and its Discontents” (2002), Stiglitz defends the importance of financial liberalization while pointing out the importance of government in financial regulation (a point he had already made in a 1994 article) for better macroeconomic stability. His reputation is growing worldwide and his proposals for reforming the system (Stiglitz, 2002, 2003) are even referred to as the “Stiglitzien Consensus” (Abraham-Frois and Desaignes, 2003).

These criticisms have not prevented the IFIs from pursuing structural development policies that favour the market and the short-term interests of actors, as

opposed to long-term development financing needs, even if the vocabulary used to describe these policies has been modified (Marques Pereira and Ould-Ahmed, 2010). Indeed, with the success of neo-institutionalism, which promotes a vision of institutions as guarantors of “good governance”, the IFIs are in turn “converting” to this current of thought in the 2000s. Nevertheless, the strategic underpinnings of the IMF and the World Bank do not change, as development policies remain focused on the proper functioning of the market and growth as the engine of development (Marques Pereira and Ould-Ahmed, 2010).

There was a shift from the Washington Consensus to the Monterrey Consensus in 2002 (the principles of which were reaffirmed at the Doha Conference in 2008) by the IFIs. This “new” consensus lays the foundations for a development financing policy to mobilise more financial resources for DCs, in particular through the greater mobilisation of private flows. The failure of the Washington Consensus is therefore not only explained by the lack of public resources allocated to development (through ODA) but also by the insufficiency of private resources which are mobilised through Foreign Direct Investment (FDI) (OECD, 2005, 2006b; United Nations, 2008, 2013; IMF, 2015). FDI is defined as:

“a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.” (OECD, 2008b, p.17).

The mobilisation of domestic capital depends in part on the state’s capacity to implement a redistributive fiscal policy based on the collection of taxes (Gautier, 2001; Boukari, 2014). In this thesis, the idea defended is that DCs have the capacity to mobilise internal capital¹¹ but that this is not put forward on the international scene in order to

¹¹ I believe that this internal mobilisation is possible and can be the subject of further research. International trade and migrant remittances are also left out of the analysis because they are not the tools traditionally favoured by IFIs to promote or finance development.

continue to justify the use of traditional North-South development financing. Thus, it is mainly external capital that has been used as a tool for financing development, namely Official Development Assistance (ODA) and Foreign Direct Investment (FDI).

The GFC in 2007-2008 catalysed a rise in South-South Cooperation (SSC) and a willingness to seek solutions for long-term development financing. South-South Cooperation (SSC) has multiple definitions of which two are retained, the first being more theoretical than the second:

” a manifestation of solidarity among peoples and countries of the South that contributes to their national well-being, their national and collective self-reliance and the attainment of internationally agreed development goals, including the Millennium Development Goals” (United Nations, 2009b, p.2).

UNOSSC (2021) uses another definition of SSC:

“A broad framework of collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, intraregional or interregional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South trade, South-South flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges. (UNOSSC, 2021¹², n.page).”

The SSC is presented as an ideal form of cooperation that tends to reproduce the same inequalities as traditional North-South cooperation, especially the asymmetry between members. China is often accused of “Southern neo-imperialism” because it carries more weight than many other DCs in international relations and tends to impose

¹² Definition from the UNOSSC webpage “About South-South and Triangular Cooperation”, retrieved February 4, 2021: <https://www.unsouthsouth.org/about/about-sstc/>

its cooperation decisions on other countries in the South, but without displaying it (Gray and Gills, 2016, p.563).

A detailed analysis of the SSC concept shows, how it is a milestone towards a desirable long-term development financing for DCs. Indeed, the GFC, preceded by the Latin American and Asian crises, reinforced the willingness of DCs to look for new initiatives to move away from the North-South architecture of development financing. The SSC was built on socially interesting values such as equity or low loan conditionality (contrary to the practices of the IFIs) but its implementation is not faithful to the theoretical idea which was not to reproduce the North-South pattern of development financing and to depend less on other countries for their financing. Nevertheless, these initiatives have led to an increase in South-South Foreign Direct Investment (FDI) and the creation of development banks in Southern countries, such as the New Development Bank or BRICS Bank. These initiatives provide a basis for designing alternative perspectives and recommendations for the financing of development in the South.

Methodological approach

The construction of the thesis in three chapters has several implications for the reader. Indeed, the essays have been designed and constructed as separate but related articles and can be read continuously.

1) These essays should provide sufficient historical and theoretical context for the reader to have all the necessary elements to understand them when reading them independently, which explains the redundancy of some of the most important information when reading the three essays simultaneously.

2) This form of thesis does not allow all the incursions made in a “traditional” thesis which justifies:

- the presence of numerous footnotes referring to further reading and information. These have been fundamental to the construction of the articles and the reasoning and have helped to underpin the theoretical and empirical foundations of these chapters.
- the use of aggregated data for statistical analysis of the situation of DCs (particularly in terms of ODA and FDI flows). Not all DCs follow the same development trajectory (especially the emerging ones vis-à-vis other DCs and

Least Developed Countries, LDCs) and have to integrate into the world economy in different ways (especially with regard to their financial sector). Nevertheless, the aim of these chapters is to draw conclusions on long-term development financing beyond the specific situation of a given DC. These results thus help to identify desirable long-term directions and perspectives for DCs that can be applied to a particular country or countries in future research.

The mobilisation of a holistic vision, of the “Political Economy” type, makes it possible to analyse the problems of financing development in an unstable capitalist world and to make explicit the issues at stake in terms of the weight of DCs in international relations as well as the changes in the dynamics of financing development. DCs have high economic, social and ecological needs to satisfy in a sustainable and continuous manner. These objectives cannot be met by decentralised market mechanisms based on private interest, as they exceed the objectives and scope of market actors, who often have a short horizon and concerns circumscribed by microeconomic rationality. The analysis of these dynamics leads to a more global research question.

Research question

How the global financial crisis catalysed the shift of development cooperation architecture towards the South and pushed for establishing new dynamic institutions to secure and stabilise long-term development financing?

Structure of the thesis

The thesis is composed of three chapters that provide a conceptual framework (Chapters 1 and 2) and a more operational framework (Chapter 3). Figure 0.1 presents the construction of these chapters in relation to their objectives and the main results provided in each chapter while Figure 0.2 shows the architecture of the thesis and the interrelationships between chapters.

Chapter 1 offers an analysis of traditional North-South external development finance that builds on mobilising the corpus of Institutional Economics (IE) and its links with development economics¹³. First and foremost, IE's holistic approach to development argues that institutions do not function to obtain an efficient market, as argued by the proponents of Neo-Institutionalist Economics (NIE), but to ensure the overall coherence of the global system (Street, 1987). Within the framework of an unstable capitalist system, institutions have to play the role that the market cannot play, by its very nature, namely to maintain or improve the overall level of well-being of individuals with the aim of long-term development. Thus, they support a vision of development that is not simply about increasing growth (measured by an increase in GDP as considered by the Bretton Woods institutions and the NIE) and represents a vision of development that is compatible with the view defended and presented in this general introduction. The IE has extensively addressed the subject of development economics but to a lesser extent development finance. Thus, by mobilising the institutionalist principle that institutions cannot build themselves spontaneously and need a “visible hand” (Griffith-Jones *et al.*, 2010; Glemarec and Puppim de Oliveira, 2012), I show that the model of development finance promoted by the IFIs or the North-South model is irrelevant and that institutionalism can be used to provide a perspective on an alternative model of development within unstable capitalist dynamics. The need for institutions that are “dynamic” (Allegret *et al.*, 2003¹⁴) is used in particular to propose a solution to the rigidity of traditional development finance institutions such as the World Bank and IMF. These institutions must take greater account

¹³ Gambus and Almeida (2018) identify articles in the Journal of Economic Issues that take an institutionalist view of development, including Dowd (1967), Glade (1969), Myrdal (1974), Fushfeld (1977), Klein (1977), Street and Dilmus (1982), Dyer (1986), Gordon (1969, 1982, 1984) and Dietz (1982, 1986, 1987).

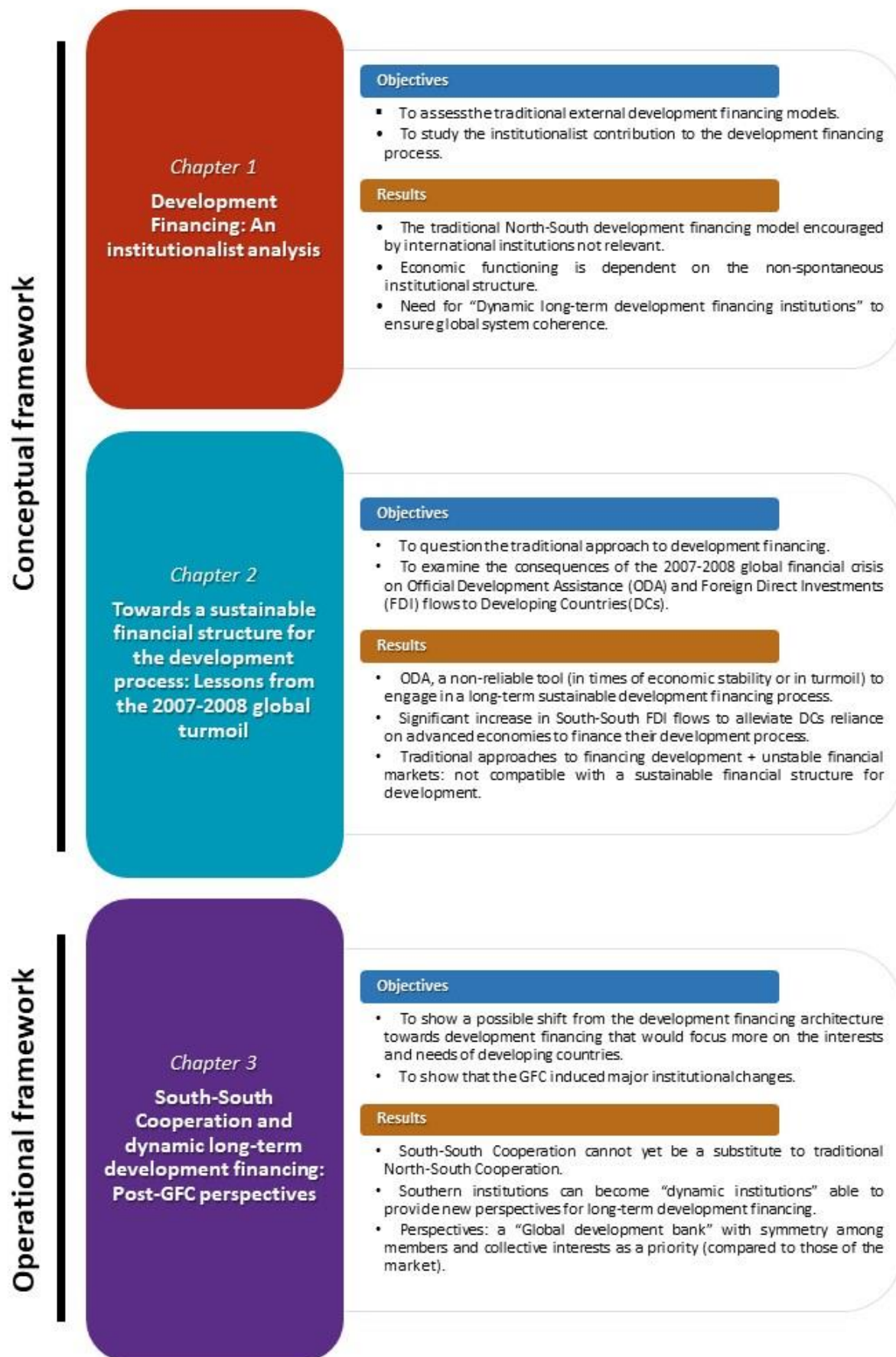
¹⁴ Allegret *et al.* (2003) put forward this concept of institutional dynamism, as part of a strengthening of the market process, so that DCs have more opportunities to finance their development. I argue that this dynamism is desirable if the goal of a better functioning market operates within the framework of the collective pursuit of welfare (and not of private micro-rational interests).

of interactions between agents in order to evolve and change their practices, particularly in terms of recommendations for financial liberalisation and the conditionality of their loans.

Chapter 2 proposes to assess, in the light of the 2007-2008 GFC, to what extent the traditional development financing process is sustainable. The traditional approach to financing development is thus questioned through statistical analysis of the tools favoured or recommended by IFIs and traditional donors to finance development, namely ODA and FDI under the GFC. The analyses show that ODA and FDI flows have been hit by the crisis. In particular, DCs should not rely on ODA flows to finance the long-term development process in a crisis context or a context of stability of the international financial system. As a result, DCs have turned to other DCs leading to an increase in South-South FDI flows. In other words, this reflects the rise of SSC as a “response” to the GFC, which marks a milestone in reducing their dependence on developed countries for development financing. The addition of an unstable financial system and these traditional approaches cannot meet the objectives of sustainable development financing.

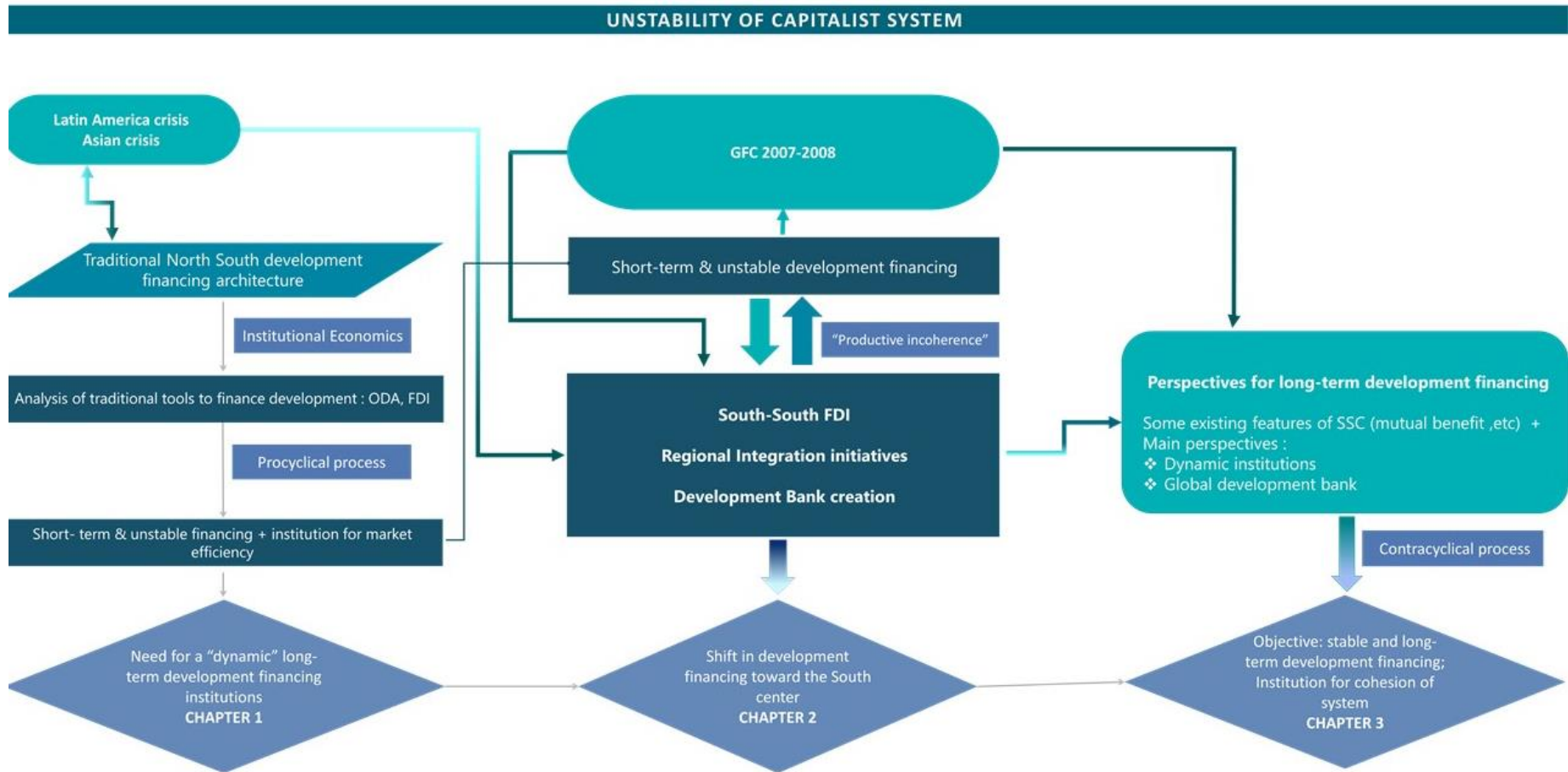
Chapter 3 aims to present a post-crisis global financial perspective on SSC and the financing of long-term dynamic development. It examines the shift in the architecture of the financial system towards the South. Even if SSC cannot yet represent an alternative to traditional North-South cooperation, the GFC has, among other things, created space for institutional innovations such as the creation of development banks like the “New Development Bank”, also known as the BRICS Bank (Brazil, Russia, India, China, South Africa). The SSC provides an opportunity for Southern countries to reduce their dependence on traditional development finance and increase their resilience to pro-cyclical financial flows from the North. I thus propose perspectives for the construction of a global development finance institution, a dynamic institution conceived as a symmetrical system among members where each country has one vote, or the creation of a new “platform” that advocates and carries the voice of DCs (Griffith-Jones, 2012; Gosovic, 2016).

Figure 0.1: Construction of the thesis: objectives and results



Source: Author's realisation

Figure 0.2: Architecture of the thesis



Source: Author's realisation

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Introduction générale

La crise financière globale (CFG) de 2007-2008, à travers ses divers effets sur les économies avancées, en développement et émergentes, semble avoir provoqué un déplacement du financement du développement vers les pays du Sud. Deux raisons peuvent être particulièrement mises en avant (Barrowclough et Gottschalk, 2018). Premièrement, c'est une réponse des pays du Sud pour trouver davantage de stabilité dans un monde où ils ne peuvent pas continuer à dépendre uniquement du financement du développement des Institutions Financières Internationales (IFI) (comme la Banque mondiale et le Fonds Monétaire International, FMI) et des pays du Nord. Deuxièmement, c'est aussi lié à une impasse de long terme concernant l'architecture du système financier international qui n'arrive pas à produire un système de financement soutenable et régulier de long terme pour les Pays En Développement (PED).

Les différentes crises économiques ont entraîné des réactions de la part des pays du Sud depuis les années 1960 pour tenter de changer l'architecture du système financier international et plus particulièrement pour faire évoluer le financement du développement. La crise de la dette en Amérique latine dans les années 1970 et la crise asiatique dans les années 1990, ont notamment poussé les PED à se tourner vers la coopération régionale et à utiliser davantage leurs banques de développement. Les PED d'Amérique latine, d'Asie et des autres régions ont pour certains engagé leur processus d'intégration régionale ou la création de banques de développement bien avant les différentes crises de la dette et bien sûr, avant la CFG. On peut remarquer la création de la Banque Africaine de Développement (BAD) dès 1963. Celle-ci a notamment pour but de financer des projets et infrastructures pour réduire la pauvreté et de permettre de mieux mobiliser les ressources des pays membres pour le développement. On note également la constitution du Marché commun du Sud (MERCOSUR) en 1991, qui se compose de l'Argentine, du Brésil, de l'Uruguay, du Paraguay et du Venezuela (depuis 2012), créé dans le but de faire circuler librement les biens et personnes entre les pays membres de la communauté mais qui se trouve aujourd'hui dans une impasse (Carranza, 2003 ; Dabène, 2012). Ces initiatives des pays du Sud n'ont pourtant pas empêché la survenue de nouvelles crises au sein des PED.

Ainsi, on pourrait penser que la CFG de 2007-2008 ne marque qu'une nouvelle tentative des PED de faire changer le système de financement du développement dans un environnement susceptible de générer des instabilités de façon récurrente. Néanmoins, cette crise est différente des autres crises qu'ont subi les PED depuis les années 1970. En effet, la CFG a commencé par toucher les pays développés puis s'est propagée aux PED. Griffith-Jones et Ocampo (2009) ont étudié les mécanismes de propagation de la crise et identifié quatre facteurs qui ont favorisé cette propagation : une forte croissance mondiale (d'en moyenne 7% par an entre 2003 et 2007), une forte augmentation du prix des matières premières, des transferts massifs de fonds des migrants et la montée en puissance de la Chine comme « moteur » du commerce mondial. La combinaison de ces évolutions expliquerait la transmission de la crise des pays développés aux PED. A partir de la moitié de l'année 2008, la crise des pays développés touche les PED avec la baisse de la croissance mondiale, la baisse du prix des matières premières, la baisse des transferts de fonds des migrants (Griffith-Jones et Ocampo, 2009).

Cette CFG, ainsi que les crises précédentes, ont mené à des réflexions sur la nécessité de chercher des solutions pour que les répercussions liées à l'instabilité du système capitaliste se répercutent moins violemment sur les pays ou groupes de pays en développement, notamment en cherchant à contrôler davantage les capitaux. Grabel (2011, 2015a, 2015b, 2017) qualifie ces réflexions de « *productive incoherence* », traduite comme « incohérence productive », et avance que les réponses données par les PED à cette crise, qui ont pu paraître incohérentes, aident néanmoins à faire de l'espace pour proposer des solutions plus globales au problème de récurrence de crise. L'analyse menée dans cette thèse ne traite pas de la nécessité de contrôler les capitaux et des solutions qui ont été apportées par les PED sur ce sujet. Néanmoins, l'utilisation du concept de « *productive incoherence* » permet d'aborder les réponses aux différentes crises du système financier international comme des jalons rendant possible l'émergence d'un mode alternatif de financement du développement qui soit plus respectueux des intérêts du Sud.

L'introduction propose une analyse rapide des différentes crises des PED, à savoir la crise de la dette en Amérique latine et la crise asiatique et de leur gestion par les IFI afin d'expliquer en quoi ces crises ont permis de poser les premiers jalons de coopération entre pays du Sud, autrement dit de Coopération Sud-Sud. Je montre ensuite quelle est la

démarche adoptée dans les trois chapitres qui répondent à une question de recherche présentée dans cette introduction générale.

La vision du développement défendue dans l'analyse

Le développement est souvent défini par la croissance économique (Rist, 2001). Pour se développer, un pays doit augmenter sa production à un rythme plus rapide que sa croissance démographique (Rostow, 1960). Le bien-être économique global d'une population est en conséquence mesuré par le taux de croissance du Revenu National Brut (RNB) réel par habitant¹ ou plus généralement par son Produit Intérieur Brut (PIB) (Todaro et Smith, 2014). Ainsi, un Pays en Développement (PED)² rechercherait une croissance maximale pour se développer, quel que soit l'objectif « soutenable »³ affiché (Latouche, 2001). Je qualifie le développement de long terme tour à tour de « soutenable » ou « durable ». Ces adjectifs ont une forte connotation environnementale qui doit être prise en considération dans le processus de développement mais ce n'est pas l'objet principal de l'analyse. L'utilisation des concepts de soutenabilité et durabilité fait ainsi référence à un processus de développement pérennisé sur le long terme.

Je ne soutiens pas la vision qui oppose le concept qualitatif de développement au concept quantitatif de croissance (Boukari, 2014). Le développement doit donc être conçu comme un processus multidimensionnel. François Perroux (1961) pose les premiers jalons de cette vision plurielle du développement en le définissant comme « la combinaison des changements mentaux et sociaux d'une population qui la rendent apte à faire croître, cumulativement et durablement, son produit réel global » (Perroux, 1961, p.155). Le développement implique également des changements majeurs dans les structures sociales, les mentalités des personnes (Perroux, 1961), leurs comportements et dans les institutions nationales (Bairoch, 1990), ainsi que l'accélération de la croissance économique, la réduction des inégalités, l'éradication de la pauvreté (Seers, 1969) et davantage de possibilités d'accès aux revenus et à l'emploi, à l'éducation et aux soins de

¹ Le RNB se définit comme « le PIB plus les revenus nets reçus de l'étranger pour la rémunération des salariés, la propriété et les impôts et subventions nettes sur la production » (OCDE, 2021). Le RNB réel supprime les effets de l'inflation.

² L'utilisation de l'expression « pays du Sud » englobe les PED et les pays émergents, tandis que « pays du Nord » désigne les pays développés.

³ Latouche (2001) aborde le développement « soutenable » au sens d'écologiquement viable.

santé, et à un environnement propre et sûr (World Commission on the Environment and Development, 1987; Todaro et Smith, 2014).

En d'autres termes, le développement a été considéré jusqu'à la fin des années 1980 comme un phénomène économique dans lequel les gains rapides du RNB et de la croissance par habitant se répercutent sur les populations. Les questions de pauvreté, de discrimination, de chômage et de la répartition des revenus n'ont qu'une importance secondaire (Todaro et Smith, 2014). Les théories du développement économique se sont concentrées principalement sur les aspects techniques et physiques basés sur l'analyse à court terme de l'allocation des ressources.

J'adopte une approche holiste qui considère le processus de développement comme un tout sociétal et non comme le résultat linéaire du fonctionnement des activités de marché, supposées fondées sur les décisions individuelles réputées rationnelles. Ainsi, l'analyse menée dans cette thèse tient compte de la complexité du processus dans une perspective de long terme, mais aussi de plusieurs définitions portées par des institutions ou économistes. Le développement doit représenter l'ensemble des changements et des choix disponibles pour la population au sein d'un système social adapté aux besoins fondamentaux et aux aspirations évolutives des individus et des groupes sociaux au sein de ce système (Streeten, 1984 ; Sen, 1999 ; International Labour Office, 1976, 1977). Ces choix rendent le développement plus démocratique, participatif (PNUD, 1991) et impliquent un désir accru d'autonomie, tant au niveau individuel que collectif (Commission Sud, 1990). Pour ce faire, le développement s'appuie sur les ressources, tant humaines que matérielles d'une nation. L'aide extérieure peut favoriser le développement, mais cela exige qu'elle soit intégrée à l'effort national et subordonnée aux objectifs de ceux à qui elle est destinée (Commission Sud, 1990).

La genèse de l'économie du développement et l'étude des différentes théories du développement économique qui analysent la situation passée ou présente des PED ont fait l'objet de multiples revues de littérature (Meier et Seers, 1984 ; Cue Rio, 2013 ; Vázquez et Sumner, 2013 ; Boukari, 2014). De la littérature, ressort le constat que les modèles traditionnels de l'économie du développement s'intéressent principalement aux moyens par lesquels on pourrait financer la croissance économique dans les PED. Dans les années 1950, l'Assemblée Générale des Nations Unies a adopté plusieurs résolutions qui montrent la nécessité d'agir pour verser plus de fonds internationaux aux PED (United

Nations, 1950, 1952, 1954)⁴. La fusion du Fonds Spécial des Nations Unies (FSNU) et du Programme Elargi d'Assistance Technique (PEAT) en 1965 permet la création du Programme des Nations Unies pour le développement (PNUD) qui renforce les engagements des Nations Unies à mobiliser davantage de fonds internationaux pour assurer aux PED une croissance durable de leur taux de croissance pour un développement de long-terme à travers l'Aide Publique au Développement (APD).

La naissance du FMI et de l'Aide Publique au Développement (APD)

Historiquement, l'APD est l'outil qui a été privilégié pour financer le développement. Elle est définie comme :

“Those flows to countries and territories on the DAC [Development Assistance Committee] list of ODA Recipients [...] and to multilateral development institutions which are:

i. provided by official agencies, including state and local governments, or by their executive agencies;

and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). This calculation helps determine whether a loan is concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as ODA”⁵ (OECD, 2008a, p.1).

L'utilisation de l'APD remonte à la fin de la Seconde Guerre mondiale. Toutes les nations du monde ont subi les effets dévastateurs de la guerre : le chômage, la pauvreté, l'inflation et la récession ont touché la plupart des économies mondiales. Quarante-quatre pays se sont réunis à Bretton Woods en juillet 1944 pour établir deux

⁴ Ces résolutions font référence aux PED comme des « pays sous-développés ».

⁵ Il faut noter que la définition de l'APD a changé depuis 2018, date depuis laquelle les statistiques ne tiennent plus compte des mêmes taux d'élément-don pour être qualifiés d'APD (i.e. « un indice mathématique [...] influencé par le taux d'intérêt du prêt, sa maturité (délai jusqu'au dernier remboursement), son délai de grâce (délai jusqu'au premier remboursement du capital) et le rythme de ses remboursements » (Charnoz et Severino, 2007, p.7). Pour la nouvelle définition d'APD, voir OECD (2020). Ce changement de définition n'impacte pas l'analyse statistique développée dans les chapitres car les statistiques utilisées couvrent des périodes jusqu'en 2018.

institutions régissant les relations économiques internationales : la Banque Internationale pour la Reconstruction et le Développement (BIRD) (l'ancêtre de la Banque Mondiale) pour organiser la reconstruction d'après-guerre et le Fonds Monétaire International (FMI) pour gérer le système financier international et conserver l'ordre économique international tel qu'il était (Girón, 2008). John Maynard Keynes, économiste à la tête de la délégation britannique et Harry Dexter White, représentant la délégation américaine ont contribué à la rédaction de l'accord fondateur du Fonds (IMF, 1947).

En 1947, les pays s'accordent sur un plan massif d'aide sous forme de prêts des Etats-Unis à l'Europe, appelé Plan Marshall. Il représente 13 milliards de dollars prêtés entre 1947 et 1952 aux 14 pays les plus touchés par la guerre et marque l'émergence de la coopération au développement en tant que concept (UNOSSC et UNDP, 2019).

Le FMI est conçu comme une institution spécialisée du système de Bretton Woods des Nations Unies, créée dans le but de promouvoir la stabilité des relations monétaires internationales par la gestion des déséquilibres des balances de paiement et des taux de changes entre les pays partenaires des accords, en leur apportant un soutien financier temporaire, accompagné de conseils « techniques ». Ses objectifs sont de promouvoir la coopération internationale dans le domaine de la politique monétaire, de faciliter l'expansion et la croissance du commerce extérieur, de renforcer la confiance entre les pays membres, de s'employer à corriger les déséquilibres de la balance des paiements des États membres et de promouvoir la stabilité des taux de change (IMF, 1960).

Ces aides américaines massives pour l'Europe ont poussé les États-Unis, la France et l'Angleterre à la fin des années 1950 et dans les années 1960, à aider les pays africains qui devenaient indépendants (comme le Ghana en 1957, le Kenya en 1963, le Malawi et la Zambie en 1964) par le biais de l'APD. Cette vague de décolonisation coïncide avec l'augmentation du nombre de pays donateurs d'APD et la création de nouvelles institutions pour mieux encadrer l'aide.

Les PED ont été jugés incapables de mobiliser leurs capitaux internes comme l'épargne privée (United Nations, 1950), principalement en raison de l'absence ou de la faiblesse de l'accumulation, ce qui a permis de justifier les politiques d'aide extérieures dans les années 1950-1960 en défendant que les capitaux externes sont absolument nécessaires pour permettre le développement.

En 1961, le Comité d'aide au développement (CAD) a été créé pour promouvoir l'expansion de l'aide en faveur des PED et d'améliorer l'efficacité des ressources allouées. Il comptait neuf membres fondateurs : l'Allemagne, la Belgique, le Canada, la France, les États-Unis, l'Italie, le Portugal, le Royaume-Uni et la Commission de la Communauté économique européenne. Le CAD compte actuellement 30 membres (OECD, 2006a) qui dépendent de l'Organisation de Coopération et de Développement Economiques (OCDE) et gèrent la coopération pour le développement et le financement du développement défini comme :

“[...] a strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity. We⁶ reaffirm and build on the 2002 Monterrey Consensus and the 2008 Doha Declaration. Our goal is to end poverty and hunger, and to achieve sustainable development in its three dimensions through promoting inclusive economic growth, protecting the environment, and promoting social inclusion. We commit to respecting all human rights, including the right to development. We will ensure gender equality and women's and girls' empowerment. We will promote peaceful and inclusive societies and advance fully towards an equitable global economic system in which no country or person is left behind, enabling decent work and productive livelihoods for all, while preserving the planet for our children and future generations.” (United Nations, 2015, p.1)

Le CAD a avancé dans la même direction que le FMI et la Banque Mondiale dès 1960 pour verser les APD aux PED et a suivi les recommandations des deux institutions même lorsque des crises sont apparues (OECD, 2006a).

⁶ « We » correspond aux « Chefs de délégation et hauts représentants de gouvernement » rassemblés à Addis Abeba de 13 au 16 juillet 2015 (United Nations, 2015, p.1).

La crise de la dette en Amérique latine, le Consensus de Washington et les Politiques d'Ajustements Structurels

Le « consensus de Washington » est né des relations entre les deux IFI que sont la BM et le FMI qui avaient pour but officiel de générer de la croissance économique dans les PED (Nubukpo, 2008). Williamson (1990) a décrit, le premier, ces relations de « Consensus de Washington » qui désigne :

“the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarised in 10 propositions: Fiscal discipline; A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; Tax reform (to lower marginal rates and broaden the tax base); Interest rate liberalization; A competitive exchange rate; Trade liberalization; Liberalization of inflows of foreign direct investment; Privatization; Deregulation (to abolish barriers to entry and exit); Secure property rights” (Williamson, 2000, pp.252-253).

Ces dix propositions libérales avaient pour but d'apporter des solutions aux problèmes de dette que rencontraient les PED d'Amérique latine (puis les autres PED et émergents). Marangos (2009) détaille les propositions originelles de Williamson (1990) qui ont évolué car le concept de « Consensus de Washington » a beaucoup circulé. La discipline fiscale implique un déficit budgétaire nul ou limité. Les dépenses publiques doivent être réduites et les subventions stoppées. Il faut élargir « l'assiette fiscale » et arrêter la fuite des capitaux. Le marché doit pouvoir déterminer les taux d'intérêt, ce qui requiert la libéralisation des marchés financiers. Le taux de change doit permettre d'être compétitif dans les exportations. Les importations doivent être libres et sans restriction. Les barrières à l'entrée doivent être abolies et la compétition libre entre les entreprises domestiques et étrangères assurée. Les entreprises doivent être privatisées car elles seront plus efficaces. L'Etat ne doit pas réguler l'entrée ou la sortie des entreprises sur le marché. Les droits de propriété doivent être sécurisés par le système juridique. Ces recommandations sont pour Williamson (1996) la clé de la prospérité des PED.

La crise de la dette en Amérique latine a permis de justifier l'application des principes du Consensus, présentés comme des règles objectives susceptibles de répondre aux déséquilibres économiques dont souffraient les PED (déficit extérieur, inflation, chômage, crises de change, etc.). Derrière ce schéma se trouve une orientation très libérale des réformes économiques prônées par les IFI. Depuis les années 1980, les PED (et pays émergents) ont connu plusieurs crises de la dette. La Banque mondiale (World Bank, 2020) identifie quatre périodes de crises différentes :

- De 1970 à 1989 : la crise de la dette de l'Amérique latine, des Caraïbes et des pays à faibles revenus.
- De 1990 à 2001 : la crise de la dette d'Asie de l'Est et du Pacifique⁷.
- De 2002 à 2009 : une crise brève d'Europe et d'Asie centrale.
- Depuis 2010 : une crise qui touche toutes les régions de PED et d'émergents.

La crise de la dette de l'Amérique latine trouve ses origines notamment dans le premier choc pétrolier de 1973. Les pays d'Amérique latine ont fortement emprunté et les déficits budgétaires ont continué d'augmenter, particulièrement au Mexique entre 1970 et 1980. La hausse de la dette extérieure (du secteur public principalement) est marquée en Argentine, au Mexique et au Venezuela au début des années 1980 (World Bank, 2020). Après le second choc pétrolier en 1979, l'augmentation des taux d'intérêt des emprunts à taux variables contractés par les pays d'Amérique latine accroît leur dette de plus de la moitié de la dette totale en 1982 (World Bank, 2020). En plus de la hausse des taux d'intérêt et du service de la dette, le rythme de la croissance économique a ralenti dans le monde⁸ depuis le milieu des années 1970 réduisant les possibilités d'exporter. La crise de la dette en Amérique latine commence alors en 1982 avec l'annonce par le Mexique de son impossibilité de payer le service de la dette (World Bank, 2020). La crise s'est répandue aux autres pays de l'Amérique latine dont 16 ont restructuré leur dette (Federal Deposit Insurance Corporation, 1997).

Les IFI n'ont pas eu la même réaction lors du premier choc pétrolier que lors du second. Le premier choc pétrolier a entraîné un afflux croissant d'APD vers les pays

⁷ Cette crise inclue également quelques pays en développement et émergents d'Europe et d'Asie centrale (World Bank, 2020).

⁸ Les Nations Unies (United Nations, 2017) notent que le taux de croissance du produit brut mondial était de 5,3% avant le premier choc pétrolier de 1973 puis de 2,8% durant le reste des années 1970 et de 1,4% de 1980 à 1984.

d'Amérique latine et d'Afrique tandis que le pour le second, ils ont opté pour une hausse des taux d'intérêts pour contrôler les pressions inflationnistes (ce qui a automatiquement augmenté le service de la dette) (Moyo, 2009). Pour garantir la stabilité monétaire et financière du système international, les IFI ont restructuré la dette des PED en leur demandant d'accepter de nouveaux prêts de 3 ans via la Facilité d'ajustement structurel du FMI dès 1986⁹ (IMF, 1997). Cette restructuration des prêts des PED marque le début des Programmes d'Ajustements Structurels (PAS) reposant sur l'ouverture et la libéralisation des marchés financiers. Les pays dont la dette doit être restructurée voient cette démarche comme une forme d'ingérence du FMI et une non-considération de leurs spécificités. Quelle que soit leur situation, tous les pays ont dû appliquer les mêmes réformes en suivant le principe « *one-size-fits-all* » ou autrement dit un modèle « taille unique » qui est construit pour tous les PED sans distinction (OECD, 2018). Ce modèle s'appuie sur le principe qu'un PED qui a réussi à se développer en le suivant, peut être suivi par tous les autres sans être adapté aux spécificités du pays.

Entre 1980 à 2000, les 98 PED qui ont suivi les recommandations du consensus de Washington n'ont pas obtenu de meilleurs résultats notamment en termes de croissance et de développement que ceux qui ne les ont pas suivis (Berr et Combarrous, 2005). La crise de la dette en Amérique latine a ainsi favorisé la montée des politiques néolibérales où le marché doit être au cœur des stratégies, pour finalement obtenir des mauvais résultats en termes de développement. La Banque mondiale dénombre en Amérique latine 120 millions de pauvres en 1980 et 220 millions en 1990 (World Bank, 2003) tandis que la dette extérieure est passée en 1991 de près de 500 milliards de dollars à plus de 800 milliards en 2002 (UNCTAD, 2003) dans un contexte d'austérité. L'application des PAS en Amérique latine et ses mauvais résultats n'ont pas empêché le FMI et la Banque Mondiale de continuer à essayer d'appliquer cette « recette » aux pays asiatiques quand ils ont été en crise.

En effet, l'émergence de la crise de la dette en Amérique latine (1^{ère} période) et de la crise asiatique (2^{ème} période) est particulièrement instructive dans l'évaluation des politiques menées par les IFI car la réponse des IFI à ces crises est passée par l'application des principes du Consensus de Washington et représente un cas d'école des effets néfastes

⁹ Par exemple, le plan Brady a été introduit par le secrétaire américain au Trésor, Nicholas Brady, en 1989 comme une stratégie de réduction de l'endettement des PED. Le Mexique a été le premier pays à mettre en œuvre ce plan.

des politiques néolibérales qui y ont été menées. Elles permettent également de voir les réponses des PED qui ont résulté de ces crises et qui fondent les bases d'un système de financement du développement basé sur la coopération régionale et les banques de développement des PED.

La crise asiatique, l'instrumentalisation du concept de « bonne gouvernance » et la montée de la Coopération Sud-Sud

La crise asiatique a commencé par des attaques spéculatives dès le début des années 1990¹⁰ dans les pays asiatiques qui avaient opéré une dérégulation et une libéralisation financière des capitaux causant une récession (IMF, 2000 ; Lim, 2018). Certains pays comme la Thaïlande, la Corée et l'Indonésie ont accepté le plan de restructuration du FMI de 35 milliards de dollars en 1997 (IMF, 2000). Ce plan – notamment appuyé par des réformes du secteur financier des pays aidés – n'a pas permis de rétablir la confiance dans ces trois pays et la récession a continué de s'aggraver au-delà des prévisions du FMI avec les sorties de capitaux, l'effondrement des taux de change et la forte dépréciation des monnaies (IMF, 2000 ; Lim, 2018).

Cette crise a poussé le FMI à revoir légèrement ses positions concernant la libéralisation financière et le contrôle des capitaux (Grabel, 2015b). Le positionnement du FMI consistait jusque-là à prôner la libéralisation financière de tous les pays, quelle que soit leur situation. De façon étonnante, Prasad *et al.* (2003) expliquent que la libéralisation financière a aggravé la vulnérabilité de certains pays face aux crises. C'est la première fois que le FMI reconnaît que la libéralisation financière a pu déclencher une crise dans un PED.

En parallèle, le FMI recommande que l'intégration financière soit abordée plus « prudemment, avec de bonnes institutions » (Prasad *et al.*, 2003, p.5). En effet, les pays qui ont ouvert leur marché des capitaux et dont la libéralisation financière est totale sont de plus en plus liés financièrement aux pays développés, ce qui augmente la probabilité

¹⁰ A l'origine, les pays asiatiques ont réalisé de mauvais choix d'investissement et se sont massivement endettés en monnaie étrangère (Navarro, 2008). Ainsi, les attaques spéculatives ont causé la dépréciation des monnaies d'endettement ce qui a mécaniquement augmenté le montant de la dette. Après la dépréciation du baht thaïlandais, les monnaies de l'Indonésie, des Philippines, de la Malaisie ont été touchées puis celles de Corée, Singapour, Taïwan (Navarro, 2008).

que les chocs se propagent et amplifient la vitesse à laquelle ils se propagent, surtout en présence de « mauvaises institutions » (Prasad *et al.*, 2003).

La fin des années 1990 marque donc un tournant dans l'histoire de l'aide traditionnelle des IFI car le FMI et la Banque mondiale constatent l'échec des PAS. Pour se dédouaner, ils pointent du doigt les institutions des PED comme responsables de cet échec. En d'autres termes, l'existence de « mauvaises institutions » dans un contexte de « mauvaise gouvernance » dans les PED est une justification pour justifier l'échec des PAS (World Bank, 1992, 1994, 1998).

Michel Camdessus (1998), alors Directeur général du FMI, explique se trouver à un moment historique suite à la crise asiatique. Selon lui, une nouvelle architecture du système financier est nécessaire et propose notamment que le FMI s'appuie sur la « bonne gouvernance » pour réduire la récurrence de crises. Cette instrumentalisation de la question des institutions par les IFI (Nubukpo, 2008) est pourtant suivie et validée par de nombreux travaux dans les années 2000 montrant une corrélation positive entre de bonnes institutions et le développement (on peut notamment citer Acemoglu *et al.*, 2001 ; Kaufmann *et al.*, 2002 ; Rodrik *et al.*, 2004) alors que le but final des IFI est bien le bon fonctionnement du marché (Nubukpo, 2008). Ce sont tour à tour différents critères institutionnels qui sont évalués comme la corruption ou l'efficacité du système judiciaire ce qui renforce le positionnement des IFI en concluant que de bonnes institutions permettent davantage de se développer que des mauvaises et qu'une nouvelle architecture du système financier international s'appuyant sur ce concept est souhaitable.

Joseph Stiglitz a été nommé Economiste en chef et Vice-Président de la Banque Mondiale en 1997 et a été forcé de démissionner trois ans plus tard après avoir fortement critiqué la politique du FMI, notamment son incapacité à stabiliser le système financier international ainsi que pour la gestion de la crise asiatique. Une autre critique a concerné la politique de développement suivie par la Banque mondiale (Abraham-Frois et Desaignes, 2003). Ces critiques remettent plus particulièrement en cause la conditionnalité des prêts du FMI et la rapidité avec laquelle les IFI imposent les réformes aux PED sans les accompagner réellement dans les changements (Stiglitz, 2002 ; Nubukpo, 2008). Cette remise en cause du consensus de Washington s'intensifie à partir de 2001, lorsque Stiglitz réalise une série de conférences où il est qualifié de « *Rebel within* » (Rebèle infiltré). Dans son ouvrage « *Globalization and its Discontents* » (2002),

Stiglitz défend l'importance de la libéralisation financière tout en pointant l'importance du gouvernement dans la régulation financière (point qu'il avait déjà présenté dans un article de 1994) pour une meilleure stabilité macroéconomique. Sa notoriété est croissante dans le monde et on qualifie même ses propositions pour réformer le système (Stiglitz, 2002, 2003) de « Consensus Stiglitzien » (Abraham-Frois et Desaignes, 2003).

Ces critiques n'ont pas empêché les IFI de continuer à appliquer des politiques structurelles de développement favorisant le marché et les intérêts de court-terme des acteurs contrairement aux besoins de financement du développement de long-terme même si le vocabulaire utilisé pour décrire ces politiques a été modifié (Marques Pereira et Ould-Ahmed, 2010). En effet, avec le succès du néo-institutionnalisme qui promeut une vision des institutions garantes de la « bonne gouvernance », les IFI se « convertissent » tour à tour à ce courant de pensée dans les années 2000. Néanmoins, les soubassements stratégiques du FMI et de la Banque mondiale n'évoluent pas car les politiques de développement restent axées sur le bon fonctionnement du marché et de la croissance comme moteur du développement (Marques Pereira et Ould-Ahmed, 2010).

On note ainsi un passage du Consensus de Washington au Consensus de Monterrey en 2002 (dont les principes sont réaffirmés lors de la conférence de Doha en 2008) par les IFI. Ce « nouveau » consensus pose les bases d'une politique de financement du développement pour mobiliser davantage les ressources financières des PED notamment par la plus grande mobilisation des flux privés. L'échec du consensus de Washington est donc non seulement expliqué par le manque de ressources publiques allouées au développement (à travers l'APD) mais également par l'insuffisance des ressources privées qui sont mobilisées à travers les Investissements Directs Etrangers (IDE) (OCDE, 2005, 2006b ; United Nations, 2008, 2013 ; IMF, 2015). Les IDE sont définis comme:

“a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is

evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.” (OECD, 2008b, p.17).

La mobilisation de capitaux internes dépend en partie de la capacité de l’Etat à mettre en place une politique fiscale redistributive basée sur la collecte d’impôts et taxes (Gautier, 2001 ; Boukari, 2014). Dans cette thèse, l’idée défendue appuie que les PED possèdent la capacité de mobiliser les capitaux internes¹¹ mais que ce n’est pas mis en avant sur la scène internationale pour pouvoir continuer de justifier l’usage de financement du développement traditionnel Nord-Sud. Ainsi, ce sont principalement les capitaux externes qui ont été utilisés comme des outils de financement du développement, à savoir majoritairement l’Aide Publique au Développement (APD) et les Investissements Directs Etrangers (IDE).

La CFG en 2007-2008 a catalysé une montée de la Coopération Sud-Sud (CSS) et une volonté de chercher des solutions pour un financement de développement de long-terme. La Coopération Sud-Sud (CSS) a de multiples définitions dont deux sont retenues, la première étant davantage théorique que la seconde :

” a manifestation of solidarity among peoples and countries of the South that contributes to their national well-being, their national and collective self-reliance and the attainment of internationally agreed development goals, including the Millennium Development Goals” (United Nations, 2009b, p.2).

L’UNOSSC (2021b) retient une autre définition de la CSS :

« A broad framework of collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, intraregional or interregional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South trade, South-South

¹¹ J’estime que cette mobilisation interne est possible et peut faire l’objet d’un prochain travail de recherche. Le commerce international et les transferts de fonds des migrants sont également écartés de l’analyse car ce ne sont pas les outils privilégiés traditionnellement par les IFI pour promouvoir ou financer le développement.

flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges. (UNOSSC, 2021¹², n.page). »

La CSS s'affiche comme une coopération idéale qui tend néanmoins à reproduire les mêmes inégalités que la coopération traditionnelle Nord-Sud notamment l'asymétrie entre les membres. La Chine est souvent accusée de « néo-impérialisme du Sud » car elle représente un plus gros poids que de nombreux autres PED dans les relations internationales et tend à imposer ses décisions en matière de coopération aux autres pays du Sud sans toutefois l'afficher (Gray et Gills, 2016, p.563).

Une analyse détaillée du concept de CSS montre néanmoins en quoi il est un jalon vers un financement du développement de long-terme souhaitable pour les PED. En effet, la CFG, précédée par les crises de l'Amérique latine et asiatique, a renforcé la volonté des PED de chercher de nouvelles initiatives pour s'éloigner de l'architecture Nord-Sud du financement du développement. La CSS a été construite sur des valeurs socialement intéressantes comme l'équité ou la faible conditionnalité des prêts (contrairement aux pratiques des IFI) mais sa mise en œuvre n'est pas fidèle à l'idée théorique qui était de ne pas reproduire le schéma Nord-Sud du financement du développement et de moins dépendre d'autres pays pour leur financement. On note néanmoins que ces initiatives ont permis une montée des Investissements Directs Etrangers (IDE) Sud-Sud, la création de banques de développement dans les pays du Sud, comme la « *New Development Bank* » ou Banque des BRICS. Ces initiatives forment une base pour formuler des perspectives et recommandations pour le financement du développement des pays du Sud.

¹² Définition issue du site de l'UNOSSC sur la page « About South-South and Triangular Cooperation » : <https://www.unsouthsouth.org/about/about-sstc/>, consultée le 4 février 2021.

Démarche

La construction de la thèse en trois chapitres a plusieurs implications pour le lecteur. En effet, les essais ont été pensés et construits comme des articles séparés mais en lien les uns avec les autres et peuvent être lus de façon continue.

1) Ces essais doivent suffisamment étayer le contexte historique et théorique pour que le lecteur ait tous les éléments nécessaires à la compréhension en les lisant indépendamment ce qui explique la redondance de certaines informations primordiales, en cas de lecture simultanée des trois essais.

2) Cette forme de thèse ne permet pas toutes les incursions faites dans une thèse « traditionnelle » ce qui justifie :

- la présence de nombreuses notes de bas de page qui renvoient à des lectures et informations complémentaires. Celles-ci ont été fondamentales pour la construction des articles et du raisonnement et ont permis d'étayer les fondements théoriques et empiriques de ces chapitres.

- l'utilisation de données agrégées pour réaliser l'analyse statistique de la situation des PED (notamment en termes de flux d'APD et d'IDE). Tous les PED ne suivent pas la même trajectoire de développement (surtout les émergents vis-à-vis d'autres Pays En Développement, PED et Pays les Moins Avancés, PMA) et doivent s'intégrer à l'économie mondiale de différentes manières (notamment en ce qui concerne leur secteur financier). Néanmoins, l'objectif de ces chapitres est de tirer des conclusions sur le financement du développement à long terme au-delà de la situation spécifique d'un PED donné. Ces résultats aident ainsi à identifier les orientations et perspectives à long terme souhaitables pour les PED dont l'application sur un ou des pays en particulier pourra être faite dans un futur travail de recherche.

La mobilisation d'une vision holiste, du type « Economie politique », permet d'analyser les problématiques de financement du développement dans un monde capitaliste instable et de rendre explicites les enjeux de poids des PED dans les relations internationales ainsi que des changements de dynamique du financement du développement. Les PED ont des besoins économiques, sociaux et écologiques élevés à satisfaire de manière durable et continue. Ces objectifs ne peuvent être atteints par des mécanismes de marché décentralisés et basés sur l'intérêt privé, car ils dépassent les objectifs et la portée des

acteurs du marché, qui ont souvent un horizon court et des préoccupations circonscrites par la rationalité microéconomique. L'analyse de ces dynamiques mènent à une question de recherche plus globale.

Question de recherche

Comment la crise financière globale a catalysé le changement de l'architecture de la coopération pour le développement vers le Sud et a poussé à l'établissement d'institutions dynamiques pour sécuriser et stabiliser le financement du développement de long terme ?

Structure de la thèse

La thèse est composée de trois Chapitres qui proposent d'apporter un cadre conceptuel (Chapitres 1 et 2) et un cadre plus opérationnel (Chapitre 3). La Figure 0.1 présente ainsi la construction de ces chapitres en lien avec leurs objectifs et les résultats principaux apportés dans chaque chapitre tandis que la Figure 0.2 montre l'architecture de la thèse et les interrelations entre les chapitres.

Le Chapitre 1 propose une analyse du financement du développement externe traditionnel Nord-Sud qui s'appuie sur la mobilisation du corpus de l'Economie Institutionnaliste (EI) et son lien avec l'économie du développement¹³. Avant tout, l'approche holiste de l'EI concernant le développement soutient que les institutions ne fonctionnent pas pour obtenir un marché efficace, comme le soutiennent les tenants de l'Economie Néo-Institutionnalistes (ENI), mais pour assurer la cohérence globale du système global (Street, 1987). Dans le cadre du système capitaliste instable, les institutions doivent jouer le rôle que le marché ne peut, par nature, pas jouer c'est-à-dire conserver ou faire progresser le niveau de bien-être global des individus dans un objectif de développement de long terme. Ainsi, ils appuient une vision du développement qui ne se résume pas à une augmentation de la croissance (mesurée par une hausse du PIB comme le considère les institutions de Bretton Woods et l'ENI) mais représente une vision du développement compatible avec celle défendue et présentée dans cette

¹³ Gambus et Almeida (2018) recensent des articles de la revue « *Journal of Economic Issues* » adoptant un point de vue institutionnaliste sur le développement notamment Dowd (1967), Glade (1969), Myrdal (1974), Fushfeld (1977), Klein (1977), Street et Dilmus (1982), Dyer (1986), Gordon (1969, 1982, 1984) Dietz (1982, 1986, 1987).

introduction générale. L'EI a largement abordé le sujet de l'économie du développement mais dans une moindre mesure celui du financement du développement. Ainsi, en mobilisant le principe institutionnaliste selon lequel les institutions ne peuvent pas se construire spontanément et ont besoin d'une « main visible » (Griffith-Jones *et al.*, 2010 ; Glemarec et Puppim de Oliveira, 2012), je montre que le modèle de financement du développement encouragé par les IFI ou le modèle Nord-Sud n'est pas pertinent et que l'on peut s'appuyer sur l'institutionnalisme pour donner une perspective d'un modèle alternatif de développement dans le cadre de la dynamique capitaliste instable. Le besoin d'institutions qui soient « dynamiques » (Allegret *et al.*, 2003¹⁴) est notamment utilisé pour proposer une solution face à la rigidité des institutions traditionnelles de financement du développement que sont la Banque mondiale et le FMI. Ces institutions doivent davantage tenir compte des interactions entre les agents pour évoluer et faire évoluer leurs pratiques en termes notamment de recommandations de libéralisation financière et de conditionnalité de leurs prêts.

Le Chapitre 2 propose d'évaluer, au regard de la CFG de 2007-2008, dans quelle mesure le processus de financement du développement traditionnel est soutenable. L'approche traditionnelle de financement du développement est ainsi remise en question à travers l'analyse statistique des outils privilégiés ou recommandés par les IFI et les donateurs traditionnels pour financer le développement à savoir APD et les IDE dans le cadre de la CFG. Les analyses montrent que les flux d'APD et d'IDE ont été frappés par la crise. Plus particulièrement, les PED ne devraient pas compter sur les flux d'APD pour financer le processus de développement de long-terme dans un contexte de crise ou dans un contexte de stabilité du système financier international. Les PED se sont ainsi tournés vers d'autres PED entraînant une augmentation des flux d'IDE Sud-Sud. En d'autres termes, cela traduit une montée de la CSS comme « réponse » à la CFG qui marque un jalon pour réduire leur dépendance vis-à-vis des pays développés en termes de financement du développement. L'addition d'un système financier instable et de ces approches traditionnelles ne peut pas remplir les objectifs d'un financement du développement durable.

¹⁴ Allegret *et al.* (2003) mettent en avant ce concept de dynamisme des institutions, dans le cadre d'un renforcement du processus du marché, pour que les PED aient davantage de possibilités pour financer leur développement. Je soutiens que ce dynamisme est souhaitable si le but d'un meilleur fonctionnement du marché s'opère dans le cadre de la recherche collective du bien-être (et non des intérêts micro-rationnels privés).

Le Chapitre 3 a pour but de présenter des perspectives post-crise financière globale en ce qui concerne la CSS et le financement du développement dynamique de long-terme. Il étudie le changement qui s'opère avec le déplacement de l'architecture du système financier vers le Sud. Même si la CSS ne peut pas encore représenter une alternative à la coopération traditionnelle Nord-Sud, la CFG a notamment créé de l'espace pour des innovations institutionnelles comme la création de banques de développement telle que la « Nouvelle banque de développement » aussi appelée Banque des BRICS (Brésil, Russie, Inde, Chine, Afrique du Sud). La CSS donne la possibilité aux pays du Sud de réduire leur dépendance au financement traditionnel du développement et d'accroître leur résilience aux flux financiers procycliques du Nord. Je propose ainsi des perspectives pour la construction d'une institution globale de financement du développement, une institution dynamique conçue comme un système symétrique entre les membres où chaque pays possède un droit de vote ou encore la création d'une nouvelle « plateforme » qui défende et porte la voix des PED (Griffith-Jones, 2012 ; Gosovic, 2016).

Figure 0.3: Construction de la thèse : objectifs et résultats



Source : figure faite par l'auteur

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Chapter 1 - Development Financing: An institutionalist analysis¹

Abstract

The Chapter presents the traditional ways of financing development such as Official Development Assistance and Foreign Direct Investment, to assess their relevance, limits, and benefits with regard to the needs of the development process. I adopt an institutionalist perspective and maintain that development is not only a mere shift of growth that could be supported by free-market mechanisms but rather a structural change that requires some specific conditions and support within a long-term framework. Institutions are supposed to play a key role in this process whose path is also related to the characteristics of each society and cannot be thought of through a unique standardised model that would fit all. I suggest an alternative development strategy through the creation of new and evolving institutions that finance long-term development in the interest of developing countries. These institutions can be called “Dynamic long-term development financing institutions” and are adapted to the specific characteristics (needs, constraints, means and collective goals) of each economy.

Keywords: Development financing, Foreign Direct Investments, Institutionalism, Official Development Assistance

JEL Classification Codes: F35, F53, O19, O20

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1. Introduction

The standard market-based financial models consider development financing as a mere issue of reallocation of available funds between the supply and the demand through the market price (the interest rate). Therefore, the financing of development pertains to the market conditions in force: more markets are free from any external (mainly state-related) constraints more would be efficient and possible the financing of the development process.

The Chapter aims at assessing the traditional external development financing models and study the institutionalist contribution to the development financing process. It presents the traditional ways of financing development such as Official Development Assistance (ODA) and Foreign Direct Investment (FDI) to assess their relevance, limits, and benefits with regard to the needs of the development process. I then argue that the traditional North-South development financing model which was encouraged by international institutions such as the International Monetary Fund during the last decades was not relevant for developing countries². These institutions keep on applying Structural Adjustment Policies (SAPs), even if the vocabulary to describe these policies is evolving each decade (Marques Pereira and Ould Ahmed, 2010) and ask for more financial inclusion (Correa and Girón, 2019). They roughly applied the same models and strategies, usually resting on opening up and liberalisation of real and financial markets, on all developing countries and did not consider the specificities of the economies and the prerequisites for a sustainable long-term development process. Therefore, the outcomes of those policies and international financial-aid framework could not result in expected sustainable development experiences. They have led to repeated disappointments and increased external (and domestic) deficits without allowing these economies to improve their international competitiveness or increase their financial attractiveness in a stable and productive way. “Good-bye financial repression, hello financial crash” (Diaz-Alejandro, 1985), became the motto of such a process.

In order to assess the relevance of such a theoretical and political position, I adopt a perspective defended by the Institutional Economics (IE) and maintain that

² According to the World Bank classification, developing countries are categorised as “low and middle income” in terms of Gross National Income (GNI) per capita.

development is not only an increase of growth (measured by an increase of Gross Domestic Product as it was considered since Bretton Woods in 1944) that could be supported by free-market mechanisms and market-related financing procedures but a structural change³ that implies an evolution of the model. Structural change implies a technological and institutional transformation (Chang, 1994). This transformation requires a role of the state to maintain or create institutions that are supposed to play a key role in this process whose path is also related to the characteristics of each society and cannot be thought of through a unique standardised model that would fit all (Arestis and Stein, 2005).

In this Chapter, I mainly refer to Institutional Economics (IE) in the tradition of John M. Clark, John R. Commons, Wesley Mitchell and Thorstein Veblen (among others) of the early twentieth century and also includes Joseph A. Schumpeter since the Author of *The Theory of Economic Development* (1934) has explicitly adopted an institutionalist approach to the development process in a capitalist economy, as a monetary and non-equilibrium path of social evolution⁴. I make a distinction between this tradition and the New Institutional Economics (NIE). The latter does not seem to be able to properly address the concept of economic development in particular because it does not differentiate between growth and development (Gambus and Almeida, 2018). According to the NIE, DCs lack governance that can ensure that the market functions properly. The state must therefore intervene, but only to guarantee that the market functions. With a functional market and institutions, growth and development must naturally follow. Therefore, their use of institutions that serve material and market efficiency contradicts the view of IE which develops a holistic vision of society and economy (to be studied as a whole and not as an arithmetical agglomeration of separate rational individuals). In this picture, institutions provide the overall shape of markets and allow (or not) citizens to undertake socially coherent actions.

³ To reinforce this idea, Dietz (1993, p.277-278) explains that: “Economic and ultimately social development is not about markets; markets may be a means to facilitate economic development, but they are not the primary agent of such a transformation. Development results from the progressive and continuous application of new technology in production within an institutional environment supportive and conducive to such change.”

⁴ See, for instance, Festré, Lakowski-Laguerre and Longuet (2017) and Ülgen (2014).

Institutionalists have dealt extensively with the subject of development economics⁵, but Street's seminal article "The Institutional Theory of Economic Development" (1987) gives a comprehensive account of the topic from an institutionalist perspective. In contrast to the NIE model, which usually emphasises the spontaneity and optimal efficiency of market institutions, IE puts forward the need to adopt a holistic approach that maintains that the institutional structure is fundamental for the functioning of the economy. The relevant institutions are mainly public institutions required for a relevant organisation and supervision of market activities. However, these institutions can be accompanied by private institutions that should be framed to prevent possible instabilities since the micro-rationality of private structures cannot always be consistent with the stability of the whole economic system.

However, the specific study of development finance is not accurately addressed by institutionalists. Nevertheless, institutionalist economics sets out general principles which emphasise that economic functioning is dependent on the institutional structure. Their comprehension of market mechanisms and institutional structure points that institutions are not built spontaneously, but require a "visible hand" of public and collective action to function in the long term (Griffith-Jones *et al.*, 2010; Glemarec and Puppim de Oliveira, 2012). Thus, I develop an analysis that argues that institutionalism would provide the perspective of an alternative model through an alternative vision of capitalist dynamics.

Indeed, I point to two key problems in the capitalist system that negatively affect the sustainability of development finance, namely the instability of the financial system (Minsky, 1986) and the rigidity of traditional institutions (Ayres, 1944; Roland, 2004⁶). Under liberal reforms and related loose regulation, financial markets move through speculative incentives that result in system-wide financialisation that generates a perverse accumulation process and then provokes recurrent systemic crises (Ülgen, 2019)⁷. Such

⁵ The review of literature cannot be complete on the subject of economic development from an institutionalist perspective but to cite a few selected articles in the *Journal of Economic Issues*, see the recommendation of Gambus and Almeida (2018): Dowd (1967), Glade (1969), Myrdal (1974), Fushfeld (1977), Klein (1977), Street and Dilmus (1982), Dyer (1986), Gordon (1969, 1982, 1984) Dietz (1982, 1986, 1987).

⁶ Roland (2004) proposes a framework of institutions according to their rigidity and capacity for change.

⁷ For more details, Chapter 2 addresses the issue of instability as an obstacle to long-term development financing in relation to the global crisis of 2007-2008. Chapter 3 addresses the challenge of institutional rigidity and the response of Southern countries in terms of cooperation and institutional innovations, particularly in the post-crisis era.

an unstable financial environment does not offer the long-term financing mechanisms required for the development process. Thus, the institutionalist analysis of development economics provides the framework for analysing development finance models related to the instability and the rigidity of the system. I suggest an alternative development strategy through the creation of new and evolving institutions that finance long-term development in the interest of developing countries called “Dynamic long-term development financing institutions”.

From this perspective, section two focuses on the relevance of the traditional mean of development financing. Section 3 then develops the contribution of the institutionalist theory to development financing. Section 4 draws some conclusions regarding sustainable development financing of Developing Countries (DCs).

2. The relevance of the traditional means of development financing

The United Nations (2015) defines financing for development (2015) as:

“[...] a strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity. We⁸ reaffirm and build on the 2002 Monterrey Consensus and the 2008 Doha Declaration. Our goal is to end poverty and hunger, and to achieve sustainable development in its three dimensions through promoting inclusive economic growth, protecting the environment, and promoting social inclusion. We commit to respecting all human rights, including the right to development. We will ensure gender equality and women’s and girls’ empowerment. We will promote peaceful and inclusive societies and advance fully towards an equitable global economic system in which no country or person is left behind, enabling decent work and productive livelihoods for all, while preserving the planet for our children and future generations.” (United Nations, 2015, p.1)

This definition emphasises the attention of the United Nations more on development goals than on the means to finance these development goals. Nevertheless, seven main areas of action concerning development financing were implemented in the global framework designed by the Addis Ababa Action Agenda (United Nations, 2015): Domestic public resources; Domestic and international private business and finance; International development cooperation; International trade as an engine for development; Debt and debt sustainability; Addressing systemic issues; Science, technology, innovation and capacity building. I will not discuss these action areas in this Chapter as I focus on the traditional development financing models which were historically used by the institutions such as the International Monetary Fund or the United Nations⁹. All these areas of action were not historically considered by international institutions as relevant to

⁸ “We” refers to the “Heads of Delegation and Government Representatives” gathered in Addis Ababa from 13-16 July 2015 (United Nations, 2015, p.1).

⁹ I consider that the action areas stated in the Addis Ababa Action Agenda (2015) to finance development remain recent reflexions for the international institutions and could be subject to a discussion in a future article.

finance development¹⁰. I focus my analysis on the historical means to finance development, namely Official Development Assistance (ODA) and Foreign Direct Investments (FDI)¹¹.

2.1 Official Development Assistance: the historical tool to finance development

OECD (2008a, p.1) defines ODA as “those flows to countries and territories on the DAC [Development Assistance Committee] List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). This calculation helps determine whether a loan is concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as ODA”.

ODA is officially born after the Bretton Woods Conference (1944) and the end of World War II. Two of the main direct or indirect outcomes of the conference remain:

- (1) the agreement for massive aid (under the form of loans) from the United States to Europe to renew with long-term growth (e.g. the Marshall plan of 1947)¹²;
- (2) the creation of multilateral institutions such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to

¹⁰ For example, South-South cooperation – defined as “a manifestation of solidarity among peoples and countries of the South” (United Nations, 2010) which is a key component of the international development cooperation action area in the Addis Ababa Action Agenda – was only considered as a priority to finance development during the mid-1995s (United Nations, 1995).

¹¹ According to the OECD (2008b, p.234), Foreign Direct Investment (FDI) is: “a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor.”

¹² The United States have committed to lending up to 13 billion dollars to the fourteen most devastated European countries between 1947 and 1952. It marks the emergence of development cooperation as a concept (UNOSSC and UNDP, 2019).

respectively manage the international financial system and the after-war reconstruction

Due to the success of massive aid inflows in Europe, the United States, France and England were inclined in the late 1950s and 1960s to assist African countries which were getting independent (such as Ghana in 1957, Kenya in 1963, Malawi and Zambia in 1964) through ODA. This decolonisation wave coincides with the increasing number of ODA donors and the creation of new institutions to better frame aid¹³. The two main theories¹⁴ justifying massive aid arise from the Harrod-Domar model and Rosenstein-Rodan (1943).

According to the Harrod (1939)-Domar (1946) model, DCs¹⁵ only solution to increase their growth rate is to increase their saving rate as their technological level is given (and would not evolve) to improve their investment rate. Developed economies consider that DCs are not able to have sufficient savings so that the only solution to fill the gap of missing savings was ODA to finance greater investment and enable a greater growth rate. Their model explains the massive capital inflows in DCs merely after the 1960s.

According to Rosenstein-Rodan (1943), a “big push” (i.e. a stimulus to industrialise several sectors of an economy simultaneously) is sometimes a condition for development. The theory considers that a massive injection of investment in one or more strong moves can enable DCs to overcome their technology insufficiency problem. After these massive investments, they consider that growth will occur naturally. If DCs¹⁶ were not able to have sufficient savings – to realise productive investments which leads to an increase of growth (i.e. development) – ODA was the best option to fill the gap. When these theories for massive aid seems not to fit DCs anymore, Sachs (2005) and Collier (2006) remain strongly in favour of a “big push” for poor countries to overcome the

¹³ The Development Assistance Committee (DAC) was created in 1961 to promote the expansion of aid towards DCs and to improve the effectiveness of these allocated resources. There were nine funding countries: Germany, Belgium, Canada, France, the United States, Italy, Portugal, the United Kingdom and the Commission from the European Economic Community. There are currently 30 members of the DAC. To get a full review on the DAC history, see OECD (2006a).

¹⁴ These two models are not the only major models of economic development – Van den Berg (2016) presents a complete overview of development models including dynamic models – but I consider they remain the best justification for a massive and traditional financing development mechanism.

¹⁵ DCs were at that time called underdeveloped economies.

¹⁶ Rosenstein-Rodan (1943) was focusing his analysis on Eastern Europe and South-Eastern Europe but his analysis has largely been generalised to all DCs.

poverty trap¹⁷: “They are too poor to save for the future and thereby accumulate the capital per person that could pull them out of their current misery” (Sachs, 2005, pp. 56-57). However, there are relevant studies opposed to such a view and maintain that massive external public resources are not the only resources to finance development in order to exit the poverty trap. Easterly (2006), a strong opponent to massive aid, argues the legend of the big push no longer applies to poor and developing countries. Easterly (2006, p. 47) defines the big push as: “The poorest countries are in a poverty trap (they are poor only because they started poor) from which they cannot emerge without an aid-financed *Big Push*, involving investments and actions to address all constraints to development, after which they will have a *takeoff* into self-sustained growth, and aid will no longer be needed.” Easterly then shows that among 137 poor countries between 1950 and 2001, those which were not helped engaged in a process of growth thanks to local actors.

Kray and Raddatz (2007) find little evidence of the poverty trap caused either by a low level of savings or technology and put into question massive assistance plans towards poor countries. Increasing aid by following the Big Push recommendations (i.e. injecting massive amounts of aid) does not work better in terms of capital accumulation, savings or growth than a more moderate level of aid.

This directly points to the link between ODA and growth and the literature showing that a big push using ODA will increase DCs growth without conditions is scarce. Many works find that the correlation between ODA and growth is not always positive and that ODA is effective¹⁸ only under some strict conditions (Boone, 1996; Burnside and Dollar, 2000; Collier and Dollar, 2001; Dollar and Levin, 2004; Collier, 2006; Clemens *et al.*, 2011). These studies point that ODA should be conditioned by different factors – such as fiscal and monetary policy governance, the quality of institutions, etc. – which is precisely what Easterly (2006) fight against. Moyo (2009) goes further Easterly’s view considering that “aid is the problem” itself (Moyo, 2009, p.55) and proposes that DCs, and more particularly countries of Africa, rely on an aid-free solution for their development. This would reduce conflicts in Africa and increase

¹⁷ Tarp (2000) and Hansen et Tarp (2001) also defend the idea that more ODA should be encouraged to be effective on growth. The Millennium Development Goals have also been inspired by these poverty traps and defend the idea of a big push needed to help DCs overcome this situation (Sachs, 2005).

¹⁸ For a complete definition and review about ODA effectiveness, see Vathis (2013).

savings and investment (Moyo, 2009). Moyo (ibid.) offers four alternatives to ODA to finance development:

- relying on the international bond market to get the return of sovereign borrowers;
- increasing Chinese FDI in Africa particularly FDI in infrastructure;
- increasing the revenues of African agricultural products exports by removing the subsidies rich countries give to their farmers;
- encouraging financial intermediation and microfinance institutions.

In the 1990s, international institutions start to notice the failure of ODA to finance development. The World Bank (1998) recognises that in several countries corrupt governments have taken over the aid or the policies pursued in the countries have not led to any progress, as in the Republic of Congo or that the built infrastructure with aid has deteriorated. ODA start to fall due to the ending of the Cold War¹⁹ and knows a legitimacy crisis (Amprou and Chauvet, 2007). The main consequence is that institutions, amongst different issues, had to find a complement to the existing public resources to finance development. After the 2000s, international institutions such as the IMF (2015), the OCDE (2005, 2006) or the United Nations (2008, 2013) recommend focusing on public and private financing for development mainly through FDI.

2.2 FDI as a complement or replacement of ODA

FDI can be considered as a complement or a substitute for ODA. The OECD (2005, 2006b) defend the complementarity of ODA and FDI as they put forward the positive correlation between private investment and growth. With private investments, entrepreneurs have sufficient resources to produce (create employment and new technologies) and it is a necessary condition for growth and development. Revenues of the poor would increase and that would generate resources for government to spend on education, health care and infrastructure to increase productivity (OECD, 2006b).

According to the usual motto, the main source of private investments should be the private resources of the developing country and they can be complemented with Foreign Direct Investment (OECD, 2005). Official Development Assistance programs are also encouraged to support actions that would help to improve the productivity of

¹⁹ I have shown in the Chapter 2 that ODA is a volatile flow in times of crisis but also in times of economic stability. DCs cannot be certain of the amount of ODA they will get which makes long-term financing development difficult.

private investments (OECD, 2006b). For example, ODA programs should help to mobilise investments in infrastructure and capital market development; instore pro-poor growth with a reduction of entry barriers that will refrain poor people to invest (OECD, 2006b).

I briefly point to several limits of this simplistic view on FDI as a development driver respectful of long-term DCs development needs. Foreign investors develop their private sector and can undermine domestic investments at least initially (Kumar and Pradhan, 2002) while degrading the environment (Li *et al.*, 2019²⁰). FDI locates in countries or regions where growth is the strongest and where it is already most present (Pottier, 2003; Mishra *et al.*, 2001). Growth level directly linked to FDI depends on trade policy, domestic investment, human and capital development (Mainguy, 2004). We also note that FDI is seen as an attempt to secure developed economies' access to raw materials (European Union, 2010).

FDI remains volatile in a turbulent time and does not support long-term development. For example, after the Global Financial Crisis (GFC), FDI outflows of developed economies collapsed in 2008 and 2009 and decreased by more than 55% between 2007 and 2009 (UNCTAD, 2019). DCs redirected their FDI flows to other DCs which is known as South-South FDI. From 2006 to 2018, FDI increased from US\$200 billion to over US\$400 billion. The global crisis has helped to change the direction of these FDI flows and direct them to other DCs to compensate for the lack of FDI from developed countries (United Nations, 2009). The crisis also highlights that FDI from developed economies does not provide a reliable source of long-term financing for DCs.

²⁰ Li *et al.* (2019) review the literature on the link between FDI and the environment.

3. Development financing and the institutionalist approach

It must be remembered that one cannot think of the economy without an institutional framework, whatever its position in the theory (Roland, 2004). Public and private institutions are the determining factors of the economic society. According to this principle, “we are all institutionalists now” according to Roland (2004, p.110). Nevertheless, it is rather the neo-institutionalist theory that is prevailing today in the academic discourse than the IE theory regarding development strategy, the nature and the role of institutions (Taouil, 2015).

Institutionalists define the economy as a system which “embraces a body of knowledge and skills and a stock of physical equipment; it also embraces a complex network of personal relations reinforced by custom, ritual, sentiment, and dogma” (Klein, 1977, p.789). This vision of the economy is opposed to that of financial institutions such as the World Bank, where the market is the only institution that matters and where actors act according to the neoclassical model incentives and rationality (Jameson, 2006; Conceição, 2018). This definition of the system is complemented by institutionalists' analysis of economic development (3.1) and development finance (3.2).

3.1 Economic development, institutions and technology

Economic development has long been discussed by institutionalists and according to Veblen's theory of institutional change (Bush, 1987), the level of development depends on the interaction between the technological knowledge of a society and its ceremonial structure²¹ (Ayres, 1944). Street (1987, p.1861) defines this process as follows:

“Development is conceived as a complex cultural process rather than as a stable system of counterbalancing forces regulated by a fluid and self-adjusting market mechanism. The propelling force for economic growth has been and continues to be the utilization of technological knowledge and instruments. The forces inhibiting social progress, on the contrary, are rooted in institutional (ceremonial) patterns of behavior that are present

²¹ Klein (1993, p.31) defines ceremonial as “belief systems or attitudes that are essentially backward looking”.

in all societies, but seem to be particularly obstructive in the cultures of many less economically developed countries.”

This definition would imply that institutionalists are development economists or other heterodox economists, which is not the case according to institutionalists as two main differences can be identified. First, for development economists, even if institutions matter, the market is only imperfect in developing economies, not in developed economies (Adams, 1993). For the institutionalists, the market capitalist system remains imperfect and institutions matter in developed and developing economies (Adams, 1993). Institutions make the market whether developed or emerging.

Second, the definition of technology progress for the institutionalists²² gathers human skills and knowledge which is different from other economic approaches (Dietz, 1993). We should recall that for institutionalists (Street, 1987; Dietz, 1993) technology cannot only be seen as technological tools and physical capital as it is impossible without human skills to use this technology. A developing country borrowing new technological tools will need human skills, knowledge, and some specific group/social interactions framed by collective rules and mechanisms of organisation and management in order to expect technological progress and economic development (Ayres, 1944).

If this work is meaningful in terms of what is intended by economic development for institutionalism, there is still some place for the institutionalist theory to explain how it is possible to finance development.

3.2 The financial system and development

Klein (1993) shows that “the founders of institutionalism [...] Veblen, Mitchell and Commons were all hostile to the neoclassical theory” (Klein, 1993, p.14). The term institutionalism was first²³ used to “cope more effectively with the economic challenges of the day” (Klein, 1993, p.14) which shows that, despite disagreeing with the mainstream theory, the early institutionalists already had a recommendation role.

²² “Technological progress can be understood only by recognizing that human skills and the tools by and on which they are exercised are logically inseparable.” (Ayres, 1962, p.15)

²³ Klein (1993) explains that the first “institutional” paper entitled “The Institutional Approach to Economic Theory” was presented by Hamilton (1919) in 1918 at the American Economic Association meeting.

In the 1990s, the NIEs explained income differences between countries mainly in terms of differences in public policies and institutional frameworks (North, 1990; Olson, 1996). This was coupled with the belief that growth was “a process of accumulation of capital” (López Castellano and García-Quero, 2012, p.921). Opportunistic orthodox development agencies have taken advantage of this interpretation to reorient development programmes using the criterion of “good governance” rather than market efficiency to organise development financing programmes (Bates, 2010). Indeed, the concept of all International Financial Institutions (IFI) as the World Bank or the IMF using a single development policy concept/criterion to build a new and unique institutional model is called “institutional monocropping” (Evans, 2004; Portes, 2007, Rodrik, 2008). Evans (2004, p.30-31) define this concept as “the dominant method to [...] impose uniform institutional blueprints on the countries of the global South”. Thus, proponents of monocropping would assume that the institution is effective regardless of where it is located and the conditions or level of development of that country (Evans, 2004).

If we extrapolate the thinking of IE economists, we cannot support this view that development financing strategies are tools or policies to make the market work (the only institution that matters in a capitalist economy according to mainstream economics). Indeed, the institutions that manage development finance strategies such as the World Bank operate in an unstable capitalist world that favours the interests of short-term actors.

Thus, in an institutionalist vein, economists propose to change the market model (Marangos, 2002) or to change the financial system in which institutions operate (Arestis and Stein, 2005) so that the interests of the institutions that manage the development of developing countries take priority over those of the private market actors in favour of long-term development.

A proposed solution to finance development is through a change in the market model. Marangos (2002) proposes a combination between a shock-therapy model (market-based model) and a gradualist model (based on state intervention) for institutional development in DCs. The shock therapy model recommends that institutions must be built up as quickly as possible through a shock impulse thanks to opening up and liberalisation wave that would free the efficient market forces. In contrast, the gradualist model recommends that institutions should be built following some common goals and means brought together by a collective organisation of policies and markets (Marangos,

2002). According to Marangos, the combination of these two models allows the government to set up an institutional structure that can ensure long-term development through the functioning of the market. This approach seems close to neo-institutionalist proposals in which institutions are involved to ensure the market functions efficiently.

Arestis and Stein (2005), develop an alternative approach for the financial system where institutions are central and designed to be developmentally friendly. They suggest that “an approach that emphasises and places institutions at the heart of its analysis, thereby focusing a great deal more on how economies actually work, [...], is more fruitful”. (Arestis and Stein, 2005, p.386). They consider that institutions would reduce imperfections which means a “greater certainty of behaviour” (Arestis and Stein, 2005, p.387) and that with less uncertainty, institutions will be able to change the financial system and better address developmental issues. To achieve this goal, DCs need to make significant changes to the matrix components of their institutions in order to provide development financing that is accepted by the population and to internalise the new capacities of DCs (Arestis and Stein, 2005).

I argue that the institutionalist model of development finance must support a vision of institutions that intend to achieve greater long-term collective welfare. Thus, I propose that the institutions that are responsible for financing development can function even within the unstable framework of the capitalist system. In order to do this, the basis of the theory must be the evolving status of institutions, which must be able to adapt to this instability of the system and be less rigid than in the traditional framework of development financing. This characteristic of institutional rigidity was already criticised by Ayres in his book “In Science: The False Messiah” (Ayres, 1927, p. 277) where he explains that: “habits, formulas, dogmas, and institutional rigidities variously are the antithesis of intelligence and the nemesis of the experimental attitude”²⁴.

Thus, the alternative suggested is the creation of new and evolving institutions that finance long-term development in the interest of developing countries. This concept of “Dynamic long-term development financing institutions” forms one of the theoretical milestones of an alternative development strategy, the conditions of which are varied. These conditions are quickly outlined, notably the nature of the institution (a global

²⁴ I have not been able to access the original work by Ayres (1927), this quote comes from Hodgson (2004, p.349).

development bank), the values it should adopt (equity, mutual benefit, consideration of the common interests of society before those of the market) or the governance rule it should adopt such as "One nation, one vote"²⁵. This concept of a "dynamic institution" has already been used by Allegret *et al.* (2003) to propose a solution to the financial instability of the system.

Allegret *et al.* (2003) rightly point out that this concept allows us to overcome the opposition between a system that would be based solely on the functioning of the market or on banks for DCs²⁶. In other words, this concept allows DCs not to choose between the market and the banks to finance their economies. Indeed, the market institutions of DCs are often underdeveloped and are created legally in an arbitrary manner without considering the interaction process between the actors that define them (Allegret *et al.*, 2003). Having dynamic institutions, therefore, allows the creation of legal instruments that evolve according to the interactions and practices between actors: "It is important to stress that institutions - defined as a behavioural regularity - are not necessarily the result of a process of legal creation. The process of interaction between individuals, but also between legal institutions and practices adopted by individuals, is fundamentally the main motor behind the emergence of institutions." (Allegret *et al.*, 2003, p.81). Taking these evolutions into account, DCs can have both a market-based and a bank-based system. Banks are no longer the only alternative to an evolution of the institutional system²⁷. Storm (2018) is more critical of the financial intermediation that makes the shift from banks to markets necessary. These market-based practices are rent-seeking for the elite, developmentally damaging and increase inequalities.

Nevertheless, the question is not how to avoid the market but how to make its behaviour acceptable. For the author, finance must be regulated by an authority that makes socially desirable choices. Hall and Kirdina-Chandler (2017) highlight

²⁵ The conditions to establish perspectives for long-term development finance are covered in detail in Chapter 3.

²⁶ Arestis and Stein (2005) review the literature on bank-based and market-based theories.

²⁷ Allegret *et al.* (2003) consider that in DCs, banks are the only institutions for financing development that represent a stable financial intermediary in the absence of a sufficiently developed market: "The financial intermediary, mainly banks, indeed represent the main legal – designed – institution, which authorizes development of the contractual sphere – market development – whilst guaranteeing coherence and permanence in the institutional order necessary for the carrying out of individual transactions." (Allegret *et al.*, 2003, p.84). Some economists see institutions as a public good that the market cannot produce (Lin, 1989; Ovin, 1998).

Kropotkin's contribution, particularly in his 1902 work on the "Law of Mutual Aid". They explain that this principle of mutual aid could be applied to "human relations and the foundations for the emergence of moral instincts and even ethical behaviour" (Hall and Kirdina-Chandler, 2017, p.559). According to this principle, in the framework of alternative development financing mechanisms, cooperation could integrate "mutual aid" to replace the idea of market competition as a positive development dynamic.

4. Concluding remarks

The traditional development financing model (North-South) encouraged by IFI is based on the assumptions that all DCs have the same needs and that finding the solution that would enable a particular DC to develop would apply to all, at all times, in all situations. Such a choice does not seem to lead to long-term development. This particular solution has evolved with development theories: according to the Harrod-Domar model, it is necessary to increase savings and investment, and according to the Big Push theory, it is necessary to invest with a strong stimulus in the economy of DCs in order to bring them out of their poverty trap. In both cases, these theories highlighted the inability of developing countries to develop without external aid and thus justified and still justify the fact that North-South aid is fundamental for development.

ODA was born after the Second World War to help European countries rebuild with American aid under the Marshall Plan. It was then countries like France and Britain that began to provide funds to their newly decolonised partners in the 1950s and 1960s.

The Latin American debt crisis heralds the era of the IMF and the World Bank becoming the institutions that set the game rules for DCs in the context of instability of the international financial system. The IFIs impose strong structural conditions on the countries to which they lend in the 1980s-1990s. This marks the beginning of Structural Adjustment Programmes with high conditionality loans and the application of the Washington Consensus rules such as financial liberalisation applied to all DCs regardless of their social, cultural and economic context. Every decade, the IFIs justify the lack of development progress in DCs by saying that a new problem has arisen and limit the effects of aid: corruption, lack of ownership of aid etc. In the 1990s, the failure of SAPs (and the resulting low growth, high level of debt, high poverty and unemployment in the

countries that implemented them) led the IFIs to blame the institutions and “bad” governance of DCs.

The IFIs recommend the establishment of “good” institutions and governance to help DCs effectively manage their development. However, these policy changes should not be confused with an application of the principles of Institutional Economics. The IFIs mainly recommend “good market institutions”, in line with the neo-institutionalist theory, to ensure the overall coherence of the economic system so that the financial markets can function effectively and contribute to enhance growth through open and liberalised markets.

It is specifically this appropriation of theories about institutions by the IFIs that sparks particular interest in the analysis of the development process from the perspective of the IE. IE focuses on the process and determinants that allow a country to develop but few analyses focus on the concrete mechanisms of development financing. So it is obvious that IE has to put forward in an accurate way what could and should be done in order to allow DCs to finance long-term development in the context of capitalist instability?

The market does not support sustainable development and there is a need for an institutionalist theory on the development financing process to improve further the work done by IE on economic development. I argue that traditional development financing institutions do not sufficiently consider the interactions between actors and do not evolve according to the specific needs and constraints of the economies that suffer from ill or underdevelopment (in the broader sense of the word). Integrating this principle of evolution or dynamism into the design of institutions provides the perspective of an alternative model through a new vision of the financial architecture of the capitalist system. This point can be regarded as a milestone of a more complete perspective that could consist in creating a Global development bank to finance long-term development. The precise conditions or rules framing such a model aimed at setting the evolving status of institutions may vary from symmetry among members to the incentives for the DCs to diversify their economies²⁸.

²⁸ The perspectives are given in Chapter 3.

Considering the dynamism of institutions also means taking into account the changing architecture of development financing. Since the GFC, there has been a shift in the focus of development financing towards the South (Barrowclough and Gottschalk, 2018). One can imagine that an institution able to understand the diversity and peculiarities of local situations and to adapt required changes in order to provide a more symmetrical and sustainable framework for international relations may be a suitable tool for stabilising the international financial system.

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Chapter 2 - Towards a sustainable financial structure for the development process: Lessons from the 2007-2008 global turmoil¹

Abstract:

This study questions the traditional approach to development financing and examines the consequences of the 2007-2008 global financial crisis on Official Development Assistance (ODA) and Foreign Direct Investments (FDI) flows to Developing Countries (DCs). It argues that the increase of South-South FDI flows helped alleviate DCs reliance on advanced economies to finance their development processes. It finds that ODA remains a non-reliable tool, whether in times of economic stability or in turmoil and maintains that DCs should not rely on ODA to engage in a long-term sustainable development financing process. It also points to the significant increase in South-South FDI flows to alleviate DCs reliance on advanced economies to finance their development process. The study reveals that traditional approaches to financing development, and their reliance on unstable financial markets, are not compatible with a sustainable financial structure for development.

Keywords: Development financing, global financial crisis, Official Development Assistance, South-South Foreign Direct Investments, sustainable financial structure.

JEL Classification Codes: F30-F53-O19-O20

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1. Introduction

This Chapter seeks to analyse the effects of the 2007-2008 Global Financial Crisis (GFC) on the traditional external financing mechanisms for the development process. It argues that Developing Countries (DCs)², as well as advanced economies, are market-based monetary economies that display some common structural characteristics³. Those characteristics call for a radical change in development financing especially in the context of their market-based international integration within a liberalised, open, and market-friendly global financial system. Such a system, also called the financial integration, rests on an asymmetric framework that renders DCs structurally dependent on the advanced economies' boom-and-bust cycles, without providing them with strengthened financial markets and institutions. In other words, financial integration does not lead developing financial markets to provide DCs with sustainable financial structures for development. The interdependences between different economies also render DCs highly vulnerable to various real and financial shocks⁴ while continuing to suffer from several structural weaknesses.

While the level of development and international integration of financial markets in DCs may be lower than in advanced economies, DCs can still be regarded as monetary economies since they are driven by the same capitalist objectives: growth and private capital accumulation. They use the same means to reach those objectives: the private interest-based economic activity and financial efficiency criteria. In other words, they are systemically integrated into the global economic and financial framework even if they do not obviously get benefit from this integration. DCs were hit by the GFC a couple of months after it first hit the United States and

² According to the World Bank classification, DCs are categorised as “low and middle income” in terms of Gross National Income per capita.

³ Although beyond the scope of this chapter, it is worth recalling the major features of a (monetary) capitalist economy whether advanced or developing. These core characteristics are related to the mechanisms of the payments system that allow private economic agents to act independently of any collective organization and centralized economic planning. This makes the monetary economy a debt economy under permanent repayment constraints and therefore subject to instabilities according to the accumulated levels of debt, which may prove to be unsustainable at a given moment. See Ülgen (2013) for a multifaceted study on this issue. I also argue in this chapter that DCs differ in their stages of development and have to be integrated into the global economy in different ways (especially with regard to their financial sector). This differentiation means that the GFC crisis may have different consequences for different DCs. Nevertheless, the purpose of this chapter is to draw out findings on long-term development finance beyond the specific situation of a particular DC. These findings may thus help to identify long-term directions for DCs to follow in their development process. This point will be developed in the next chapter (Chapter 3).

⁴ For real shocks, one can consider the effects of the changes of the world demand for DCs export products, the consequences of cumulated imbalances for the sustainability of international trade, etc. For financial shocks, worldwide banking and financial disequilibria, financial crises, euro zone crisis, etc. might be regarded as the major phenomena that have huge influence on DCs economic situation.

other advanced capitalist economies. To be clear, this crisis has not directly impacted developing countries, but it has had repercussions on them because the “commodity price ‘super-cycle’ does not move counter-cyclically in relation to the international monetary cycle.” This decline in commodity prices is damaging to the debt of developing countries, which is increasing (Toporowski, 2019, p.1).

The specific purpose of this chapter is to examine the consequences of the GFC for the long-term capital inflows (mainly Foreign Direct Investment, FDI) and financial supports (such as Official Development Assistance, ODA⁵) and to draw some lessons with regard to the sustainable development financing. The GFC did not really change the global financial governance. However, it had structural consequences on the mechanisms of development financing. This crisis might be seen as an incentive to rethink our development financing model. Grabel (2011, 2015a, 2015b, 2017) suggests the concept of “productive incoherence” to show that the crisis contributed to think more about the financial system and possible capital controls. This crisis may have led to responses that seemed inconsistent but that allowed deeper questions to be asked about the recurrence of crises. The need for capital controls and the solutions provided by DCs on this issue are not addressed in the analysis conducted in this thesis. However, the use of the term “productive incoherence” allows us to consider the responses to the various crises in the international financial system as steps towards development financing perspectives that are more respectful of the interests of the South.

From this perspective, the section two focuses on the extent to which the long-term financing needs of DCs can/or not be compatible with the short-term interests of the market-based financial system. The focus is placed on the resources available to DCs to finance their development and in particular the amount of external resources proposed by International Financial Institutions (IFI) through ODA and by private investors through FDI. The section 3 then develops a statistical analysis showing the effects of the global financial crisis on the external financial resources for DCs development. In the light of the GFC, it is examined whether any major trends have emerged that could form new benchmarks for long-term

⁵ OECD (2008, p.1) defines ODA as “those flows to countries and territories on the DAC [Development Assistance Committee] List of ODA Recipients (available at www.oecd.org/dac/stats/dacelist) and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). This calculation helps determine whether a loan is concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as ODA”.

development financing. The section 4 draws some conclusions and propositions regarding sustainable development financing of DCs.

2. The incompatibility of DCs development financing needs with a market-based financial system

This section seeks to show that the long-term financial needs of DCs are not compatible with the assertions developed within the standard financial theory. The latter advocates an economy-wide liberalisation of financial systems and asserts that the financial needs of economic development can be met thanks to free financial markets since the markets are assumed to work efficiently if they are not disturbed by exogenous shocks (including government interventions). This statement is at the core of the arguments developed in the financial repression literature (McKinnon, 1973; Shaw, 1973; Fry, 1980) tackling government interventions in financial markets. In this literature, the government would seek to finance its debt at low interest rates, thus disturbing the “equilibrium of free markets”. The capital markets efficiency hypothesis, developed by Fama (1970, 1991) is the conceptual reference, usually put forward in order to support the relevance of these statements. A (capital) market is efficient if prices at each moment incorporate all available information about future values: “A market in which prices always “fully reflect” available information is called “efficient” (Fama, 1970, p.383). Informational efficiency obviously relies on the perfect competition assumptions. Therefore, an informationally efficient market can have economically inefficient runs and crashes, so long as those crashes are not predictable (the so-called exogenous shocks). This determines the scope of efficiency since if the conditions of competition are not met, the market mechanisms (market prices) cannot function efficiently.

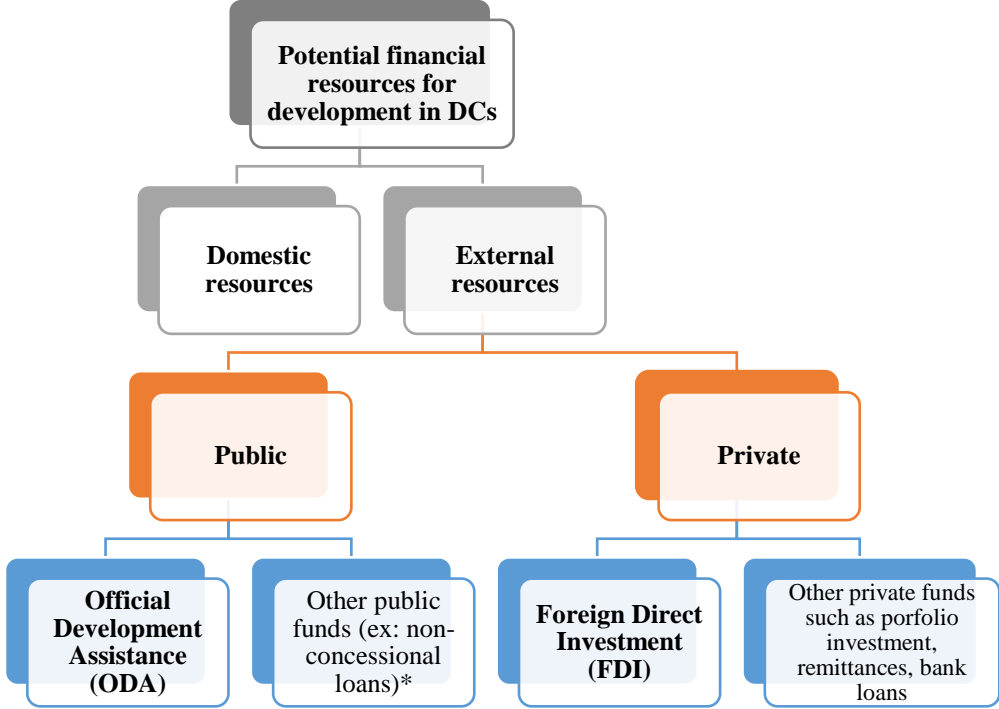
Parallel to this, works on the finance-growth nexus (Levine, 2005; Marwa and Zhanje, 2015; Ülgen, 2017a) are more mitigated as they point to some positive or negative links between the development of financial markets – usually thought of through the financial liberalisation and opening-up process – and economic development in DCs. Financial development is usually assumed to be achieved through liberalisation reforms in order to increase the breadth, depth and liquidity of markets, required to allow market institutions (banks and financial intermediaries) to meet efficiently the needs of real (enterprises and consumers) and financial investors by providing cheap and abundant financial resources (see Ülgen (2017b) for a comprehensive presentation of these arguments). However, various experiences in advanced

economies and DCs along the decades reveal that financial liberalisation is not a panacea and often induces systemic instabilities in financial markets and puts the productive systems under significant pressures impeding growth and development. So, the market dynamics, usually relying on short-sighted micro-rational strategies, are not able to meet the financial needs of the development process in a relevant way. Financial market efficiency is usually framed according to short-term perspectives and assessment criteria whereas financing development requires long-term and “not-always-high-return” providing financial engagements. From this perspective, it does not seem to be possible to elaborate and implement a sustainable and feasible financing model for DCs while relying on ungrounded and speculative behaviour of financial markets in force in a liberalised environment. The micro-rationality of financial market efficiency is incompatible with the prerequisites of long-term development strategies, namely: sustainable financing and macroeconomic stability.

2.1 Financial resources available for development financing

The existing literature largely argues (Gerschenkron, 1966; Lewis, 1955; Chenery and Strout, 1966; UNCTAD, 2017) that financial resources of a developing country rest on available domestic resources (basically fiscal resources collected by the government and private domestic households and companies’ internal savings) and external resources (such as FDI or ODA) (Figure 2.1).

Figure 2.1: Potential financial resources for development in DCs



* Some non-concessional loans are counted as ODA, but according to OECD (2019b), those which are not reported as ODA have “terms [which] are not consistent with the IMF Debt Limits Policy and/or the World Bank’s Non-Concessional Borrowing Policy”.

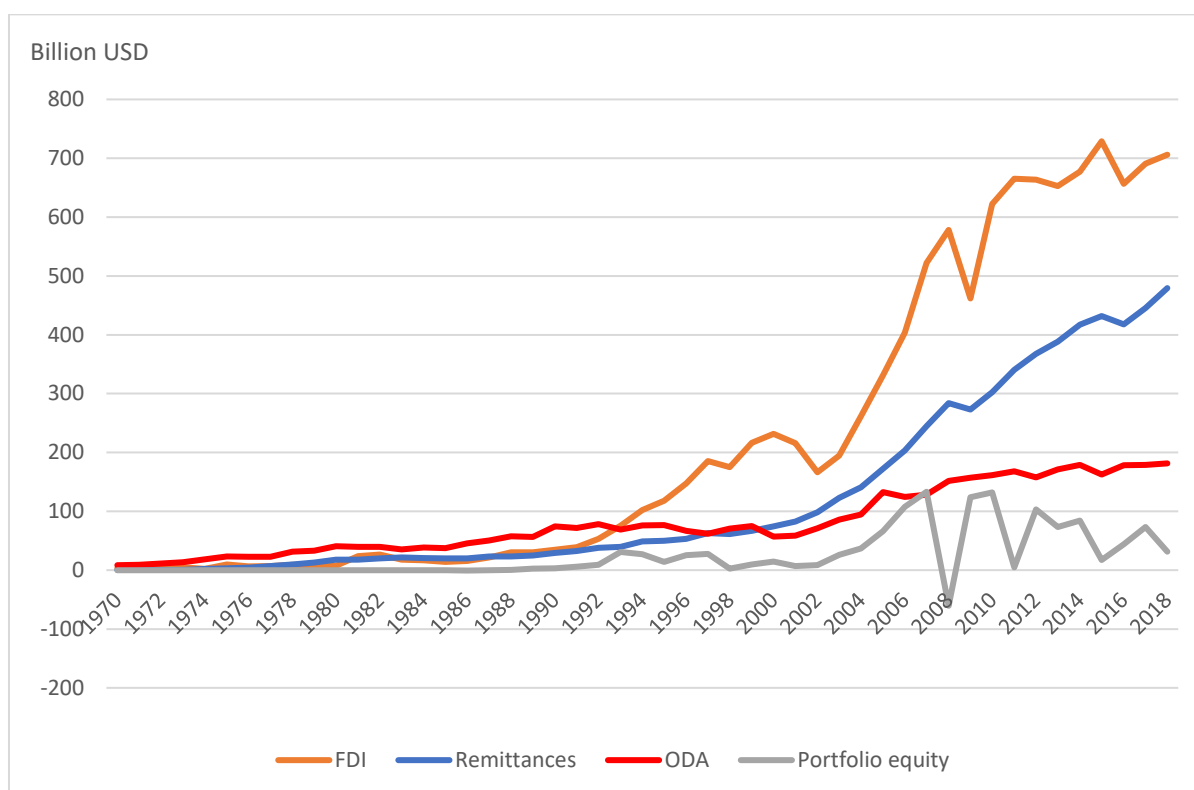
Source: Figure from the author

A specific analysis of the internal/domestic resources for development financing as well as migrant remittances, tourism, international trade or other international (portfolio) investments (which are not considered as FDI) is beyond the scope of this chapter as I focus the analysis on the tools traditionally used or promoted by IFIs to finance development.

The following Figure 2.2 ⁶ shows the evolution of external financing sources to DCs (FDIs, remittances, ODA and portfolio equity) over 1970-2018. I only focus on ODA and FDIs, considered as the two main traditional external development financing sources for DCs.

⁶ The Figure 2.2 was inspired by an UNCTAD (2018b, p.12) figure, which only represents these flows between 2005 and 2017. The main difference with these two figures, apart from their time frame, is the database used for the portfolios equity and the absence of the “other investments” flows in this chapter.

Figure 2.2: Sources of external finance, developing economies, 1970-2018



Source: UNCTAD (2019) for FDI, World Bank (2019) for remittances, OECD (2019a) for ODA and World Bank (2019) for portfolio equity.

Notes: ODA and other official flows is the sum of net disbursements from DAC countries, non-DAC countries and multilateral donors, from OECD DAC.

2.2 The significant share of external and market-relying resources to finance development

Kregel (2004, p.1) states: “From the first UN resolutions on financing development, to the creation of the International Finance Corporation in the IBRD⁷, to the UN Special Fund and the UNDP⁸, to the First UN Development Decade⁹, and the Alliance for Progress¹⁰, up to the recent Monterrey Consensus, the thrust of

⁷ The International Bank for Reconstruction and Development (IBRD) was a development bank created in 1944 for European countries to recover from World War II.

⁸ The United Nations Special Fund (created in 1958) merged with the United Nations Expanded Programme of Technical Assistance (created in 1949) to create the United Nations Development Programme, UNDP) in 1966 to eradicate poverty.

⁹ From 1960 to 1970, the United Nations implemented the first Development Decade, a special decade for international economic cooperation. The aim was to support DCs so they could increase their growth rate (United Nations, 1961).

¹⁰ The United States President John F. Kennedy initiated in 1961 a cooperation with Latin America to notably promote economic growth.

international development policy has continued to stress the importance of high and stable capital flows from developed to developing countries, although the central role in the process has shifted from emphasis on multilateral and bilateral official flows to private flows.”

Since the early days of the United Nations in the 1950s, the United Nations General Assembly has adopted several resolutions that put forward the necessity to increase international funds to DCs (United Nations, 1950, 1952, 1954)¹¹. The United Nations Special Fund (UNSF), the United Nations Development Programmes (UNDP) and the Monterrey consensus – as well as other previous initiatives – reinforce the commitment of developed countries to help DCs attain a sustainable development (interpreted by them as a durable increase in their growth rate) through Official Development Assistance.

During the 1960s, African countries gain independence and this decolonisation wave coincided with the rise of ODA. As more economies needed help and more countries offered help, several institutions were created to coordinate the assistance, on top of which the Development Assistance Committee (DAC)¹² created in 1961. Before the 1960s, aid was principally given by the United States in a bilateral logic. From the 1960s, the logic changes as ODA is given by multiple donors in a multilateral way (World Bank, the United Nations, etc.). In the 1960s, ODA is seen as a mean to primarily finance the industrialisation of DCs and more particularly infrastructures and agriculture as the domestic private savings of DCs were not considered to be sufficient to finance these projects (Moyo, 2009).

But since the 1970s, ODA is perceived as a tool of assistance for DCs in a more general sense rather than a way to finance industrialisation in particular (Moyo, 2009). The conditions for DCs to receive ODA were favourable as ODA is less likely to be tied to the obligation to buy commodities from developed economies.

Since the 1980s, development financing is merely based on external resources mobilisation as the DCs were considered not able to realise growth-promoting investments¹³

¹¹ Resolutions at the time referred to developing countries as “under-developed countries”.

¹² The DAC was created to promote the expansion of aid towards DCs and to improve the effectiveness of these allocated resources. There were nine funding countries: Germany, Belgium, Canada, the United States, France, Italy, Portugal, the United Kingdom, and the European Commission). Currently there are 30 members of the DAC. To get a full review on the DAC history, see OECD (2006).

¹³ To recall the context in the 1980s in DCs and more particularly in Latin America which was affected, the debt crisis happened after the two oil crises (1973 and 1979) and DCs received massive loans and ODA from developed countries to recover. Liberal economists (Edwards, 1993; Romer, 1994) consider that

(Moyo, 2009). The liberal economists (Edwards, 1993; Romer, 1994) usually argue that the debt crisis and public deficit in DCs after the 1980s were caused by a bad allocation of domestic resources. The proposed solution was to implement “Structural Adjustment Programmes (SAPs)”¹⁴ – to better allocate resources and push countries to adopt market-friendly structural reforms and trade openness (Edwards, 1993; Romer, 1994). Moyo (2009) called the 1980s, the decade of assistance as an instrument of stabilisation and structural adjustment. Aid is conditional on the implementation of policies recommended by the IFIs and the only means of receiving external aid is to implement them. During the 1990s (Structural Adjustment Programmes, still in force, are now referred to as the “Washington Consensus”¹⁵), the World Bank and the IMF started noticing the failure of ODA to finance development. The World Bank, as well as other donors, adopted new development financing strategies which incorporate “good governance” criteria that promote stronger institutions of DCs (World Bank, 1992, 1994)¹⁶.

The International Monetary Fund (IMF) is a particularly good example of a financial aid institution that ensures the country receiving the financial assistance funds implement the “sound policies” and actions that are expected, from IMF point of view, to promote the transition of countries to a market economy and to make them able to repay their debts. In other words, such assistance for structural adjustments is given under strict conditions (the term “conditionality of aid” is commonly used) and ODA is tied to the choices of allocation dictated by developed economies that provide the assistance. The recipient countries are not always able to channel investments towards sectors that reinforce national industries, especially in an internationally integrated (liberalised and opened to international competition) economy. As a result, their economies become more dependent on external resources and more vulnerable to the volatility of the global market (Otando and Uzunidis, 2011). With tied aid and conditioned assistance, donors leave no room for DCs to make their sovereign choices and to devote the

development and poverty reduction could only be achieved thanks to the support of external aid as DCs are bad managers of their own resources and are heavily indebted (Ben Hammouda *et al.*, 2010).

¹⁴ For critical assessments of Structural Adjustment Programmes, see Dollar and Svensson (2000); Berr and Combarrous (2005); Ben Hammouda *et al.* (2010).

¹⁵ Williamson (1990) was the first to coin the term “Washington consensus” to designate “the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarised in 10 propositions: Fiscal discipline; A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; Tax reform (to lower marginal rates and broaden the tax base); Interest rate liberalization; A competitive exchange rate; Trade liberalization; Liberalization of inflows of foreign direct investment; Privatization; Deregulation (to abolish barriers to entry and exit); Secure property rights” (Williamson, 2000, pp.252-253).

¹⁶ To get a full review on the “good governance” genesis, see Diarra and Plane (2012).

funds to autonomous and independent national development strategies. DCs have become heavily reliant on the institutions and countries which are “helping” them.

After the adoption of the United Nations Millennium Declaration in 2000¹⁷, there was a shift in the development financing architecture (Figure 2.1). The declaration widely encouraged the mobilisation of private external resources, like FDIs, which meant that public external resources, especially ODA, are not, anymore, the only important source for development financing. Later in 2002, the International Conference on Financing for Development took place in Monterrey and a consensus emerged that ODA should double and FDIs should complement ODA to finance development (United Nations, 2002; United Nations, 2003). One can say that the main idea behind this consensus was that DCs, those which are attractive to FDIs, should rely more on private funding and lower their reliance on public funding, particularly ODA (Chauvet and Mesplé-Somps, 2007). Since then, the High-Level Fora on Aid Effectiveness, organised by the OECD to make aid more effective and to attain the MDGs, reaffirmed the importance of private aid over (or in addition to) public aid in 2002, 2005, 2008 and 2011.

These calls for external and market-relying development financing tools in a new worldwide liberal era did not provide DCs with more sustainable and stable financial resources. On the contrary, it often resulted in serious banking, financial and foreign exchange crises¹⁸ (Williamson and Mahar, 1998).

The next section seeks to reveal the impact of the global financial crisis of 2007-2008 on these external development financing tools through their evolution.

¹⁷ The Declaration (United Nations, 2000) sets a series of eight targets, the Millennium Development Goals (MDGs) to reduce extreme poverty by 2015.

¹⁸ Boonman *et al.* (2012) identify analyses that have examined the different types of crises, often related to exchange rate regime issues, that have occurred in DCs.

3. The global financial crisis: effects on the external financial resources for DCs development

DCs have massively opened and liberalised their domestic (real and financial) markets from the end of the 1980s. Therefore, they can be regarded as a part of globally integrated financial markets with different levels of integration. Many links and interdependences were set up by this integration and the 2007-2008 GFC spread to DCs through multiple channels such as the decrease in international demand and trade, fluctuations of migrants' remittances and tourism revenues, etc.

Before briefly explaining how DCs were affected by the crisis, it is important to understand what conditions they presented before being affected (until November 2008). Mainly the accumulation of three exceptional conditions explains the spread of the crisis (Lin, 2008; Griffith-Jones and Ocampo, 2009; Ben Hammouda *et al.*, 2010; Dolphin and Chappell, 2010; Green *et al.*, 2010; Boonman *et al.*, 2012; Yudhistira, 2018). The first is the strong growth in DC's export-related income with the rise in the price of exported commodities. For example, "exports increased as a share of developing countries' GDP from 29 percent in 2000 to 39 percent in 2007." Lin (2009, p.4). The second is the rise in inward FDI to DCs. Figure 2.2¹⁹ shows a peak in FDI inflows to DCs of US\$ 580 billion in 2008, the highest level reached so far. The third is the sharp increase in migrant remittances. Figure 2.2 shows that between 2000 and 2008, remittances increased almost fourfold from US\$ 75 billion in 2000 to US\$ 280 billion in 2008. The increase in all these flows has led to an investment boom from DCs, especially from the BRICs (Brazil, Russia, China, India) where "Gross fixed investment in developing countries grew 10.9 percent on average over the period 2002-2007, up from 2.9 percent in the 1990s" (Lin, 2008, p.5). Griffith-Jones and Ocampo (2009) identify the private capital flows (FDI) as the main channel of the GFC.

The downturn in global demand has led to a decline in some of these flows, notably exports, FDI and growth in developing countries. Although I do not aim to study in this chapter the propagation mechanisms of the crisis²⁰, it is worth showing how the crisis that hit developed

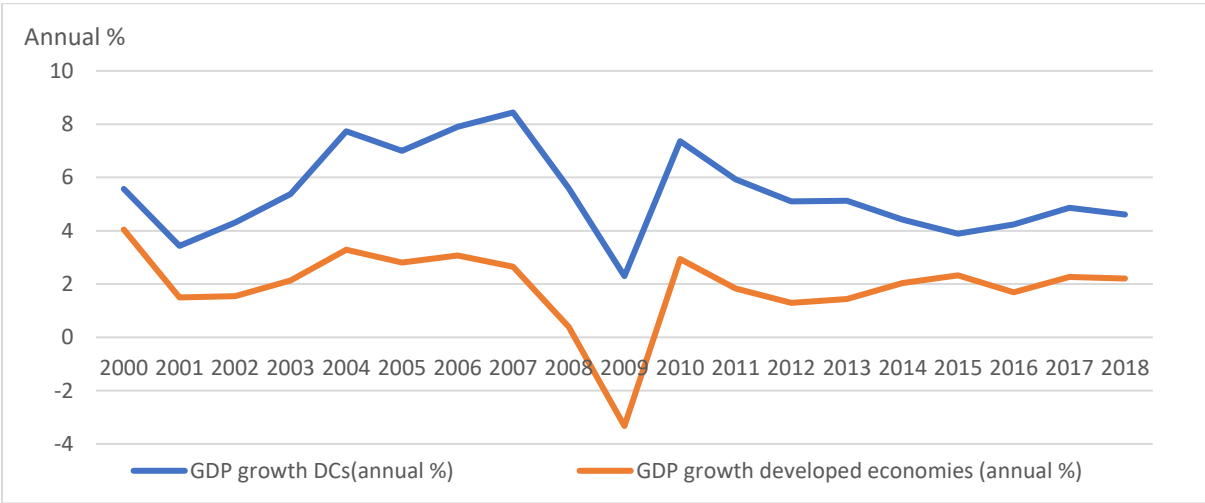
¹⁹ The use of statistical databases that include China is controversial as some would consider it is not a DC. In this regard, the latest statistics offer the option of having the statistics of "developing countries except China". I argue that the figures in this chapter present macroeconomic trends of DCs which remain the same with or without China even though the weight of China in its statistics is much greater than those of other DCs.

²⁰ The 2007 was first considered as a financial crisis but actually muted in a social and political crisis (Thiébaud, 2011).

countries in 2007 has affected external financial sources for DCs development and then their development process in general. As growth rates are commonly used as an indicator of development²¹, Figure 2.3, below, shows the growth rates of DCs and developed economies before and after the crisis (World Bank, 2019).

- (1) Between 2007 and 2010, developed economies gained 0,4 points of growth in comparison to a 1,1-point decrease in DCs. The crisis severely affected DCs growth rates in the short term (more than it affected the developed economies).
- (2) In 2018, DCs are still not even close to the same levels of growth they attained before the crisis. DCs nearly attain an 8% growth rate in 2006 a decade after the crisis they were only able to reach a 4,6% growth rate in 2018, 3,5 points lower than before the crisis. While when it comes to developed economies, in 2006, their growth rate was at 3,1% and in 2018, it reached 2,2%, while it is still lower with 0,9 points but it is not far from full recovery and from attaining levels they had before the crisis.

Figure 2.3: Real GDP growth (annual per cent change), 2000-2018



Source: World Bank (2019)

Setting aside the effects of the crisis on advanced economies given that their level of development is not even questionable, this proves how the financial crisis had and still has a significant effect on the development process in DCs²².

²¹ I argue that the development process is far more complex than a raise of the growth domestic product because economic growth does not mean automatically an increase of the well-being of most of the population (Seers, 1969; Todaro and Smith, 2014).

²² Contrary to Bellocq (2013), I disagree with the idea that the GFC did not have an impact or had a small impact on DCs. The impact in terms of GDP rate, on FDI and ODA flows was major.

Going beyond the growth rate, Ravallion and Chen (2009, p.4), from the World Bank, estimated in 2009 that “the crisis will add 53 million people to the 2009 count of the number of people living below \$1.25 a day and 64 million to the count of the number of people living under \$2 a day”. For DCs – that had far better growth rates before the crisis – the impact of the crisis on poverty can be massive.

With these developments in mind, it is now necessary to consider the issue of external financial resources allocated to DCs. The section 3 then focuses on the ways the GFC has affected external capital flows, particularly Foreign Direct Investments (3.1) and Official Development Assistance (3.2), which are considered as the key sources of financing development of DCs.

3.1 The financial turmoil and the growing power of South-South FDI

Figure 2.4, below, presents the FDI inflows in DCs and the FDI outflows of both developed and developing economies between 1990 and 2018²³. There are three noticeable trends in this Figure:

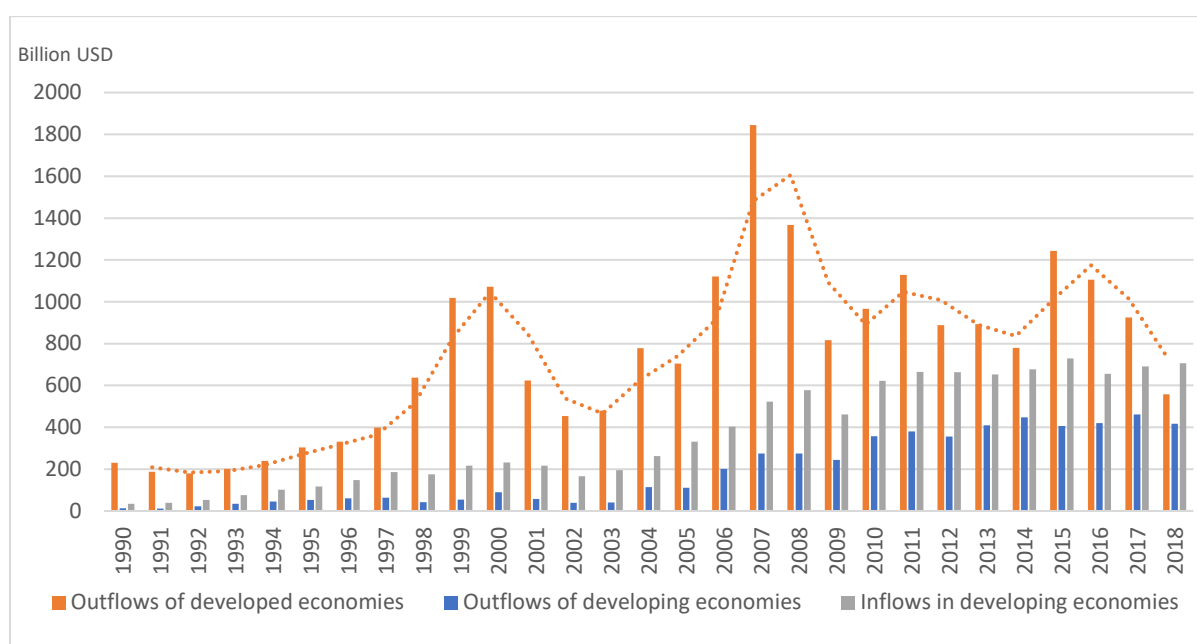
- (1) FDI inflows in DCs increase in the overall period even after the global crisis except in 2009 and 2016.
- (2) FDI outflows of developed economies increase in the overall period but collapse in 2001-2002, 2008 and 2009 after a peak in 2007 (US\$ 1,84 trillion). Between 2007 and 2009, the outflows of developed economies decreased by more than 55% which points to the significant financial instability the crisis had caused and lead to the aggravation of developed countries FDI volatility.

Considering these two trends, it can be observed that developed economies FDI outflows decrease and FDI inflows of DCs increase after the crisis. At the first look, these trends tend to contradict our fundamental argument which is that developing economies were affected by the crisis notably through FDI flows (one of the main external financing development tools) as developing economies seem to maintain a “good” level of FDI. This contradiction can even lead to arguing that developing economies are not dependent on the economic situation of developed economies. This leads to the importance of the third trend in Figure 2.4, which helps reveal how developing economies managed to keep “good” levels of FDI inflows after the crisis.

²³ I only consider data from 1990 because FDI flows were not significant before this date.

(3) FDI outflows of developing economies grow in the overall period but their level stays low until 2005. From 2006 to 2018, these FDIs more than doubled going from US\$ 200 billion to more than US\$ 400 billion. The reaction from DCs to the global crisis was to increase their FDI outflows and to direct them to other DCs to compensate for the lack of FDIs coming from developed countries (United Nations, 2009). These flows, called South-South FDI, have heavily increased as United Nations (2009, p.21) noted: “Developing economies have also become magnets for investment from all regions, including South-South flows. The outflow of foreign direct investment from DCs, which hit a record US\$ 253 billion in 2007, is another clear South-South success story, for some 40 per cent of it has been intra-South”. DCs gain importance in FDI flows (in volume) and manage to change the orientation of flows with more South-South flows. This explains how they managed to keep receiving external financial resources to support their development processes.

Figure 2.4: FDI flows, 1990-2018



Source: UNCTAD (2019)

Not only DCs FDI flows gain importance in the overall flows of FDIs but also, South-South FDIs increased since 1990. The global financial crisis and this evolution in the composition and volume of FDIs push us to reconsider the role and the importance of FDI as an external financing development tool (Columbia Center on Sustainable Investment and the World Association of Investment Promotion Agencies, 2010; Mold *et al.*, 2010).

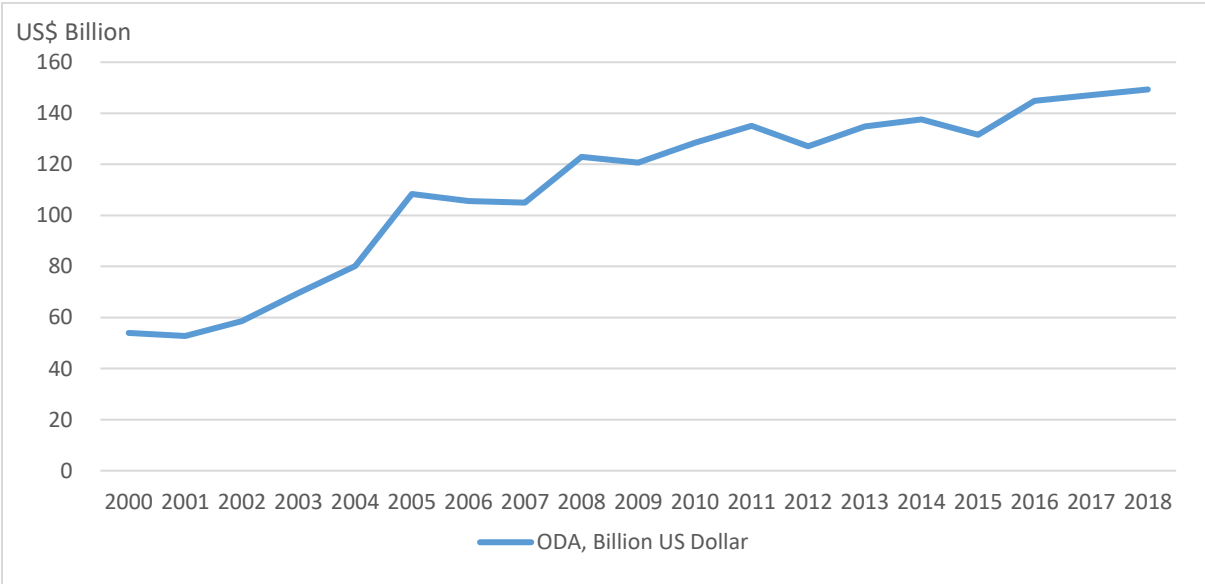
3.2 Official Development Assistance and the impact of the 2007 financial crisis

ODA inflows for DCs are uncertain and volatile²⁴. Therefore, DCs seek to reduce their reliance on ODA to engage in a development process.

3.2.1 The volatility and uncertainty of ODA

Figure 2.5, below, presents the evolution of Official Development Assistance (ODA) from Development Assistance Committee (DAC) members to DCs in US\$ million and % of Gross National Income (GNI) from 2000 to 2018. It shows that there is an increase of the ODA to DCs over the whole period (from US\$ 54 billion in 2000 to US\$ 149 billion in 2018). Nevertheless, it can be observed that DAC countries volume of ODA witnessed a steady increase starting at the beginning of the years 2000 which can be related to the significant increase in U.S. aid towards Iraq and Afghanistan in the context of the “War on terrorism” up until the year 2005 (Carbonnier, 2010). If we look at the years 2006, 2007, 2009, 2012 and 2015, despite the picking up of ODA volumes, these years witnessed a decrease that can be explained by the repercussion of the financial crisis, but also by political events which can also affect the stability of ODA, for example, the U.S. elections... etc.

Figure 2.5: Net ODA of DAC members to developing countries (2000-2018)



Source: OECD (2019a)²⁵

²⁴ To get a full review of literature concerning the consequence of the global financial crisis on ODA, see the article of Debasish and Champa (2013).

²⁵ This Figure is the only one that does not include any BRICS participation as they are not members of the OECD DAC.

Since ODA globally increased between 2000 and 2018, it can be argued that the financial needs of DCs can be met to assure their development process as they globally get more ODA inflows on the overall period. Nonetheless, this statement can be questioned for two reasons:

- (1) If we take apart the volume of ODA disbursements itself, the very problem seems to be the uncertainty and the volatility of these flows. Even in times of economic stability or boom in developed economies, ODA is too volatile and uncertain to ensure a long-term development process (Bulir and Hamann, 2001).
- (2) Even if the volume of ODA globally increased between 2000 and 2018, when the global financial crisis hit developed economies, ODA volumes sharply diminished, as well as ODA commitments²⁶. The OECD (2010b) suggested that “at least USD 10-15 billion must still be added to current forward spending plans if donors are to meet their current 2010 commitments.” ODA donors do not necessarily respect their commitments, and there is a gap between what they disburse and what they commit to. This reinforces the idea that ODA is unpredictable and that DCs cannot rely on it to finance sustainably their long-term development process.

ODA is volatile, nevertheless, the crisis did not induce a direct decrease in ODA (i.e. the crisis did not make ODA more volatile than it was). Parallel to the volatility and uncertainty of the ODA flows, it is also important to understand to what extent DCs depend on these flows to sustain their development process in the long run.

3.2.2 DCs do not need ODA to engage a development process

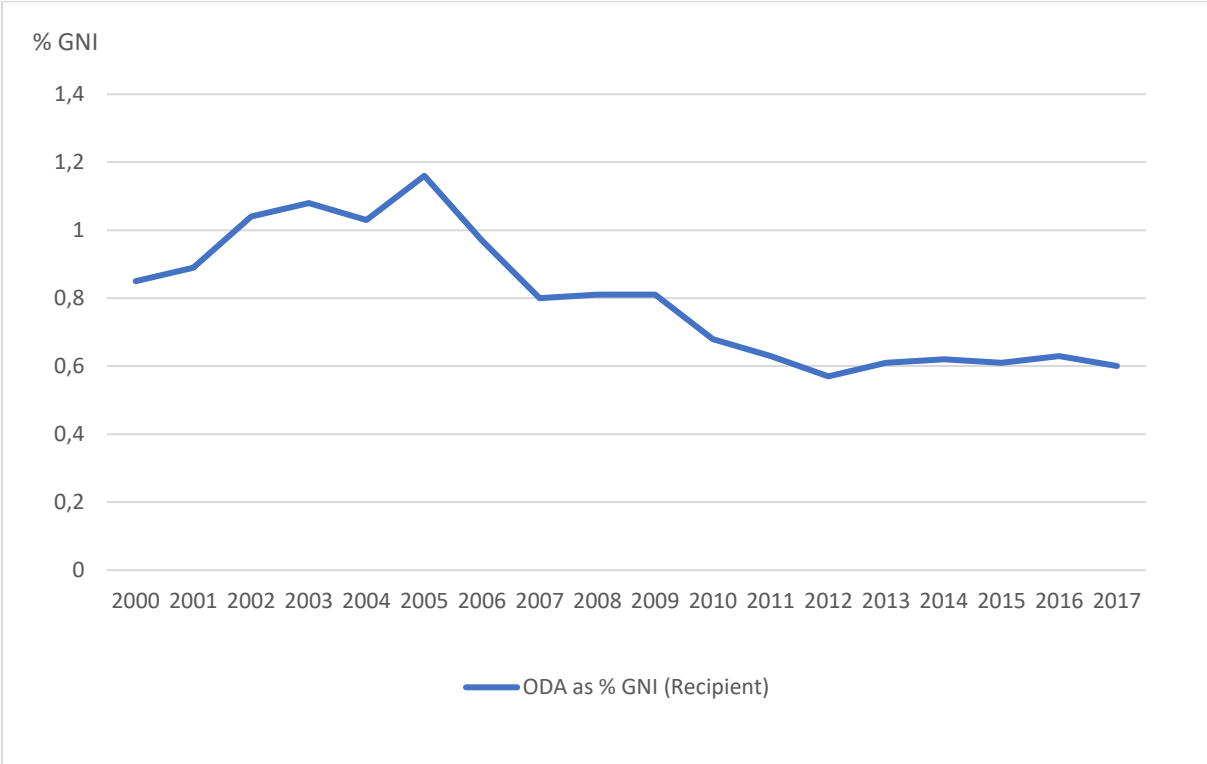
Contrary to the usual assertions on ODA, I argue that ODA does not support DCs for a sustainable development process²⁷. To do so, it is worth considering a statistical study to analyse ODA from the recipient’s side (i.e. DCs ODA in % of their GNI). ODA is indeed a traditional development tool that has long been more concerned with the interests of donor countries than

²⁶ The OECD (2010a, p.6) defines commitments as “a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency.”

²⁷ Easterly (2006) affirms that massive aid and massive ODA flows does not automatically lead to EMEs growth. In this vein, Boone (1996) explains that ODA donors can have political linkages with recipients’ economies or they were ex-colonies, so ODA help to maintain these relationship (i.e. donors will give ODA no matter DCs capacity to realise productive investments on the long-term and attain better growth rate). Clemens *et al.* (2011) put the link between aid and growth into perspective and find that aid has a positive modest effect on growth which decreases with high level of aid.

recipient countries (see the section 2.2). This statistical study (Figure 2.6) shows that ODA in % of GNI of DCs received has globally decreased from 2000 to 2017 and sharply declined between 2006 (0.98% of DCs’ GNI) and 2012 (0.57% of DCs’ GNI) (OECD, 2019a). Three observations can be put forward to support this interpretation:

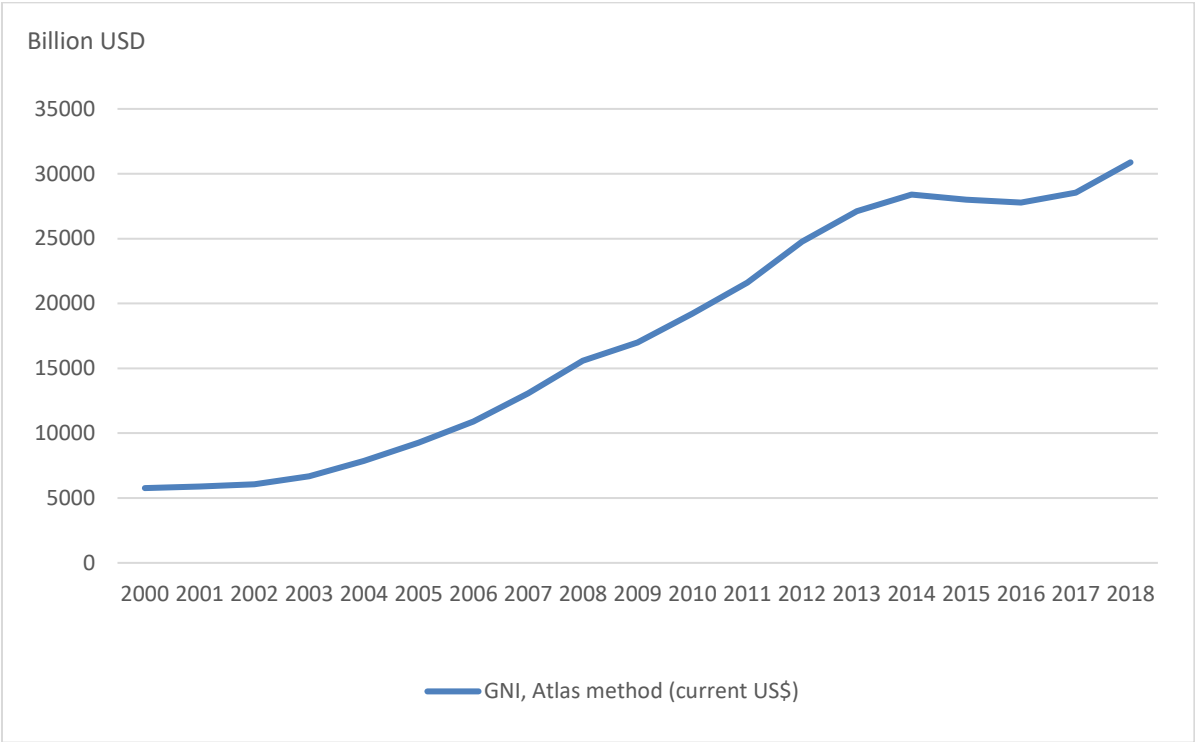
Figure 2.6: ODA as % of GNI of developing countries (2000-2017)



Source: OECD (2019a)

First, this decrease in ODA (as % of DCs’ GNI) received can be explained by the increase in DC’s GNI volume over the period 2000 to 2016. Figure 2.7, below, shows that the GNI of DCs increased from US\$ 5691 billion in 2000 to US\$ 30881 billion in 2016 (i.e. an increase up to 442%) (World Bank, 2019). One could, therefore, draw from this that GNI of DCs was not closely dependent on ODA provided by DAC members which witnessed a significantly lower increase in volume from US\$ 54 billion in 2000 to US\$ 150 billion in 2018 (i.e. an increase up to 177%) (Figure 2.5) (OECD, 2019a).

Figure 2.7: GNI of developing countries (2000-2018)



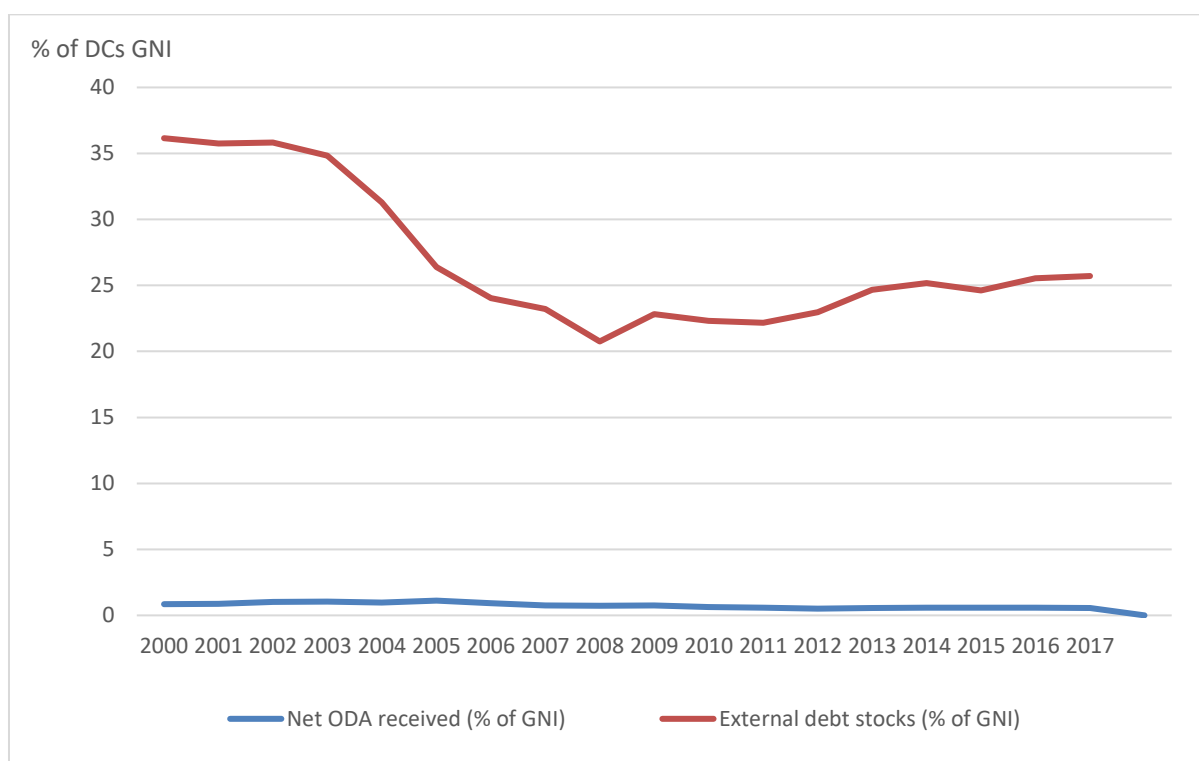
Source: World Bank (2019)

Second, according to Figure 2.8 below, the share of ODA in % of DCs GNI is considerably low on the overall period and decrease over the period: ODA share in % of DCs GNI reached its highest level in 2005 when it was only 1,17% of DCs’ GNI. It supports the idea that this share (in times of crisis or in times of financial stability of developed economies) is not sufficient to support and sustain a long-term development process in DCs as it only represents a small amount of their total GNI.

Third, this share of ODA in the GNI of DCs and ODA have to be compared to the financial needs of DCs. I choose to approximate these needs with their total external debt. If the share of ODA is high compared to the external debt, it would mean that ODA is relevant to finance their activities. If the share of ODA is low compared to the external debt, one could argue that ODA is not really a determining financial source in the development process of DCs.

Figure 2.8, below, shows this comparison between the external debt of DCs from 2000 to 2017 in % of DCs GNI and ODA in % of DCs GNI (World Bank, 2019). The gap between the share of external debt (minimum 20% of DCs GNI in 2008 – maximum 36% of DCs GNI in 2000) and the share of ODA is very large. This means that DCs have huge financial needs which are not fulfilled by ODA. DCs cannot rely on ODA to finance their economic activities.

Figure 2.8: Developing economies external debt Vs/ net ODA received (2000-2017)



Source: World Bank (2019).

This Figure can lead to the following conclusions:

- DCs' GNI was not dependent on ODA given by DAC members over 2000-2017.
- The share of ODA in % of GNI of DCs is not sufficient to engage in a long-term development process²⁸.
- DCs have financial needs which are not fulfilled by ODA.

These results show that ODA donors have to question their traditional development financing process relative to the small impact it has on DCs and their development. DCs did not need the 2007 financial crisis to note that the ODA flows are volatile and are not able to meet their financial needs in a sustainable way. The question is then whether the IFIs should continue to advocate for their ODA policy and, in case of failure, always blame DCs for not having good enough governance, bad institutions, poor ownership of aid, etc...

²⁸ I do not mean that DCs need more ODA in volume (or an increase of the share ODA in % of DCs' GNI) as the United Nations (2006) or Sachs (2005) recommend. I am arguing that the level of ODA over the studied period is not compatible with a long-term development process.

4. Concluding remarks

This Chapter sought to assess the impact of the global financial crisis of 2007-2008 and to extract lessons that could be drawn from regarding sustainable development financing of DCs.

After a historical overview of developed economies and DCs development models, the analysis showed that due to short-sighted micro-rational strategies, financial liberalisation and market globalisation are not compatible with DCs financing needs. This latest global financial crisis leads to the questioning of the viability of the liberalisation model recommended by international institutions (Bretton Woods institutions such as the IMF and the World Bank) as it has led to systemic crises and financial instabilities (banking, financial and foreign exchange crises).

This study especially focused on the evolution of traditional external and market-relying resources to finance the development process, namely ODA and FDI. It pointed to the economic impact of the crisis on the financial inflows of the DCs. Two main findings can be highlighted.

First, with regard to FDI, the crisis led mainly to a decrease in FDI outflows of the developed economies while FDI inflows of DCs increased. This can be explained by the significant increase in South-South FDI flows to alleviate DCs reliance on advanced economies to finance their development process.

Second, ODA proves to be a tool on which DCs should not rely to engage in a long-term sustainable development financing process, especially in times of economic instability or turmoil. Therefore, developed and developing countries have to reconsider their traditional financing development models and strategies.

Such findings point to the impossibility to set up a sustainable and feasible financing model for DCs that would be based on long-term projects while the funding operations are resting on short-term and market-related ungrounded speculative activities and expectations. Correa and Girón (2017, p.421) show that “the renewed interest of financial and non-financial corporations in developing economies” after the GFC has more to do with their high potential for profit than their development issues.

In brief, the last crisis confirms that traditional approaches to financing development, and their reliance on unstable financial markets, are not compatible with the long-term financial needs of DCs. This calls for a necessary in-depth questioning of the traditional ways of providing DCs with financial aid and resources in the development process and more generally, in the so-called worldwide fight against poverty campaign. The transition of the United Nations from *Millennium Development Goals (MDGs)* of the 2000s to the *Sustainable Development Goals (SDGs)* of the 2010s-2015s illustrates the failure of the traditional development finance agenda even if a contradictory message is sent by the international institutions (United Nations, 2016). We can also add that, since the 1990s, DCs are a net exporter of capital (according to their balance of payment current account) and some developed economies are a net importer of capital (e.g. the United States, Australia, etc). It implies that the South is financing the North (Gurtner, 2007) and that traditional development finance has to evolve.

Following careful consideration, a major question arises after the GFC. It concerns the type of financial and monetary (regional) system that might help DCs to emancipate from the asymmetric-dependence relationship of the usual international development financing framework in order to imagine and design alternative ways of fulfilling the financial prerequisites of their development processes.

The crisis created new policy space for DCs and institutions to rethink the development process (Gabel, 2017). Without proposing in details an alternative development financing process, I suggest some preliminary thoughts²⁹. The creation of a “Global development bank” in line with the proposal of Griffith-Jones and Ocampo (2009, 2018) to enable DCs to counteract the short-term interests of markets, support structural transformation, and provide public goods, etc., might be of great help in testing the extent to which South-South multilateralism can offer better alternatives.

Such a dynamic institution could replace the IFIs as a new platform for DCs voice to be heard (Griffith-Jones and Ocampo, 2009).

²⁹ Chapter 3 more broadly questions the concept of South-South cooperation as an alternative to finance development.

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Chapter 3 - South-South Cooperation and dynamic long-term development financing: Post-GFC perspectives

Abstract:

This study examines a possible shift from the development financing architecture in force since the 1960s towards South-South Cooperation (SSC) that would focus more on the interests and needs of developing countries since the Global Financial Crisis (GFC). I argue that SSC cannot yet be a substitute to traditional North-South Cooperation (NSC) although it may be more related to development issues. However, the GFC has created a space for SSC to imagine new development banks and funding initiatives that could contribute to reducing Developing Countries' (DCs) dependence on NSC and increasing their resilience to market-based and pro-cyclical financial flows led by the strategies of advanced economies. In other words, these institutions can give a positive impulse to the global relations between the South and the North and become dynamic institutions able to provide new perspectives for long-term development financing and ensure the coherence of the global system. This Chapter maintains that a “Global development bank” can be a perspective if it respects several rules including symmetry between its members and that collective interests remain a priority (compared to those of the market).

Keywords: development banks, global financial crisis, long-term financing, south-south cooperation

JEL Classification Codes: F39, F53, O19, O20

1. Introduction

The global financial architecture of international cooperation for development has been witnessing a noticeable expansion of South-South Cooperation (SSC) since the global financial crisis (GFC) of 2007-2008 and the resulting decline in Official Development Assistance (ODA) that suffered from recurrent fluctuations since 2009 onwards (Li, 2018; OECD, 2019). The United Nations (UN) (2016) estimates that SSC official concessional loans, grants as well as debt relief and technical cooperation¹ have increased to US\$ 20 billion in 2013, from US\$ 7.9 billion in 2006². In recent years, two SSC emerging trends attract most of the attention: the scaling up of Southern-led liquidity funds and the establishment of new Southern-led large multilateral and regional development banks, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), also known as the BRICS Bank (Griffith-Jones, 2014; Li, 2018; Kring and Gallagher, 2019; United Nations, 2019).

Kring and Gallagher (2019) have attempted to quantify these recent trends in South-South financial cooperation through compiling data from annual reports of Multilateral Development Banks (MDBs) and found that a decade after the GFC the amount of available liquidity support in the global economy increased from US\$ 5 trillion to more than US\$ 12,8 trillion and the Developing Countries (DCs) hold around 63% of this total. They also found that longer-run development finance nearly doubled since the crisis, whereas the national development banks of DCs and new south-led MDBs contribute to 67% of the available development bank finance in the world economy.

Such impressive estimated amounts of SSC flows may lead to think of the SSC as a relevant substitute to North-South Cooperation (NSC) since one could assume that developing countries might be capable of supporting their long-term development process through a regular set of intra-bloc financial flows like the Development Assistance Committee (DAC)³ (Li, 2018).

¹ The United Nations Office for South-South Cooperation (UNOSSC, 2020, n.page) defines Technical Cooperation among Developing Countries (TCDC) as: “a process whereby two or more developing countries pursue their individual or collective development through cooperative exchanges of knowledge, skills, resources and technical know-how.”. Definition from the UNOSSC webpage “FAQ”: <http://unosscl.undp.org/sscexpo/content/ssc/about/faq.htm>, retrieved March 5, 2020.

² It is important to note here, that the values estimated by the United Nations can only be indicative and does not capture the full actual scale of SSC. This is due to SSC wide scope that includes cooperation modalities that transcends quantifiable ODA criteria. It is also due to the fact that not all developing governments report on their SSC volumes.

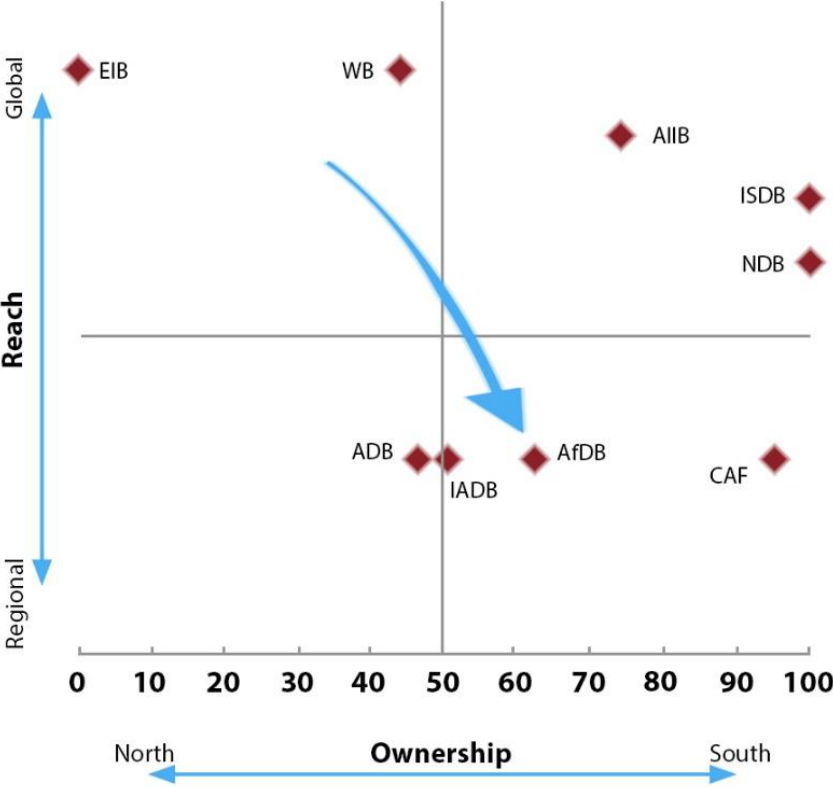
³ We recall that the DAC was created in 1961 to promote the expansion of aid towards DCs and to improve the effectiveness of these allocated resources. There were nine funding countries: Germany, Belgium, Canada,

Approaching South-South cooperation as an alternative to traditional cooperation is a very uncommon view among economists and countries of the South (Li, 2018). Indeed, SSC is more perceived as a complement to traditional cooperation rather than an alternative (UNCTAD, 2010; TTSSC⁴, 2011). Indeed, the Buenos Aires Plan of Action states that SSC “is neither an end in itself nor a substitute for technical cooperation with developed countries” (United Nations, 2009b, p.11). While I adopt the view that SSC cannot yet be a substitute to traditional NSC, it can be argued that the GFC created a space for SSC to establish new development banks and funding initiatives, thus, shift the existing development finance architecture more towards southern interests (Barrowclough and Gottschalk, 2018). Figure 3.1, below, presents this shift from banks with a global reach that are owned by the North (i.e. the European Investment Bank, EIB and the World Bank, WB) to banks with a regional reach that are owned by the South such as the Development Bank of Latin America (i.e. *Corporacion Andina de Fomento* or CAF), the African Development Bank (AfDB) or the Inter-American Development Bank (IADB) and the Asian Development Bank (ADB). Global and Southern-owned banks such as the Asian Infrastructure Investment Bank (AIIB), Islamic Development Bank (ISDB) and the New Development Bank (NDB) also gain power.

the United States, France, Italy, Portugal, the United Kingdom, and the European Commission. Currently there are 30 members of the DAC. To get a full review on the DAC history, see OECD (2006).

⁴ The Task Team on South-South Cooperation (TTSSC) “brings together partner countries, especially middle-income countries, donors, civil society, academia, and regional and multilateral agencies under a common objective of mapping, documenting, analyzing, and discussing evidence on the synergies between the principles of aid effectiveness and the practices of South-South Cooperation [...]. The TTSSC is a Southern-led platform [...] at the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC).” (TTSSC, 2010, p.7).

Figure 3.1: Shift in the gravity of the development finance centre to the South



Source: Barrowclough and Gottschalk (2018, p.11)

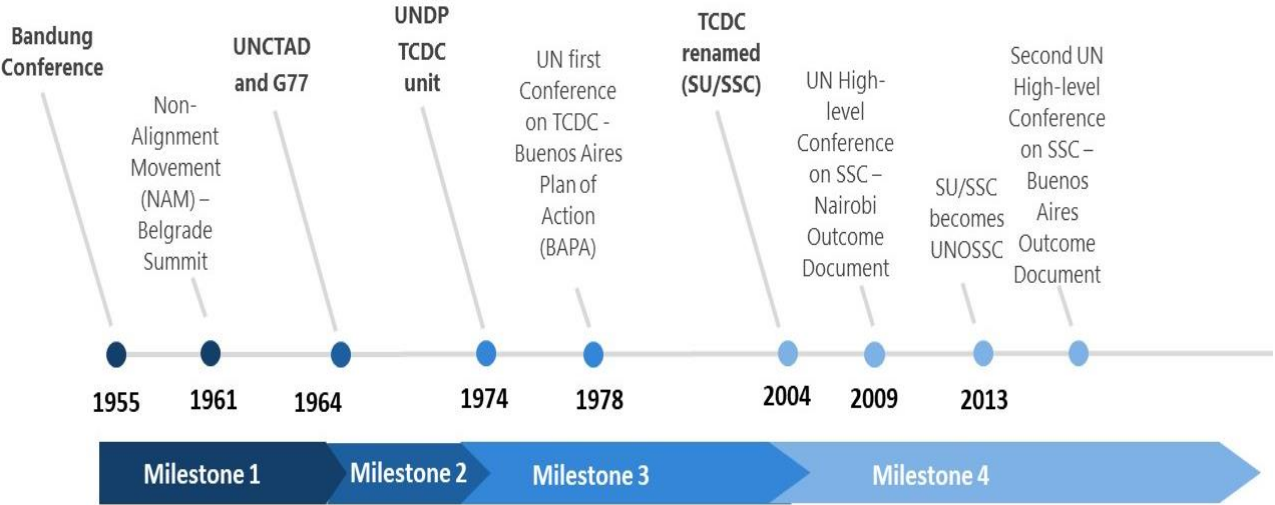
I argue that new SSC development finance provided by development banks and funding initiatives can contribute to reducing DCs’ dependence on NSC and to increasing their resilience to market-based and pro-cyclical financial flows led by the North. In other words, these institutions are inducing a change in the global South relationships with Northern cooperation actors and have the potential to become “dynamic institutions” offering new perspectives for long-term financing for development (i.e. institutions capable of evolving in response to interactions with stakeholders) (Allegret *et al.*, 2003).

From this perspective, in the following section 2, I explore the foundations and evolution of SSC. I also outline in section 3 how the rigidity of traditional NSC development finance institutions and the increasing economic and financial integration in the South pushed the SSC towards innovation. Section 4 examines recently established SSC development banks and reserve funds initiative and the main differences between NSC and SSC. Finally, in section 5, I identify opportunities and conditions for dynamic and long-term financing for development.

2. Foundations and evolution of South-South Cooperation

The emergence of South-South cooperation (SSC) is traced back more than sixty years ago. Its evolution can be marked by four milestones (UNOSSC and UNDP, 2019) represented in Figure 3.2, below. The first consists of two major events which laid its foundation: the Bandung conference (1955) and the Non-Aligned Movement (NAM) set up at the Belgrade Summit (1961) (Jooseery, 2011; Gray and Gills, 2016). At Bandung, 24 newly decolonised African and Asian nations sought to challenge the vertical relationship with their former colonisers of the north. (Gray and Gills, 2016). Later, the NAM takes up the principles of the Bandung conference and aims to reduce the economic and political dependence of Southern countries on Northern countries to maintain a neutral stance during the Cold War (Gray and Gills, 2016; Yu, 2019).

Figure 3.2: Milestones of South-South Cooperation



Source: Adapted from UNOSSC and UNDP (2019)

The establishment of the United Nations Conference on Trade and Development (UNCTAD) and the emergence of the Group of 77 (1964) mark the second milestone (UNOSSC and UNDP, 2019). The Group of 77 (G-77) was created as a coalition of the 77 developing countries which were present at the first session of UNCTAD in Geneva in 1964 (Gray and Gills, 2016). This group has called for a New International Economic Order (NIEO) which was intended to redress the unequal trade structures and insisted on the sovereignty of the countries of the South over their natural resources (Gray and Gills, 2016). UNCTAD and the G-77 efforts

have contributed to the conceptualisation of the SSC and continue to influence its evolution to date (UNOSSC and UNDP, 2019).

During the 1970s, the UN notices similarities between countries of the South which led to the third milestone represented in the UN institutionalisation of SSC through the creation of a special unit within the United Nations Development Programme (UNDP) to promote “Technical Cooperation among Developing Countries” (TCDC) in 1974 (UNOSSC and UNDP, 2019). The unit has “the objective of integrating this activity of technical co-operation among developing countries fully within the Programme” (United Nations, 1974, p.48). Later in 1978, the UN held its first conference on TCDC where delegations from 138 States adopted by consensus a Plan of Action for Promoting TCDC, the Buenos Aires Plan of Action (BAPA) (UNDP, 1994). The plan focused on promoting capacity building among the global south “through technical cooperation, transfer of technology, and knowledge-sharing within the global South” (UNOSSC and UNDP, 2019).

Gosovic (2016) recalls that these premises of SSC in the 1970s were seen as “a threat and a political challenge, and something that had to be resisted, neutralised and fought against.” (Gosovic, 2016, p.734). In other words, the developed countries considered the rise of SSC as a loss of their influence (Morasso and Lamas, 2020).

The fourth and current milestone starts with the renaming of the TCDC, in 2004 as the Special Unit for South-South Cooperation (SU/SSC) to anchor the rising importance of SSC in the architecture of international cooperation for development, the broadening of its framework beyond mere technical cooperation and the emergence of its actors and institutions (UNOSSC and UNDP, 2019; United Nations, 2004). In 2009, the increased contribution of the various national, regional and global actors and financial institutions in supporting SSC, was recognised in the Nairobi outcome document endorsed by the participants of the First UN High-level Conference on SSC (United Nations, 2009a). Furthermore, in 2013, the UN renamed the Special Unit once more to become what is now named the United Nations Office for South-South Cooperation (UNOSSC), a separate UN entity mandated to coordinate and promote SSC (UNOSSC, 2021).

Despite years of conceptualisation efforts, SSC remains a “loose concept” (Besherati and Macfelly, 2019) lacking a commonly adopted definition and parameters among developing countries. It is principally considered “a manifestation of solidarity among peoples and countries of the South that contributes to their national well-being, their national and collective self-reliance and the attainment of internationally agreed development goals, including the Millennium Development Goals” (United Nations, 2009c, p.2).

Generally, SSC transcends the narrow definition of ODA and includes wider and blended modalities of cooperation and financing (Li, 2018). UNOSSC and UNDP (2019, p.8) explain that “Development Cooperation under SSC is plurilateral in nature as different countries of global South have different modalities which are in sync with their national priorities and comparative advantages”.

This is reflected in the following definition of SSC adopted by the UNOSSC (2021, n.page)⁵:

“A broad framework of collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, intraregional or interregional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South trade, South-South flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges.”

SSC actors include DAC members (1) and other actors (2) (referred to in the literature as non-DAC members). The volume of SSC within the DAC membership (currently 30 members) can officially be consulted. It is possible to know which member has financially contributed and to what extent.

The situation is different concerning SSC originated by the other actors. They do not officially form a group and there is no information on which organisations in these countries

⁵ Definition from the UNOSSC webpage “About South-South and Triangular Cooperation”: <https://www.unsouthsouth.org/about/about-sstc/>, retrieved February 4, 2021.

have originated SSC and the amount of their funding. Moreover, these other actors are considered as ‘new’ non-DAC actors (such as China, India and Saudi Arabia) although they have been involved in SSC for several decades and their weight is increasing in the overall development aid since the 1990s (ECOSOC, 2008, 2009; Kragelund, 2008; DIIS, 2009; Burges, 2012).

Unlike OECD-DAC members, these non-members do not participate in the main multilateral donor groupings (Manning, 2006) and use different definitions of aid and cooperation. Thus, comparing DAC and non-DAC members’ SSC is problematic because it is difficult to know whether it is indeed accounted as SSC or mere trade relations (DIIS, 2009). Moreover, the analysis of SSC relies on inconsistent data access⁶ (OECD, 2008).

3. The dual effect of the NSC institutions’ rigidity and boosted Southern regional integration processes

We should recall that countries from the South do not constitute a unique entity⁷. As it is emphasized by the South Commission (1990, p.1): “The countries of the South vary greatly in size, in natural resource endowment, in the structure of their economies, in the level of economic, social, and technological development. They also differ in their cultures, in their political systems, and in the ideologies they profess.” Nevertheless, the countries of the South have an economic, political and socio-historical context that is generally more comparable with each other than with that of the countries of the North, at least from the perspective of their level of economic development and concerning their financial and technology weaknesses.

The countries of the South have in common, for the most part, a long colonial history and post-colonial objectives such as a quest for visibility on the international scene and the desire to have a say in multilateral negotiations⁸. This has been reinforced by the various SSC initiatives (UNCTAD, 2010). These joint experiences have made SSC actors more receptive and willing to accept alternative forms of cooperation among themselves (Burges, 2012).

⁶ Further discussion of data access is provided in the Chapter.

⁷ In the context of the SSC, Renzio and Seifert (2014) provide a complete study on the diversity of Southern donors in terms of policy, institutions, etc.

⁸ Some exceptions however exist. The history of large emerging economies will not display the same characteristics than the small DCs. For example, China, Turkey and Russia had never been under colonisation process but they remain emerging.

As retained from section 1, the SSC was conceived as a model based on solidarity between countries of the South, which was supposed to offer an alternative to the Western development model imposed by the North. Indeed, the existence of a “one-size-fits-all” development model⁹ based on growth as development means is contested as countries of the South use adapted development models¹⁰. The establishment of southern-led financial institutions and funds for development in the post-GFC period represents a culmination of “held frustrations with the limitations of the existing international financial architecture, that failed to provide sustainable long-term finance to many parts of the world and to essential activities in particular infrastructure” (Barrowclough and Gottschalk, 2018, p.11).

The evolution of SSC cannot be isolated from regional integration processes among Southern countries. Many DCs’ regional integration attempts and current processes date back to the post-colonial decades (Wagner, 1983). SSC was emerging and conceptualising during the same period. According to Cabana (2014, p.14), economic and financial integration processes are “a feedback mechanism to South-South Cooperation. Regional integration prompts South-South Cooperation, which at its turn strengthens the relationships among countries, hence favouring regional integration as well”. It should be noted that this path is theoretical and that not all experiences of regional integration are peaceful and successful. In the case of Latin America, which has undergone four waves of regionalisation (Dabène, 2012), some consider that MERCOSUR (*Mercado Común del Sur* or Southern Common Market), created in 1991, has suffered from various crises to the extent that it is considered a dead-end (Dabène, 2012), while others wonder whether it will survive (Carranza, 2003). The debt crisis in Latin America has led to the emergence of a system that is supposed to allow members (Argentina, Brazil, Uruguay, Paraguay and Venezuela since 2012) to consolidate their place in the international market. However, the asymmetry between its members with the domination of Brazil and the multiple trade disputes between members, among other things, has led to a stagnation of regional integration (Carranza, 2003). The success and dynamism of regional integration initiatives depend on the same factors that drive the move away from the North-South relationship of development financing such as problems of asymmetric relations, governance, neoliberal policy choices etc. Thus, regional integration remains a path for South-

⁹ The purpose of this Chapter does not consist in a review of the official development assistance history, the critique of the Washington Consensus and the single development model. For more details on this subject, see the Chapter 2 and also Abraham-Frois and Desaignes (2003); Marangos (2009).

¹⁰ For a full review of the variety of development paths, see Andersson and Axelsson (2016).

South cooperation but also needs conditions to better focus on the long-term needs of Southern countries.

The progress realised on the integration front by many Southern regions in the last two decades has fuelled the SSC solidarity principle and allowed the GFC to eventually lead to “productive consequences”¹¹ (Gabel, 2018). The crisis pushed SSC to seek new development financing modalities that encompass “defensive” and “developmental” perspectives (Lim, 2018). Hence, they expanded their monetary cooperation by establishing a foreign exchange fund with currency reserves to preserve the balance of payment from a potential future crisis (i.e. the defensive mechanism) (Barrowclough and Gottschalk, 2018; Lim, 2018). They also created large multilateral development banks, as well as expanding the role of regional development banks to respond to regional investments needs and development gaps (i.e. the development mechanism) to allow them to reduce their dependence on NSC financial institutions (Barrowclough and Gottschalk, 2018; Lim, 2018).

4. SSC development financing institutions and funding

South-South initiatives for long-term development financing mainly involve regional monetary cooperation and South-South development banks. These initiatives are not necessarily new, but the GFC has reinforced the DCs’ commitment to stability by building a new or stronger financial system architecture, or at least a new South-South development finance architecture.

¹¹ These consequences are described by the author as “productive incoherence” (Gabel, 2011, 2015a, 2015b, 2017) as the GFC has provided an opportunity to reflect on a new or evolving governance of the international financial system.

(1) Regional monetary cooperation

Griffith-Jones (2012) highlights the fact that the instability of international financial and monetary relations is a source of the significant development of South-South monetary cooperation. The increased desire of developing countries for independence from Northern institutions (the IMF and the World Bank) stems from the unstable nature of the system leading to crises. Initiatives have been put in place to meet the region's short-term liquidity needs, counterbalance payments problems and maintain national and regional financial stability (Li, 2018). Two examples can be cited in this regard, Asean+3 and the BRICS.

To address its financing needs, in 2000, the Asean+3 countries established the Chiang-Mai initiative. This initiative and the structural reforms adopted came in response to the Asian financial crisis of 1997-1998 and the strong intervention of the IMF (Griffith-Jones, 2012). The beneficial effects of this initiative were seen during the financial crisis of 2007 as the region was able to maintain its growth rate at 6% of GDP in 2007 and was less affected than other developing countries (ASEAN, 2017). Even though this initiative was triggered by the crisis, it is an arrangement with a relatively long history. The ten members of the Association of Southeast Asian Nations (ASEAN), plus China (including Hong Kong), Japan, and South Korea, entered into a multilateral currency swap arrangement. In March 2010, they pooled a foreign exchange reserve fund worth US\$ 120 billion, which was expanded to US\$ 240 billion in 2012.

(2) South-South development bank

South-South development bank represents a long-term financing tool for DCs and LDCs (Griffith-Jones, 2012). Development is a long-term process that requires long-term support and then long-term sustainable financing mechanisms. Long-term financing should lead to long-term development. This is a clear opposition to short-term financing in DCs which is the main problem, along with instability, of the current market-based financing process. Financial firms have accumulated massive power which the GFC has highlighted (Dymski, 2011). In a few words, especially in a liberalized and financialized environment, market mechanisms are motivated more by short-term profitability-related incentives than by the long-term commitments required for activities that can lead to development (Storm, 2018). This is an implacable economic logic that guides most private market actors and does not depend on moral or idealistic considerations. The challenge is therefore to consider the terms and conditions of

new development financing mechanisms that would provide a framework able to bring together development financing actors, whether private or public.

Li (2018) emphasised the role of national development banks (the China Development Bank and the Export-Import Bank of China) that have placed South-South cooperation at the core of their mandate. For infrastructure construction as well as credit, most of China's concessional loans were provided by the China Exim Bank with variable concessional interest rates, most of which were 3.6% with a four-year grace period and a maturity of 12 years.

Two new multilateral financial institutions of significant size were established in the South in 2015, namely, the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). The latter, over the next 15 years, is expected to lend US\$ 10-15 billion per year while the NDB lent US\$ 7.2 trillion in 2019 (Li, 2018; NDB, 2019). Infrastructure construction projects have long-term financing requirements as well as a complex nature involving environmental, social and legal issues in the process. Infrastructure constructions with a huge financing gap in DCs have been the priority of these two above mentioned banks (Li, 2018). The NDB is seen as a development bank complementary to other development banks as it focuses on infrastructure needs and environmental issues (Griffith-Jones, 2014).

The approach of traditional¹² NSC and SSC diverge in many areas: the context in which they originated, the objectives they pursue, etc. The comparison of SSC to traditional aid is the subject of much research. However, putting this comparison into perspective with the conditions that would allow more effective implementation of SSC is not studied in the literature. Table 1 provides a more precise understanding of the differences between these two development strategies and the conditions for SSC that is in line with the needs of the South. This comparison briefly reviews the characteristics of traditional aid and then goes on to discuss the characteristics of SSC.

¹² The terms “traditional aid” or “traditional assistance” are being used interchangeably with “traditional cooperation”. The term “cooperation” implies that all actors have decision-making power and agree on a common policy, which is not necessarily the case with traditional aid. Nevertheless, interchanging the terms “aid” and “cooperation” (a misuse of language) does not affect the main idea of this Chapter, which is to examine the similarities and to oppose a traditional North-South relationship to a South-South relationship, whether jointly or unilaterally decided. In the case of aid or cooperation, this Chapter argues that the two models tend to be similar.

To illustrate this diversification, private investment policies via FDI from Southern countries to other Southern countries, known as South-South FDI, have been increasing for several decades, from 4% of global FDI in 1998 to 14% in 2009 (United Nations, 2011). It should be remembered that in times of crisis, the main flows of development finance and more specifically these private investment flows can be disrupted. During the global financial crisis of 2007, outward FDI from developed countries declined while inward FDI from developing countries increased. The increase in South-South FDI flows explains this disruption and shows how SSC, particularly through South-South FDI, can reduce the dependence of developing countries on developed economies to finance their development process during the crisis.

Thus, a study comparing precisely the constituent elements of traditional cooperation and SSC makes it possible to assess whether South-South aid can be a good complement or alternative to traditional aid and/or whether there are conditions that SSC must meet to offer an alternative development strategy to the countries of the South (Table 3.1).

However, owing to the differences between SSC and NSC as elaborated in Table 3.1 below, the 2018 IBSA (India, Brazil and South Africa) Declaration on South-South Cooperation stated clearly that “ODA templates are not a good basis for SSC” (IBSA, 2018, p.1). The recent Group of 77 (G77) and China statement at the 73rd session of the United Nations General Assembly highlighted that “[...] South-South cooperation and its agenda must be driven by the countries of the South.” (Li, 2018, p.3). Neither should South-South cooperation be seen from the perspective of how it compares to North-South ODA cooperation in terms of scope, definition, methodologies, and modalities. To begin with, transposing North-South ODA-oriented paradigms or frameworks onto South-South cooperation would not necessarily be appropriate¹³, as North-South ODA evolved under circumstances different from those applicable to South-South cooperation, thereby resulting in different approaches and concepts. To be able to effectively and appropriately compare South-South cooperation with North-South cooperation, new concepts and analytical tools and methodologies would first have to be developed.

¹³ I will not apply the terms of the debate that exist within the traditional cooperation system to SSC. The debate about concepts (such as governance, corruption, efficiency) used by traditional donors to justify the failure of their development policies should not be replicated and applied to South-South cooperation as recommended in the literature.

Table 3.1: Main characteristics of traditional North-South aid, South-South Cooperation and perspectives for long-term development financing

	Subcategories	Traditional North-South aid	South-South cooperation	Perspectives for long-term development financing
A. Aid and cooperation: context, objectives and characteristics	A.1 Development model	"one-size-fits-all" model imposed by donors on all DCs without distinction	No standard model but models designed to be adapted to each country	No model imposed. Institution for the system's cohesion
	A.2 Geopolitical context	Bipolar world, Soviet and American hegemony	Multipolar world: post-hegemonic where the South is gaining in importance	Creation of a representative platform of the South
	A.3 Stated objectives	During the Cold War: political and strategic considerations = defense and expansion of influence zones. After the Cold War: promotion of economic growth and development, poverty reduction, construction of public policies to deal with globalisation	Altruistic values, equity, mutual benefit. Facilitating inter and intra-regional links	Equity, "mutual aid". Collective society's interests before market interests
	A.4 Relationship between actors	Vertical: "development assistance"; "donor-recipient relationship". Donors do not receive aid from other donors	Horizontal: "development cooperation"; "partnership in a South-South context". Some donors receive aid from other donors (they are donors and recipients)	Symmetry among the members
	A.5 Stakeholders' interests and geographical scope	Donors help countries in which they have an interest (natural resources, etc.). Wide geographical scope	Donors support countries in which they have an interest and also countries that do not interest traditional donors. Low geographical dispersion	Worldwide dispersion
B. Aid conditionality, governance and regulation	B.1 Nature and level of conditionality	Structural conditions and/or strong conditionality	Non-structural conditions and/or weak conditionality	No conditionality
	B.2 Governance and regulation	Donor-driven reforms. Regulatory organisation for disbursing funds and grants	Reforms or status quo decided as a group + respect for national sovereignty. No official regulatory organisation, use of Southern institutions	One Nation, one vote
C. Financing process	C.1 Financing institutions and level of rigidity	World Bank, International Monetary Fund. More rigid	Regional development banks (BRICS bank,...). Less rigid	Global development bank. "Dynamic" institution
	C.2 Financing type and cost	Sectoral funding or untargeted budget subsidies. More expensive, more bureaucracy	Project funding in the form of technical cooperation. Lower cost than traditional cooperation, less bureaucracy	Fair distribution of funds between members
	C.3 Priority sectors and funding criteria	Social sectors. Sectors chosen according to the social priorities of the recipient countries	Infrastructure and productive sectors. Sectors chosen in relation to the economic priorities of the recipient countries	Infrastructure and social sectors
	C.4 Financing means and trends	FDI, ODA. Pro-cyclical. Aid does not automatically imply investment	FDI, ODA, trade, technical cooperation. Counter-cyclical (new multilateral development banks and regional banks with reserve funds). Cooperation is automatically combined with investment. Strongly growing	Bank surpluses to finance development + South-South FDI, regional integration and regional development banks
	C.5 Funding sustainability	Little or not sustainable in times of crisis (chapter 2)	More sustainable in times of crisis (chapter 2)	Countercyclical with compensation mechanism if crisis: multi-currency reserve fund. Diversification of DCs economies. Environmental sustainability

Source: Author's elaboration

A. Aid and cooperation: context, objectives and characteristics¹⁴

A.1 Development model

Traditionally, donors use a single development model that they impose on all developing countries without distinction. This “one-size-fits-all” approach (OECD, 2018, p.134) is based, among other things, on the principle that a model that has enabled one country to develop can be replicated in another without adaptation. This policy has been in place since the creation of development aid programmes after the Second World War by international institutions such as the IMF and the World Bank, then reinforced thanks to the Washington Consensus, which is built on a single recipe founded in particular on the liberalisation of capital, fiscal austerity and the privatisation of public enterprises in developing countries.

Since the 2000s, this policy has been heavily criticised (Stiglitz, 2002; Easterly, 2006; Collier, 2007; Moyo, 2009) and here we briefly recall some of the criticisms of this single development model. This approach to development based on the Washington Consensus and a standard model has been described by Stiglitz (2002) as a “great disillusionment”, who considers that the countries targeted by this model should have the choice to experiment with alternative development strategies according to their needs and context. Collier (2007) in *The Bottom Billion* also criticises this “one-size-fits-all” model but his approach of aid is more nuanced. Easterly (2006) and Moyo (2009) make a more radical case that aid based on a standard model can be harmful to development. Easterly (2006) considers that “planners” – those who predominantly manage aid and apply a single development plan to the South – reduce poverty to a simple “technical engineering problem” (Easterly, 2006, p.14). The planners – by applying “top-down”¹⁵ strategies where a multitude of factors (political, social, historical, institutional and technological) are not considered – make massive aid an interventionist strategy of the West in DCs that will not achieve long-term development.

This standard approach to development was forced to evolve after the 2000s but also following many criticisms of the relevance of the Washington Consensus with regard to the

¹⁴ To make the reading and analysis of this table easier, each part is numbered from A to C and each sub-part starts with a letter and a number. The analysis of each part and sub-part thus begins with the letter and number corresponding to the table.

¹⁵ This “top-down” strategy of the planners is opposed to the “bottom-up” strategy of the searchers (i.e., those who develop solutions in coordination with the actors concerned, the poor populations, knowing that these solutions may fail). The searcher' model is the basis of “a constructive approach to international aid” (Easterly, 2006, p.14) where poor countries do not necessarily need massive aid from rich countries to develop.

difficulties of completing economic development experiments in many countries through the application of opening and liberalisation reforms (Stiglitz, 2002; UNCTAD, 2003; World Bank, 2003; Rodrik, 2006). The poor track record of this growth-based development policy has placed people at the heart of the development policies of international institutions (Jacquet, 2006). Thus, donors are supposed to show a greater willingness to differentiate the development model according to the profile of the assisted country and to focus more on the human aspect of development.

In the case of SSC, there is no standard model of development (Lauria and Fumagalli, 2019). Development strategies are theoretically designed to be tailored to each country (UNCTAD, 2010). In reality, SSC programmes often lack alignment with country needs, as in the case of Latin American and Caribbean countries in particular (UNECLAC, 2020). Thus, there is a replication of some of the salient features of the North-South system that have been strongly criticised in the South-South system.

A.2 Geopolitical context

It should be recalled that traditional North-South aid was born in a bipolar context where the hegemony was American and Soviet (OECD, 2018), while SSC has arrived in a multipolar “post-hegemonic” context where the countries of the South are gaining importance and capitalism is experiencing an unprecedented crisis (Gürcan, 2019). Global governance is evolving with the growing importance of Southern countries and the pressure they exert (directly or indirectly) on the international political system (Gürcan, 2019).

A.3 Stated objectives

Within the framework of traditional aid, a distinction must be made between two periods during which the stated objectives of aid have evolved considerably (Carbonnier, 2010). During the Cold War, donors’ considerations were political and strategic. Aid was used to defend and expand zones of influence (Alesina and Dollar, 2000), particularly via former colonies. These recently decolonised areas remain under the influence of the former colonisers within the cooperation.

After the Cold War, the stated objectives of aid are multiple. The declared values are as numerous as the donors, but the main ones are the following (Voituriez *et al.*, 2017): promoting economic growth and development, reducing poverty, and building public policies to manage

globalisation. More generally, the basic principles set out by the DAC¹⁶ or the European Union (EU)¹⁷ guide their actions, even if the use of these principles does not necessarily guarantee their absolute respect and if the pursuit of the donors' interests remains the driving force of cooperation (Martin Faus, 2015).

The foundations and stated values of SSC are altruistic (OECD, 2009; Burges, 2012) based on equity and mutual benefit (OECD, 2009, 2014), principles of co-responsibility and solidarity (Martin Faus, 2015); and on the facilitation of inter and intra-regional links (United Nations, 2009b; United Nations, 2019).

For instance, South-South cooperation actors, who are not signatories to the Paris Declaration, insist on maintaining their sovereignty, independence and non or low conditionality¹⁸ concerning cooperation programmes (ECOSOC, 2008). Southern countries that use financial instruments to assist development also operate outside the framework set by the OECD DAC (ECOSOC, 2009). This form of non-interference and non-conditionality translates into a relatively free choice of policies for Southern countries in the implementation of cooperation.

The values and objectives displayed in traditional cooperation or in the SSC highlight the non-equity of the relationships between the stakeholders of the cooperation and a difference in the terms used to qualify these relationships.

A.4 Relationship between actors

Traditional cooperation or “development assistance” has long been criticised for the vertical relationships of hegemony between its actors in economic, political and cultural terms. The “donor-recipient relationship” (International Policy Centre for Inclusive Growth, 2009, p.11) implies that the donor decides on the whole strategy for development while the recipient has to implement this programme to the full extent. Furthermore, there is a strong donor-recipient

¹⁶ The OECD DAC signed the Paris Declaration in 2005, which is a list of steps for delivering good quality aid that enables countries to develop.

¹⁷ The EU adopted the European Consensus on Development Cooperation in 2005 to affirm the European Union's commitment to achieving the Millennium Development Goals (MDGs) and eradicating global poverty (European Commission, 2006).

¹⁸ Conditionality refers to “a mutual arrangement by which a government takes, or promise to take, certain policy actions, in support of which an international financial institution or other agency will provide specified amounts of financial assistance.” (Killick, 1998, p.6). This Chapter then addresses in more details the issue of the difference in conditionality between traditional aid and SSC.

dichotomy in the sense that donors do not receive aid from other donors (OECD, 2018).

Unlike traditional cooperation, the historical trajectory of SSC allows explaining the nature of the relationships between its participants. It rests on a dual principle that allows actors to collaborate, share costs and exchange expertise to achieve their development goals (Martin Faus, 2015). Firstly, a horizontal collaboration between countries with more or less similar levels of development implies the strict application of the principle of equity and the rejection of any condition that might imply a hierarchical relationship between actors. Secondly, mutual solidarity is the mechanism by which Southern countries cooperate to address common development challenges (UNDP, 2004; TTSSC, 2011). These two principles lay the foundation for “development cooperation” in a “partnership in a South-South context” (International Policy Centre for Inclusive Growth, 2009, p.11). Moreover, the boundary between donor and recipient countries is much thinner in the sense that some Southern donors receive aid from other Southern donors (i.e. they are both donors and recipients).

While SSC is promoted as a horizontal collaboration between equals that are diametrically opposed to traditional cooperation, it is worth examining the interests and motivations that underpin these South-South relationships. Indeed, the absence of hierarchical relationships between actors within SSC does not prevent the reproduction of the traditional system in which the motivations of actors to cooperate are numerous and complex (Rowlands, 2008).

A.5 Stakeholders' interests and geographical scope

In the framework of traditional cooperation, donors help countries in which they have a strategic interest, be it economic, political or geopolitical. This interest is frequently not clearly stated by the donor in the framework of traditional aid. Assistance from the North to the South is provided under the pretext of altruism (OECD, 2009; Burges, 2012). Nevertheless, in the literature, a vision of the new Southern actors¹⁹ as more altruistic than the old Northern actors is often presented²⁰. This view has been tested by Dreher *et al.* (2011) and they show that despite this image, Southern actors are, for example, less interested in poverty reduction than traditional

¹⁹ New actors or new donors refer to Southern actors who are not part of the OECD DAC, while old actors refer to Northern actors historically involved in traditional North-South aid and who are part of the DAC. It should be noted, however, that some “new” actors have been involved in cooperation for a long time. For more details on this point, see Manning (2006) and Kragelund (2008).

²⁰ For a review of the debate on whether aid is considered altruistic or not, see Manning (2006) and Kragelund (2008).

Northern donors and that old and new actors converge on many points.

The interests of Southern countries involved in cooperation are mainly economic and for national security (Burgess, 2012). They are also concerned with countries that traditional donors are not interested in, such as small countries (Kragelund, 2008; UNCTAD, 2010). In contrast to traditional assistance, Southern countries such as Brazil and Chile more readily recognise the benefits they derive from cooperation (Rowlands, 2008).

South-South models are more like an exact or close replication of the traditional North-South model (Dreher *et al.*, 2011). Indeed, Southern countries are massively attracted to the natural resources of other Southern countries (Burgess, 2012) to ensure their energy security (Woods, 2008) or to spread their un-transparent political model as in the case of China (Naim, 2007). This reproduction of the Northern system by the South is strongly criticised and is presented as a form of “Southern neo-colonialism and sub-imperialism” (Gray and Gills, 2016, p.563) leading to environmental degradation (Naim, 2007) and a loss of governance by some Southern countries in the context of the SSC (UNCTAD, 2010). Naim (2007) takes a very extreme view and goes so far as to describe SSC as “rogue aid”. Even considering that Southern actors have geostrategic interests (as do Northern countries) in cooperating with other Southern actors, they can still benefit from a greater diversity of donors than if they were to cooperate only with Northern actors.

Donor interests also reflect in the geographical framework in which Northern and Southern cooperation actors operate. Seeing where countries concentrate their allocations reveals their motivations. For example, it appears that the major Northern international actors spread their aid around the world in a very dispersed manner, which expresses strategic interests related to international relations rather than development interests (Martin Faus, 2015).

For Southern actors, geographical proximity is a strong determinant of cooperation (ECOSOC, 2008; Dreher *et al.*, 2011; OECD, 2011). Indeed, close geographical situations imply close cultural and linguistic situations, not to mention the advantages for strengthening trade (Kragelund, 2010). These similarities between nearby Southern countries (whether geographically, culturally or linguistically) allow Southern countries to strengthen the regional integration process at a lower cost and to promote trade and investment (Davies, 2010; ECOSOC, 2008).

However, new donors no longer respect this principle of geographical proximity and cooperate with actors who are geographically distant. This is notably the case of China and India with Africa. Indeed, the emerging actors of the South end up extending the scope of their cooperation to countries that are no longer their neighbours, which represents an increase in their weight in the international political system (UNECLAC, 2010).

The transfer of knowledge and expertise from industrialised countries in the North to countries in the South is more problematic than from one developing country to another. Indeed, cooperating countries in the South have more similar conditions, as this section has shown, which makes knowledge transfer and mutual learning easier (Burges, 2012; OECD, 2009). Besides, Southern actors are more flexible and able to adapt quickly to a change in a partner country (Martin Faus, 2015). Thus, this form of horizontality between Southern actors can potentially strengthen the sharing of expertise in the long term (TTSSC, 2010), provided that the beneficiary countries take ownership of this expertise (Martin Faus, 2015).

B. Aid conditionality, governance and regulation

B.1 Nature and level of conditionality

Historically, North-South aid has been associated with strong structural conditions²¹ (also known as strong conditionality) for the assisted countries imposed by international institutions and powers in various areas such as public expenditure management, tax management, financial sector reform, monetary policy, etc. This conditionality is violently denounced, notably by Gilpin (1987, p.313). From the point of view of Southern countries, the deprivation of national sovereignty is a major drawback in the framework of traditional aid.

For this purpose, SSC has gone against traditional cooperation by imposing non-structural conditions (UNCTAD, 2010) or weak conditionality (ECOSOC, 2008). Southern countries also do not interfere in the public policies of other Southern countries by respecting the principle of national sovereignty (Davies, 2010). Moreover, the poorer a donor is, the less intrusive it is in its assistance programmes with the recipient country and therefore the more balanced the relationship between donor and recipient (Rowlands, 2008).

²¹ For a review of these conditions and structural adjustment policies, see Dollar and Svensson (2000); Berr and Combarrous (2005); Ben Hammouda *et al.* (2010).

These characteristics of SSC allow it to be faster to implement than traditional cooperation and less costly²². Nevertheless, traditional donors are critical of these principles of non-interference and non-conditionality for several reasons. They fear that governance in the South will deteriorate, human rights will be less respected and economic policy management will deteriorate (Manning, 2006; Wanner 2009; UNCTAD, 2010).

B.2 Governance and regulation

Within the framework of traditional cooperation, economic policy reforms have been imposed by donors, particularly through Structural Adjustment Programmes (SAPs). It was regulatory agencies – particularly bilateral ones such as the World Health Organisation (WHO) – that made it possible to disburse funds and aid to the countries assisted (UNCTAD, 2010). Since the beginning of the 21st century, many actors have been added to the bilateral agencies (such as civil society, non-governmental organisations, etc.) to deal with the multitude of problems faced by the assisted countries (Severino and Ray, 2011).

Under SSC, reforms or the status quo are decided as a group while respecting national sovereignty (G-77, 2009). Aid or funds are not provided via a regulatory body but via institutions in the Southern countries (Rowlands, 2008; UNCTAD, 2010). These structures are decentralised and rapidly expanded after 2008, during the “active phase” of the SSC (Martin Faus, 2015). For example, Rowlands (2008) observes that among the emerging donors to the South (China, India, Brazil, South Africa), China offers the most coordinated institutional arrangements. Indeed, aid flows through the Department of Aid to Foreign Countries within the Ministry of Commerce²³. This non-centralised cooperation structure, which is not very autonomous from the Chinese government, nevertheless appears to be relatively coherent in the sense that it sets precise cooperation guidelines, which is not the case for the other three emerging countries studied (Rowlands, 2008). Chin and Gallagher (2019) also point out these differences of the Chinese model and its complementarity with the traditional model. As far as the African continent is concerned, the institutionalisation of cooperation involves the creation of formal structures such as the Forum on China-Africa Cooperation (FOCAC), the Turkey-Africa Cooperation Forum, etc (UNCTAD, 2010; Cue Rio, 2013). The FOCAC is a platform

²² A specific section on the financing type and cost of cooperation specifically deals with this issue in the remainder of the Chapter.

²³ The fact that cooperation is linked to the Ministry of Commerce in China makes a clear link for Southern countries between cooperation and investment. This relationship is explained in more detail later in the section on “Financing means”.

that provides a forum for consultations and cooperation between representatives of China and African countries. This type of structure also serves the interests of the United Nations, which never fails to intervene to recall the importance of fair globalisation and global development to attain the Sustainable Development Goals (Guterres, 2018).

C. Financing process

C.1 Institutions and level of rigidity

As this Chapter has argued, Southern financial institutions, such as development banks (e.g. the NDB), aim to bring more dynamism into a rigid system driven by Northern institutions such as the IMF or the World Bank. Interactions between Southern actors must be able to make institutions evolve to best suit the conditions of each Southern country (Allegret *et al.*, 2003).

C.2 Financing type and cost

Traditionally, North-South cooperation has been financed through sector funding or untargeted budgetary grants (Lengyel & Malacalza, 2011). This type of funding is costly and bureaucratic (UNCTAD, 2010).

Under SSC, funding is focused on projects in the form of technical cooperation and there is a consensus that it is cheaper than traditional funding and less bureaucratic (ECOSOC, 2008; International Policy Centre for Inclusive Growth, 2009; Davies, 2010; UNCTAD, 2010; Lengyel & Malacalza, 2011; Burges, 2012).

To explain the lower cost of cooperation, it should be understood that SSC is based on a direct system of cooperation between Southern countries with similar experiences and generally not on tenders, which implies several advantages (Martin Faus, 2015). Southern countries often do not use external consultants but directly their institutions to manage cooperation issues (Rowlands, 2008). Using government officials directly internalises the cost of cooperation, which is not reflected in the project cost. The cost of the project consists of direct and indirect costs only, without considering the cost of labour (Martin Faus, 2015). These advantages, coupled with conditionality, allow for faster disbursement of cooperation funds (ECOSOC, 2008).

The size of Southern countries influences the scope of cooperation projects. Thus, the large countries of the South set up large cooperation programmes while the small countries set

up more limited projects (ECOSOC, 2008). The impact and effectiveness of these projects are little evaluated by actors in the South (even if the situation is changing), who do not coordinate their cooperation (ECOSOC, 2008). Project monitoring is only interested in verifying the proper execution of the project by comparing the theoretical date of the end of the project with the actual end and not the impact of the project (ECOSOC, 2008). The capacity for ownership of projects by recipient countries is often less important than the capacity of countries to deliver projects (TTSSC, 2010). Ownership is further complicated by the fact that the appropriate conditions for it to take place are not created by donors (TTSSC, 2010). As a result, recipient countries may see the creation of infrastructure in their country that will not be sustainable in the long term.

Not only do Northern and Southern donor countries have cooperation strategies that are based on a particular type of funding, but also specific sectors and funding criteria.

C.3 Priority sectors and funding criteria

Traditionally, social sectors have been the primary focus of Northern donor aid policies (UNCTAD, 2010). The Millennium Development Goals (MDGs), launched in 2000, commit the 189-member countries of the United Nations (UN) to make progress towards eradicating poverty by 2015 and place the individual at the heart of international aid policies²⁴. In 2015, following the failure of the MDGs, UN member countries set up the Sustainable Development Goals (SDGs) to be achieved by 2030. Social sectors such as education and health remain at the heart of these development policies.

SSC actors mainly focus on financing infrastructure and productive sectors²⁵ that are selected in relation to the economic priorities of the recipient countries (ECOSOC, 2008; Kragelund, 2008; UNDP, 2009; UNCTAD, 2010). SSC projects cover various areas such as energy, agriculture, mining, etc. Infrastructure financing is strong in sub-Saharan Africa where China and India cooperate massively (Martin Faus, 2015). For example, only 40% of households on the African continent have access to electricity, which is the lowest rate of access to electricity in the world (AfDB, 2018). The financing needs to meet Africa's infrastructure

²⁴ Jacquet (2006) notes that the adoption of the MDGs allows a return to an aid logic that favours beneficiaries, in other words, people over growth. Cohen *et al.* (2006) note that the MDGs have been decided and are being pursued by the United Nations, but that they remain poorly represented in the programmes of developing countries. Institutions in developed countries are setting up programmes of action but without explicit support from the countries being helped, it is more difficult to achieve the MDGs.

²⁵ This trend is evolving and some countries in the South now focus their cooperation on social sectors, as is the case in Brazil and Chile (Lengyel and Malacalza, 2011).

targets by 2025 are estimated at US\$ 130-170 billion per year (AfDB, 2018). Thus, there is a relative complementarity between North-South cooperation and SSC in terms of funding sectors.

C.4 Financing means and trends

Traditionally, Northern countries help Southern countries through Official Development Assistance (ODA). They also use Foreign Direct Investment (FDI) to finance development. However, North-South cooperation does not automatically imply investments by donors in the assisted countries in exchange for their aid (UNCTAD, 2010). It is worth noting, however, that in other areas such as purchases, Northern countries often use tied aid (i.e. “official grants or loans that limit procurement to companies in the donor country or a small group of countries. Tied aid therefore often prevents recipient countries from receiving good value for money for services, goods, or works” (OECD, 2021), even though this practice is harmful and is expected to be greatly reduced as a result of the process of untying aid launched by international organisations (Reality of aid, 2018).

Southern countries use the same means of financing development as traditional donors, as well as trade²⁶ and technical cooperation, but for them, cooperation is automatically associated with investment (UNCTAD, 2010). There is therefore no clear dividing line between aid and economic or political cooperation (Cue Rio, 2013).

This ambiguity regarding the delimitation of cooperation activities of Southern countries makes it very challenging to assess the volume of SSC. Some Southern countries also underestimate the cooperation they provide for political reasons as they are both donor and recipient and do not necessarily want to see their incoming aid flows from Northern countries decrease (Martin Faus, 2015). Nevertheless, a first trend can be noted: the level of cooperation from Northern countries represents a greater volume than that of Southern countries, although the latter is increasing. For example, the latest report by the NGO Reality of aid (2018) estimates that concessional SSC flows in 2016 – similar to the OECD DAC definition of ODA and entitled 'DAC-ODA-like flows' – represent 23% of total ODA flows. One of the reasons for the

²⁶ South-South trade is strongly growing (UNCTAD, 2019, p.2): “Since the mid-1990s, the share of the South in global output and trade has risen rapidly, with the value of South–South trade increasing seven-fold, from \$0.6 trillion in 1995 to \$4 trillion in 2016. This rise in South–South trade appears to provide new opportunities for the South.”. Nevertheless, this expansion of trade “has been concentrated in only a few developing countries, mainly in East Asia, with China contributing the most” (UNCTAD, 2019, p.2).

growth of these South-South flows is that traditional donors have reduced the amount of development financing allocated through ODA.

Another trend is the increasing orientation of South-South aid flows to Africa (Kragelund, 2008; United Nations, 2010). UNCTAD (2010) estimates that 6% of total aid flows from Southern partners go to Africa. Several reports by international institutions (UNCTAD, 2010; AfDB, 2011) have focused on Africa's situation concerning SSC and agree that Africa needs to seize this opportunity to diversify its sources of financing. Other authors (Delcourt, 2011; Casanova and Nizard, 2017) point to the ambiguity of the China-Africa relationship. They denounce Africa's dependence on China (particularly with the "One Belt One Road" initiative²⁷), which reproduces asymmetrical North-South relations (Delcourt, 2011) and the likely unsustainability of this relationship (Casanova and Nizard, 2017).

C.5 Funding sustainability

A sustainable relationship between cooperating countries (North-South or South-South) implies that the interests of one are aligned with those of the other without leading to over-indebtedness or a debt crisis.

In the context of traditional cooperation, the debt crisis has affected many countries that have received ODA such as Mexico, Mozambique and Angola since the 1980s following an increase in aid in the form of loans and oil shocks. Indeed, poor countries saw their debt service – i.e. the payment of interest as well as the repayment of the principal – increasing. Following the second oil shock, rich countries and leaders did not react as they did to the first, by increasing official aid. They adopted a more selfish policy by choosing to raise interest rates to control inflationary pressures. By applying this type of more restrictive monetary policy, poor countries faced upward pressure on their debt service. In Africa, debt service increased from US\$ 2 billion in 1975 to US\$ 8 billion in 1982 (Moyo, 2009).

To maintain the stability of the international monetary and financial system and to avoid defaulting on the debt of poor countries, the IMF and the World Bank decided to redirect ODA. First, these countries had to restructure their debt, i.e. accept new loans from the IMF via the Structural Adjustment Facility so that they could ensure the repayment of their old loans. This

²⁷ The Belt and Road Initiative was officially launched in 2015 by Chinese President Xi Jinping to enable interconnection between the Asian, European and African continents with the aim of increasing cooperation and trade between the countries. Griffith-Jones and Leistner (2018) even link this initiative to the rise of the AIIB as a favourable context to enable long-term development finance in Asia.

restructuring led to a growing dependence of poor countries on donors in a context where the demand for products from the assisted countries was declining. The assisted countries found themselves in a critical situation where they could not generate enough income from trade to repay their debt.

More recently, the financial crisis of 2007 highlighted the fact that traditional financing (via official development assistance) does not allow Southern countries to engage in sustainable development financing in the sense that it relies on unstable financial markets.

This crisis has also shown an increase in South-South FDI flows in times of crisis and a reduction in the dependence of DCs on Northern countries in this respect. The SSC would therefore be an important stabilising element for the sustainability of financing.

5. Concluding remarks and perspectives for “dynamic long-term development financing institutions”

In conclusion, the amount of SSC is growing. The UN (2016) estimates that SSC has increased to US\$ 20 billion in 2013 but remains small compared to traditional cooperation. For example, ODA (from OECD DAC members) amounted to US\$ 135 billion in 2013 (US\$ 150 billion in 2018) (OECD, 2019). It is not so much the amount that matters but the development opportunities that present themselves to the South that matter. These opportunities lead to significant changes in the perception of the power of the North by the South (Davies, 2011). Southern countries are better placed in multilateral negotiations than in the traditional financing system and more of them can participate (as those who were excluded from traditional cooperation are no longer/less so under SSC) (UNCTAD, 2010). Moreover, in terms of poverty and development impact, the results of SSC are said to be better than those of traditional cooperation (UNCTAD, 2010).

First, it is necessary to recall that the traditional Northern donors and international institutions (IMF and the World Bank) have set the rules for delivering aid in DCs since its creation. In turn, the criteria for disbursing ODA have evolved and each decade has been characterised by the use of a new concept or missing criterion for disbursing ODA and justifying the failure of previous strategies. For example, one criterion that has been much debated is that of “good governance”. Indeed, in the 1990s, the IMF noted the failure of aid since 1950 and looked for a responsible party. It would therefore be the governments of the

assisted countries that were incapable of managing aid. The IMF then decided to apply the principle of aid selectivity. According to this principle, the distribution of aid gives preference to low-income countries that have good economic policies and institutions (Guillaumont Jeanneney and Le Velly, 2011). Thus, the IMF considers that assistance should form a democratic and good governance shield. To apply this principle of selectivity, assisted countries must adopt stable, democratic and non-corrupt institutions.

SSC initiatives after the GFC (and the Latin American and Asian crises before it) show a willingness to move away from IFI prescriptions and traditional cooperation. Nevertheless, these initiatives, whose stated principles (equity, mutual benefit, etc) are well thought, often reproduce the same mistakes as the NSC, mainly asymmetries between members and the imposition and composition of the game rules by the largest countries. China is often being accused of “Southern neo-colonialism” (Gray and Gills, 2016).

My propositions are either seen as an alternative or perspectives for long-term development financing for DCs²⁸. In this analysis, I do not consider that all the features of South-South cooperation do not work or will never work to attain long-term development financing and I present the salient features of the model. I reuse several existing features of SSC in the perspectives I develop but add conditions and new criteria for the model to be conducive to long-term development financing (and the model is not presented. For example, I argue that the existing means of SSC, namely development banks, regional integration or South-South FDI (**C4**)²⁹, can be effective in shifting towards long-term development financing under the conditions and rules set out below.

The most salient perspective for long-term development financing is the use of a global supranational institution in charge of development financing that we could call “Global development bank” (**C1**). The aims of this institution could be mainly to collect and distribute funds to DCs. The main difference with existing development banks is the worldwide coverage (**A5**) and its governance rules.

²⁸ If one considers that an alternative model offers a model that does not adopt any features of the existing model, then these perspectives do not constitute an alternative to South-South development financing per se. If one considers that an alternative is a major change in the model (whatever its intrinsic criteria), then my perspectives represent an alternative.

²⁹ Table 1 presents the perspectives for financing long-term development (column 3), each new criterion or characteristic recommended is indicated in bold by the corresponding letter and number of the table.

This institution would also be a new “platform” for the South to communicate and be represented (**A2**) (Gosovic, 2016)³⁰ and help them to have all their voice heard (Griffith-Jones, 2012) as the World bank cannot properly represent the interests of Southern countries anymore. This supranational institution should not be an empty shell so it needs to be “well-staffed, funded properly, fully mandated, that provide logistic support, a vision and can work on creating conditions that favour the engagement and participation of individual countries, especially smaller and weaker partners.” (Gosovic, 2016, p.738).

This supranational public institution would be funded using its surpluses to finance collectively decided development projects in the supranational institution (**C4**) referring to Keynes’ plan (1941, 1942). Keynes between 1941 and 1944 proposed a global reserve system (Ocampo, 2010) called International Clearing Union. The aim was to use a new reserve currency (the Bancor) that member would pay depending on their trade quota³¹. A surplus trade country would receive credit and a deficit trade country would have a negative reserve account. In my perspective, the use of one supranational currency is not mandatory as the Bank can act as a multi-currency reserve system. Surpluses could be long-term financing tools to invest in large projects that the market mechanisms cannot do or ignore (due to low or inexistent individual returns in the short term).

This global development bank should be a “dynamic long-term development financing institutions” in the sense that it interacts with members who allow it to evolve and change its status (Allegret *et al.*, 2003) (**C1**). It should respect some principles that constitute an operational framework for (long-term) development finance such as the symmetry among the members (**A4**).

The projects can be collectively decided and must not favour any member with a fair distribution of funds between members (**C2**). Supervisory mechanisms have to be voted by members with the rule of “one nation, one vote” (**B2**) and members have to agree on common collective targets to reach together and the respect of equality, mutual benefit (**A3**). Investments

³⁰ The authors cited in these perspective paragraphs do not share the view of a supranational institution for long-term development financing (except Carranza, 2003). They either recommend the use of national development banks, more financial regionalisation or more South-South FDIs etc. My contribution is to gather the recommendations made in different areas of development finance and apply these to this supranational institution.

³¹ In this vein, Stiglitz (2003) recommends the use of Special Drawing Rights (SDR) as supranational currency reserve money. To see the Post-Keynesian view concerning Stiglitz plan, see Gnos et Rochon (2004).

should focus on infrastructures³² and social sectors of DCs (**C3**). We also recommend that no conditionality be set (**B1**) and that the establishment of an incentive mechanism for reimbursement is decided among the members.

The Institution could promote knowledge sharing through regional integration (Jooseery, 2011; Griffith-Jones, 2012; Gosovic, 2016), suggest that DCs diversify and reinforce their domestic economies in an environmentally sustainable way (**C5**) (Griffith-Jones, 2012). Regional integration, diversification and the multi-currency reserve would have a countercyclical effect in the event of an external shock (**C5**). These mechanisms can work if state members collectively decide to leave some space for the Institution to authorise a reasonable level of debt.

I reaffirm that the capitalist system remains unstable but that the collective welfare of individuals must come before the micro-rational interests of the market (**A3**). Financing for development is an area where financialisation has led to more inequalities in development and has increased the rent-seeking of elites who have invested in developing countries using the market. According to Storm (2018), development finance should be further regulated. He proposes that the field of development finance remains within the framework of the financial market but recommends that market behaviour should be made acceptable. I argue that the market, by its nature, cannot behave in a socially acceptable way and that the market authority must ensure the overall coherence of the system to compensate for what market mechanisms are inherently unwilling and unable to do. Therefore, we should not choose between a market-based or bank-based model to finance long-term development but have institutions that provide greater cohesion in the capitalist system (**A1**). Indeed, financial inclusion (which should allow all agents to access the banking market) advocated by the IFIs since the 1990s and which continues to be recommended in the framework of the MDGs (Correa and Girón, 2019)³³, while desirable, is not a panacea for financing long-term development either. Kropotkin's (1902) concept of "mutual aid", mobilised by Hall and Kirdina-Chandler (2017), is an interesting way of understanding how the competition that takes place within markets could be replaced by

³² Berthomieu, Cingolani and Ri (2017, p.155) put forward the investment role in infrastructures for a development bank to avoid "low growth, weak private investment, high unemployment and high debt level". They use the case of the European Investment Bank in the Balkans region but the situation is similar in a lot of DCs.

³³ Financial inclusion is not yet complete in Latin America, but it has already transformed existing resources into financial assets and increased the revenues of the banking sector, which represents a greater potential for revenues to be taxed (Correa and Girón, 2019).

principles that are more respectful of development. Indeed, according to the principle of mutual aid, actors are pushed to overcome the individualistic and competitive behaviours that drive development financing. The adoption of more ethical behaviour is desired from a long-term development finance perspective.

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General conclusion

The core feature of the approach implemented in this PhD thesis is a holistic vision of development that argues that development is not merely a matter of Gross Domestic Product (GDP) growth or an obvious linear process that would come out from the “well” functioning of market activities, usually assumed to rely on rational individual decisions. All along this study, I sought to show that beyond the problems of economic growth in DCs, there are many and diverse human, social and institutional (complex) problems that must be taken into consideration in order to understand the core developmental issues and then to imagine and implement possible solutions at the long run. Thus, I defend a vision of development, that encompasses several definitions and characteristics of development given by the International Labour Organization (1976, 1977), Streeten (1984), the South Commission, United Nations Development Programme (1991) and Sen (1999) that focus on institutions-and-system-based analysis.

The two main theories justifying the use of massive foreign aid argue that economic growth is the only solution for a country to develop. In the Harrod (1939)-Domar (1946) model, savings are a necessary precondition for investment as the level of technology cannot change (exogenous technology-based standard growth models). Thus, with sufficient savings, DCs can make investments that increase growth. In Rosenstein-Rodan’s theory (1943), a “big push” is necessary, i.e. massive investment, particularly in the industrial sectors, to enable DCs to escape the poverty trap in which they are stuck by succeeding in overcoming the technology deficit that was preventing them from growing. These directions have been at the roots of development policies in DCs but also advocated by international aid organizations whether they were supporting or not market economy models. Official Development Assistance (ODA) is therefore regarded as the best option according to the International Financial Institutions (IFIs) to lift DCs out of poverty. These are the same theoretical underpinnings that have explained massive aid since the end of the Second World War and that still justify the Millennium Development Goals (MDGs) and then the Sustainable Development Goals (SDGs).

The convergence between the policies defended and implemented by IMF and WB from the 1980s onwards has been described by Williamson (1990) as the Washington Consensus, which characterises a set of liberal measures to liberalise the economy and regain stability (through strict fiscal measures, trade liberalisation, financial market deregulation, etc.) in

countries affected by crises. These measures were applied in Latin American countries that were hit by a severe debt crisis in the early 1980s. The oil shocks (1973, 1979) led Latin American countries, especially Mexico, Argentina and Venezuela, to take out massive loans. After the second oil shock, this increase in debt combined with a sharp rise in interest rates and a fall in global growth led to an even greater increase in debt and a fall in exports. Mexico was forced to restructure its debt with the Structural Adjustment Programmes (SAPs) after 1982 along with sixteen other Latin American countries under the control of the IMF and the WB. The Latin American countries that implemented these measures had catastrophic results in terms of increased poverty (from 120 million poor people in 1980 to 220 million in 1990 in the region) (World Bank, 2003) and the debt that was supposed to be controlled soared (US\$ 500 billion in 1991 to US\$ 800 billion in 2002) (UNCTAD, 2003).

The Asian crisis that began in the 1990s as a result of speculative attacks on Asian markets resulted in the IMF's intervention, which failed in its task, particularly since the recession worsened (IMF, 2000; Lim, 2018). The end of the 1990s was marked by an acknowledgement of the failure of SAPs by the IMF and the WB. To justify this failure, the IFIs argued that countries with poor "governance" cannot implement the economic policies needed to ensure the proper application of the measures proposed by the IFIs in the event of a crisis (World Bank, 1992, 1994, 1998). This issue of governance in DCs has been widely instrumentalised and supported by Neo-Institutionalist Economics (NIE) that recommends good institutions to effectively regulate the functioning of the market so that growth remains the engine of development (Marques Pereira and Ould-Ahmed, 2010). From the Washington Consensus, the IFIs turned to the Monterrey Consensus in 2002, which put private investment flows (mainly FDI), back at the centre of development policies (OECD, 2005; 2006; United Nations, 2008, 2013; IMF, 2015). Thus, since the birth of traditional North-South cooperation, ODA and FDI have been the two instruments on which Northern IFIs and donors rely and promote to finance development.

As a reaction to the Latin American and Asian crises, regional cooperation initiatives and development banks were built up in order to regain stability within the capitalist financial system and to demonstrate to the IFIs that another development financing strategy was possible (than the one they recommended). These initiatives are part of the South-South Cooperation (SSC) framework but have not led to a real change in the architecture of development financing. This thesis studies the extent to which the occurrence of the GFC in 2007-2008 could have catalysed a shift in the architecture of development financing towards the South and pushed for

the establishment of a new dynamic institution to secure and stabilise long-term development finance.

Chapter 1, based on Institutional Economics, maintained that the traditional system of development financing was an unsustainable system for providing long-term development financing. For development purposes, the NIE recommends institutions that allow the market to function effectively. However, the market is not designed to promote the interests of society but the micro-rational interests of actors and its logic often leads to speculative behaviour. Thus, the specific contribution of IE is to design and promote appropriate conditions for institutions that could ensure the overall coherence of the system which would collectively allow for development within (or beyond) the capitalist system. I use the notion of “dynamic institutions” (Allegret *et al.*, 2003) to insist on the consideration of interactions between actors to build and make institutions evolve in a sustainable development path. Relying solely on the market to finance development is not a relevant option as it promotes elite rent-seeking behaviour (Storm, 2018) rather than societal progress.

Chapter 2 questions the sustainability of the traditional approach to development financing in the specific context of the GFC of 2007-2008. The tools traditionally used or promoted to finance development, ODA and FDI, are analysed to see the impact of the crisis on DCs. It is argued that ODA is not reliable for financing development (in case of crisis or not) because it is volatile (donors do not respect their commitments) and does not effectively meet the financial needs of developing countries. South-South FDI flows have increased in the wake of the GFC, indicating a clear desire by DCs to reduce their dependence on traditional development financing from the North. In the context of the instability of the capitalist system, DCs cannot rely on the traditional pro-cyclical development financing, waiting for the financial will of rich countries according to their own regional or global economic and political strategies. The crisis marks a new milestone towards a willingness to change the traditional system of development financing. But such a historic “opportunity” needs to be seized in a collective and organized way.

Chapter 3 examines more specifically the potential change in the architecture of development finance to the South as a result of the GFC. The GFC has brought about major institutional changes such as the birth of the New Development Bank (NBD) called the BRICS Bank that embody South-South Cooperation (SSC) initiatives. Although the SSC cannot mechanically replace the North-South cooperation, the GFC has created space to explore

development strategies that would lead to less dependence on the North, with a more counter-cyclical functioning. The South-South institutions have the potential to become “dynamic institutions”. I then propose a perspective on a long-term development financing model based on the creation of a "global development bank" that would respect symmetry between members and put collective welfare before the interests of market players. This multilateral institution would not have a regional framework as in the case of development banks and would be based on a multi-currency reserve fund in order to prevent the effects of foreign exchange market fluctuations on DCs financing operations. A well-known reference to such a symmetrical multilateral organization is the *Clearing house* of the *Keynes Plan* of the 1940s.

After analysing the common trajectory of developing countries and drawing conclusions regarding their strategies for development financing, it would be interesting to see how the conceptual and operational framework proposed in this thesis could allow for the analysis of a country or a group of countries in order to propose innovative solutions for development financing within the framework of the capitalist system. It should be remembered that developing countries should be able to rely on their internal capacities to develop and that the analysis could be extended to the "internal" financing of development. However, the core statement is the necessary coordination and cooperation amongst DCs in order to generate and allocate common resources to the development process.

The goal seems ambitious and the road full of pitfalls, but the game is certainly worth the candle.

References (General conclusion)

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Abstract

Through the prism of the Global Financial Crisis (GFC) of 2007-2008 and an analysis of the scope of traditional models of development finance, I note the inability of the capitalist system to produce a stable international financial system architecture that can provide external financing for development with a long-term objective. The GFC has led to a shift of the sources of development financing towards the South, which is associated with a rise in South-South Cooperation. The first step towards emancipation from the traditional asymmetric, unstable and rigid system can be observed through the creation of new development banks and regional monetary cooperation. Thanks to the mobilisation of institutionalist economics, I propose an alternative model draft that relies in particular on “dynamic long-term development finance institutions” with the aim of collectively and sustainably improving the financing of the development of developing countries (DCs). Such an alternative model is conditioned by the symmetry, stability, sustainability and supranationality of the mechanisms for organizing and implementing development financing.

Keywords:

Development financing, Global Financial Crisis, Institutional Economics, South-South Cooperation, Development bank.

Résumé

A travers le prisme de la Crise Financière Globale (CFG) de 2007-2008 et une analyse de la portée des modèles traditionnels de financement du développement, je constate l’incapacité du système capitaliste à produire une architecture du système financier international qui soit stable et qui puisse assurer le financement externe du développement dans un objectif de long-terme. La CFG a entraîné un déplacement du centre des sources de financement du développement vers les pays du Sud et a renforcé la Coopération Sud-Sud. On observe ainsi un premier jalon pour s’émanciper du système traditionnel asymétrique de financement du développement, instable et rigide, à travers la création de nouvelles banques de développement et la coopération monétaire régionale. Grâce à la mobilisation de l’économie institutionnaliste, je propose une ébauche d’un modèle alternatif qui fonctionnerait notamment avec des « institutions dynamiques de financement du développement de long-terme » dans le but d’améliorer collectivement et durablement le financement du développement des Pays En Développement (PED). Un tel modèle alternatif est conditionné par la symétrie, la stabilité, la soutenabilité et la supranationalité des mécanismes d’organisation et d’application du financement du développement.

Mots-clés :

Financement du développement, Crise financière globale, Economie Institutionnaliste, Coopération Sud-Sud, Banque de développement