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Whither development finance?

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1. Preliminaries


The global financial crisis, as it took hold in the fall of 2008, had dramatic repercussions worldwide. In 2009, global output fell by 2.2 percent, while trade contracted by nearly 12 percent, amounting to the sharpest downturn in the global economy over the last 60 years. The number of jobless worldwide has been estimated to have reached nearly 212 million in 2009, following a very rapid increase of 34 million compared to 2007, and putting the global unemployment rate at 6.6 percent (ILO 2010).

The repercussions in the developing world were not less dramatic, with the effects variously transmitted through falls in trade, foreign investment, remittances, and the general drying up of liquidity internationally. Output in the developing world grew very slowly by 1.2 percent in 2009, which translated into a fall of 2.2 percent once India and China are excluded (World Bank 2010b, p.3). Sub-Saharan Africa, for instance, will have lost around 7 percent of its output by the end of 2010, as compared with pre-crisis forecasts. These trends in output loss imply that an estimated additional 64 million people will be living in extreme poverty (i.e. below \$1.25 a day) by the end of 2010 (World Bank 2010b, p. 3). If progress towards the MDGs had been made in a number of developing countries prior to the crisis, substantial losses will be incurred (IMF/WB 2010).

Lately, there have been some signs of a recovery from the global recession. The World Bank's Global Economic Prospects (World Bank 2010b, p. 2) documents how, after falling for two or three consecutive quarters, global output has begun recovering: output grew rapidly during the second half of 2009 and is expected to continue to do so during the first half of 2010. The real side of the economy is recovering, with industrial production at the global level growing in excess of a 12 percent annualised pace in the third quarter of 2009, if remaining depressed worldwide in October 2009 at 5 percent below its pre-crisis peak (ibid.). Trade has also begun increasing, but the volume of world trade remained 2.8 percent lower than its pre-crisis level and some 10 percent below the level consistent with its pre-crisis trend growth rate. Moreover, unemployment continues to rise in the global economy and disinflation remains

widespread. Further, the downside risks to this fragile recovery remain real, especially in the event of a premature exit from stimulus programmes (see Akyuz 2010). Even if avoiding a 'double-dip' recession, global output growth, projected at 2.7 percent in 2010, is expected to accelerate only modestly to 3.2 percent in 2011 (World Bank 2010b, p. 2).

Apart from the dramatic effects in the real economy, the crisis has thrown into disarray the model of development and growth that had been so heavily promoted by the North and the various institutions it controls. Across countries in the industrialised world, governments intervened with enormous rescue packages for the financial sector, initiated countercyclical policies of various kinds, and provided comprehensive guarantee programmes for the banking industry, policies previously abhorred in the North – at least officially. Further, through a host of summits, the G20 has sought to coordinate necessary policy actions, both to address the immediate needs implied by the crisis (recovery) as well as to deal with some of its attributed underlying causes (reform).



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Yet, while a set of parallels prevailed between the first G20 crisis meeting in Washington (2008) and indeed the original 1944 Bretton Woods conference, most significantly, ‘the shared sense of the need to assert public authority more centrally into the international financial system in the wake of a devastating international financial crisis’ (Helleiner and Pagliari 2009, p. 276), the Washington summit, and its follow-up events (London, April 2009; Pittsburgh, September 2009), failed to deliver on radical and much-needed international financial reform.¹

Meanwhile, under the auspices of the United Nations, a commission of experts was gathered to advise on the nature of necessary reforms in the international monetary and financial systems, and a host of events have taken place within ‘global’ civil society concerned with attempts to redefine the international financial and economic order. As a result, a multitude of ideas have surfaced in the last year pertaining to issues of international financial and monetary reform, global governance, climate finance, etc.

Within this context of flux, both materially and intellectually, opportunities exist to redefine a now much-discredited policy order, that has operated powerfully both globally and, although to a varying degree and depending on a host of domestic political-economic features, at the domestic level. This paper seeks to make its own contribution in providing a few notes on the issues of development finance and development, against the backdrop of these dramatic circumstances.

We proceed, however, on two preliminary notes of caution. First, we would like to emphasise, from the outset, that the dramatic scenes we have witnessed since 2007 reflect broader underlying, longer-term and pervasive structural changes characterising the world economy. They cannot simply be attributed to a set of financial innovations combined with regulatory failures (and hence mainly be addressed by changes in the latter). These underlying tendencies have commonly been referred to, or summed up as, ‘financialisation’ with important repercussions for development. In the material realm, financialisation has been

variously defined and understood to include any of the following (Fine 2011):

“The phenomenal expansion of financial assets relative to real activity; the proliferation of different types of assets; the absolute and relative expansion of speculative as opposed to real investment; a shift in the balance of productive to financial imperatives within the private sector whether financial or not; increasing inequality in income arising out of the weight of financial rewards; consumer-led booms based on credit; the penetration of finance into ever more areas of economic and social life such as pensions, education, health and provision of economic and social infrastructure.”

Ideologically, financialisation has been attached to ‘the emergence of a neo-liberal culture of reliance upon markets and private capital and corresponding anti-statism’ (ibid.). And, in the realm of policy, a host of measures could be seen to reflect the underlying tendencies of financialisation, including capital account liberalisation, liberalisation of financial systems, and more broadly the general neoliberal trends of commodification, deregulation and privatisation – with neoliberal policy, as both underpinning and propelling financialisation forward, reflecting the use of the state to promote private (and often foreign) capital, and finance in particular.

These trends, material, ideological and policy-related, have had significant implications for development including: exposure to recurrent financial crises and exchange rate volatility; excessive reserve accumulation in the South, often to the detriment of productive investment;² channelling of global savings to the US rather than to investment in the South; soaring commodity (including food) prices as, with financial deregulation, new players entered the commodity exchanges (see Ghosh 2010); opportunistic expansion of foreign bank lending and buyouts with adherent risks of cherry-picking, skimming and asset bubble creation; large and volatile portfolio flows into domestic capital markets bringing price uncertainty and resource misallocation. These trends have also informed the predominant framework within which development has been

understood (and prescribed): from Washington to post-Washington Consensus, with the World Bank's current Chief Economist's attempt at redrafting a framework for development (Lin 2010) as the latest example in a succession of efforts at 'paradigm maintenance'.

These fundamental tendencies, unless dramatically reconstituted, will continue to exert particular pressures on any attempted redefinition of the international monetary and financial sphere, development finance and development policy. This is notwithstanding the projection of openings towards alternatives at least at the rhetorical level, such as, for instance, through the umpteenth declaration that the Washington Consensus, with its emphasis on liberalisation, privatisation and deregulation, now definitely is dead (Gordon Brown, April 2009).

The nature of outcomes, nevertheless, remains uncertain, particularly given the prolonged and volatile implications of the global crisis. Policies previously inconceivable in the international realm may suddenly become available. The extent to which general policy lessons, however, will prevail over ad hoc arrangements remains to be ascertained. In the domestic sphere, outcomes or new directions will hinge on country specificities, including the nature of a country's integration into the world economy and the capacity for progressive demands to be articulated and demanded within the country.

Yet, although not predetermining future trends, alignments with the interests of finance in the advanced economies as well as various countries in the South are likely to co-determine or precondition the scope for progressive policies to be implemented, both internationally and domestically. This is reflected, for instance, in the conservative stance of member governments vis-à-vis the IMF, where the revamping of the Fund in the context of the current crisis has not been linked to demands for radical reform of the organisation nor to material changes to the conditions attached to its programmes. In the context of the poorer countries, this may imply continued pressures for further commodification, liberalisation and privatisation – with foreign private capital seeking to capture local markets, much as

before.

One could argue that much may depend on the role of China, itself occupying an ambiguous position with regard to the realities of financialisation, with its vast reserves feeding the US deficit rather than being available for productive investment elsewhere (see Lo 2011). Yet, while China stands as the example of a very different path of development than that implied in the Northern consensus, it remains reluctant to exercise a leadership role at least in the elaboration of a new consensus internationally (or within the International Financial Institutions). Still, its South-South cooperation creates important changes on the ground in developing countries, in particular Sub-Saharan Africa, enhancing the scope for alternative trajectories to be charted there.

Bearing in mind the reality of these unfolding and varying permutations in the global political economy, this paper tries to present some critical reflections on trends and prospects regarding development and development finance. In this context we seek, first, to provide a mapping of the state of development finance prior to the crisis – with a particular focus on low-income countries. This bears on our second note of caution. It is our opinion that a host of problems that plagued external development finance prior to the crisis have persisted, if not become more pertinent since its outbreak. Aid remains a particularly important resource for the poorest countries, and charting strategic directions regarding development finance then implies a continuing need to engage with its realities. This is done in section 2, which first highlights the main trends that have characterised aid over the last two decades. This is followed by a subsection which teases out what we see as an underlying trend determining much of Northern aid policy, namely the 'private turn'. Finally, a last subsection provides a few brief comments regarding the impact of aid in recipient countries.

Section 3 provides an assessment of the implications of the crisis for development finance, and we single out for closer scrutiny two main global policy issues: the revival of the World Bank on the one hand, and global financial regulation on the other. Section 4 considers

issues pertaining to the conceptualisation of the policy space domestically. The latter is pursued from the vantage point of domestic resource mobilisation which we see as central to any recapturing of the policy space in developing countries, with the immediately apparent benefit that improved domestic resource mobilisation enhances the prospects for a particular country to emancipate itself from the various hazards that heavy reliance on external development finance, concessional and otherwise, often implies.

In the context of domestic resource mobilisation we devote a separate subsection to the problematic of financial systems and development. The financial structure of a country indeed has particular bearing on the scope for domestic resource mobilisation and the use to which these resources are put – with the dangers of the siphoning off of resources away from productive investment in a financialised world.

While there is both a long and deep history of NGO engagement on development finance, there has been comparatively less work on financial systems for development, especially at the domestic and regional levels. Notable exceptions to this have been seen in the work on microcredit, trade-related efforts on investment treaties and services agreements, and more recent work on capital flight and financial transactions taxes. Obviously certain NGOs and networks in some countries and regions have developed a more sophisticated agenda in this area than others.

The reasons for this relative lack of attention require further analysis, but might include: the interests and influence of funders; the background and expertise of those working in NGOs; tacit support for a ‘big push’ view

of development which accords pride of place to foreign aid and capital flows; and, more broadly, analytical uncertainty over what constitutes a ‘progressive’ financial system (compare with more heavily debated notions in NGO circles of ‘fair’ trade, ‘essential’ public services, environmental ‘justice’, etc.).

As a result, and perhaps understandably, when viewed from the lens of NGOs’ comparative campaigning strengths, the natural tendency in this area is to be drawn towards institutions and processes which are perceived to be ‘powerful’. This leads to a focus on international regulation and the various committees, ‘G-s’ etc. which have been entrusted with its elaboration.

Before adopting such a work agenda however, it is worth considering a number of potential pitfalls. Practically, there is a timing difficulty. Some of these processes are moving more quickly than NGOs’ capacity to respond. This is not to suggest that leaving spare capacity for opportunistic interventions is unwise, but it does make the place of such work in strategic planning more difficult.³

Where such processes are moving more slowly, there are still questions of access and capacity. More profoundly however, there are serious questions to be answered about the dangers lurking behind any universal solutions (no matter how well intended), and the degree to which progressive NGOs wish to legitimise the deliberations of these panels of international policymakers and other ‘experts’. The depth of the ‘triple crisis’ in which we find ourselves might suggest that NGOs adopt a more ambitious posture than the damage limitation drills to which many have become accustomed – and comfortable – while ‘TINA’ ruled the day.

2. Realities of development finance in the run up to the crisis

The term ‘development finance’ is most commonly used to designate long-term financial flows to middle and LICs, with the destination of the flows rather than their projected purpose serving to categorise them. Within the composite term of development finance, distinctions are traditionally made between flows that originate in the public or private sector (official versus private flows), between those whose projected purpose is related to development (development versus other flows), and over the financial terms on which the flows are provided (concessional versus non-concessional flows). Several categories therefore emerge. These have been typically defined by the Development Assistance Committee (DAC), the principal body through which the OECD countries (which historically account for the bulk of flows to developing countries) seek to align their funding and technical assistance (TA) activities.

The last two decades have seen dramatic changes in development finance. Northern aid flows fell during the 1990s, after having reached a peak at the start of the decade. As aid fell during the 1990s, private flows grew rapidly and, from 2003, picked up at an exponential rate, after having collapsed at the turn of the century in response to a series of international financial crises (see figures 1 and 2).

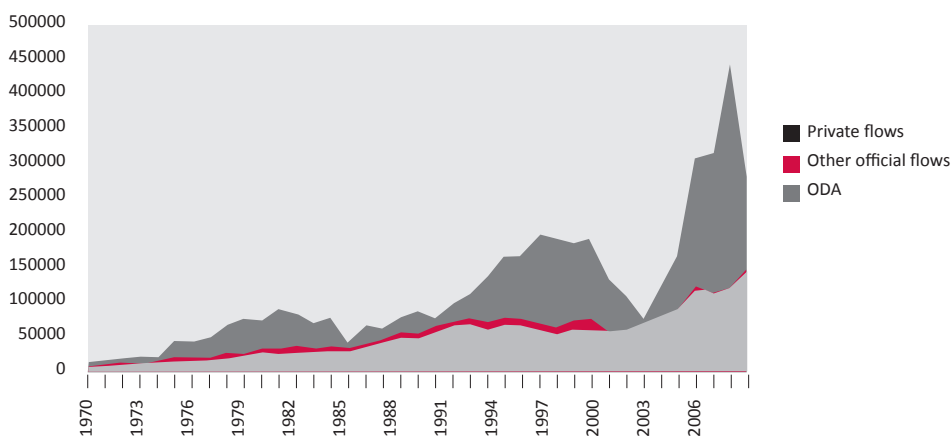
Further, while official flows accounted for over half of total net long-term flows to developing

countries at the start of the 1990s, this fell to an average of just over a third in the years preceding the current global crisis (2005-2007). As a consequence, in the years immediately preceding the current global crisis, almost one-quarter of total capital formation in developing countries was funded by foreign capital (World Bank 2009, p. 37). Moreover, while once dominated by bank lending to governments, capital, in the run up to the crisis, was flowing through a variety of transactions between private entities (foreign direct investments, portfolio flows and bank credit to the private sector). These flows are particularly volatile in the wake of any financial disruption.

Yet, although having witnessed recent increases in private capital flows (see Bhinda and Martin 2009), official flows continue to dominate net resource flows to low-income countries. An assessment of development finance in the context of low-income countries then needs to start from an assessment of trends regarding aid.

In this respect, the main trend affecting aid has been a weakening of Northern donors’ commitment to the public financing of development. A strong belief and commitment to the potential of private flows came to prevail, with the fast expansion of private flows over this period often the result of specific policies enacted by Northern donor countries (or financial institutions) – in particular

Figure 1: Trends in (Northern/DAC) private flows and official flows to developing countries, 1970 – 2008 (current prices)



Source: OECD-DAC Statistics Online

capital account opening and liberalisation of domestic financial systems. When Northern aid picked up again in the early part of the 2000s, this reinvigoration was characterised by a distinct understanding of the role of aid: in support of private flows as the main source of development finance. This had specific implications pertaining to the increasing prominence of new instruments of aid (such as guarantees), as well as its sectoral distribution, and was further reflected in the evolution of the client base of the multilateral development institutions. Meanwhile, South-South flows saw a very fast expansion from the turn of the century onwards, and private foundations also proliferated. Finally, the advent of such issues as climate change on the agenda of the international community spurred various initiatives for new sources of development finance forward.

We briefly highlight some of these trends and while doing so seek to draw attention to a set of policy issues regarding aid that (already) prevailed in the pre-crisis period. The first subsection engages in a form of ‘aid accounting’, charting the main trends of aid. It highlights how aid from the North is insufficient; it is encumbered with inappropriate procedures; the North has failed to deliver on its effectiveness agenda – with the current crisis worsening prospects regarding aid tying; aid has been allocated predominantly away from investment that would allow productive capacity to be upgraded and hence the

economies of low-income countries to be diversified; and it is declining in importance compared to South-South cooperation, which tends to be oriented towards upgrading a country’s productive capacity (rather than focused on the institutional environment) and less intrusive in domestic affairs. In the next subsection we tease out what we see as an underlying pervasive trend characterising Northern aid, namely what we call the ‘private turn’ in aid, a tendency that in our opinion has persisted unabated since the crisis (see section 3). A last sub-section provides a brief set of comments regarding the impact of aid in a recipient country.

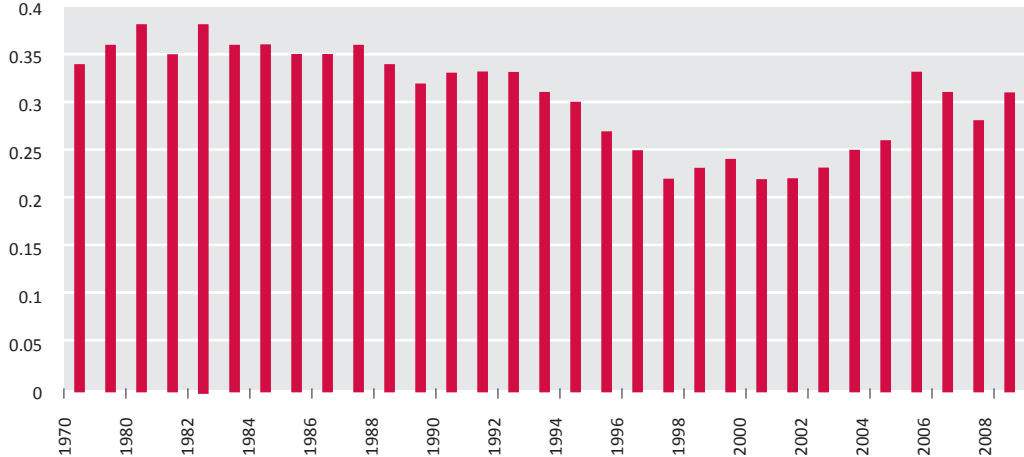
2.1 Aid accounting

An increase in aid

Figure 2 charts the Northern aid effort, measured as a share of donors’ national income for DAC countries between 1970 and 2009. The Northern aid effort reached an all-time low in 2000. The ODA/GNI ratio hovered around 35 percent between the early 1970s and the mid-1980s. It declined slightly during the late 1980s and early 1990s, when it still accounted for an average of 0.33 percent. It fell very rapidly, however, from the mid-1990s onwards to reach an all-time low of 0.22 percent in 2000.

Since 2000, however, a renewed official interest in aid emerged. The United Nations (UN) Millennium Summit in 2000 put forward a set of

Figure 2: ODA as a share of Gross National Income (DAC), 1970-2008



Source: OECD-DAC Statistics Online

minimum targets, the Millennium Development Goals (MDGs), to be achieved by 2015 in poverty, education, health, child and maternal mortality, gender and the environment. In March 2002, a follow-up UN conference in Monterrey addressed the challenges of financing the development priorities embodied in the MDGs. It was recognised that donors needed to set more ambitious targets for aid, and members of the OECD’s Development Assistance Committee (DAC) announced plans to expand Official Development Assistance (ODA). At the Gleneagles G8 and the UN Millennium + 5 Summits (2005), pledges were made to double aid to Africa (to US\$ 25 billion) and to increase aid by US\$ 50 bn in real terms between 2004 and 2010.

Northern aid subsequently increased in real terms between 2000 and 2008 and, from 2002 onwards, the aid effort (aid as a ratio of GNI) of DAC countries improved (see Figures 2 and 3).

This was complemented by the very rapid increase of aid disbursed by what are commonly referred to as the ‘emerging’ or ‘non-traditional’ donors, including Brazil, China, India, Kuwait, Russia, Saudi Arabia, South Africa, United Arab Emirates and Venezuela. According to the latest Global Monitoring Report (IMF/WB 2010, p. 6), aid from non-DAC donors rose to US\$ 9.5 billion in 2008, and it has been

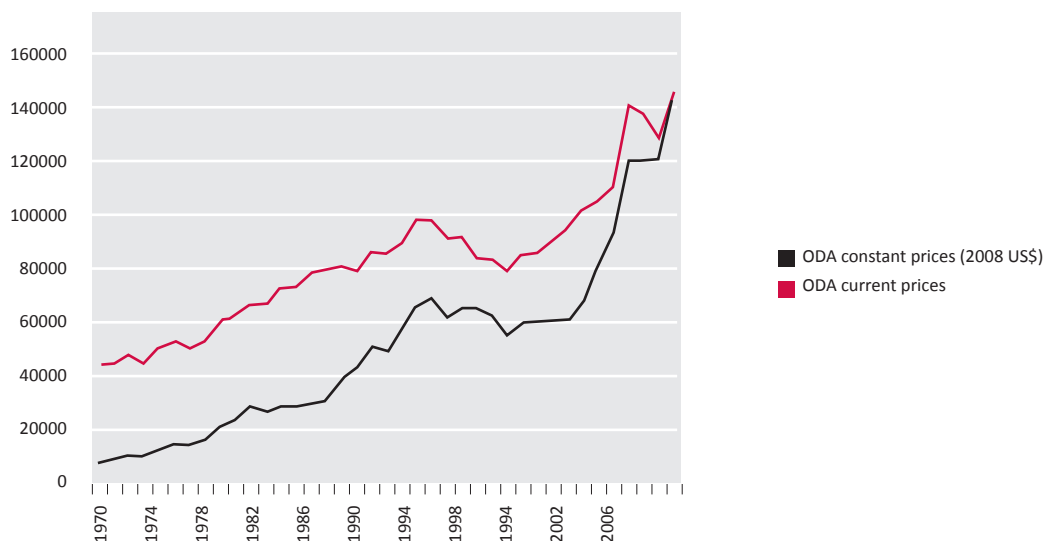
estimated that total South-South cooperation could surpass US\$ 15 billion by 2010 (OECD 2010, p. 136). At the latest China-Africa summit (November 2009), a package of US\$ 10 billion of concessional loans to Africa was promised, to be disbursed over the next three years and to be used mainly in support of infrastructure and social development projects.⁴ Further, private foundations have also seen a very rapid ascent in the arena of development finance, with grants from private voluntary agencies having reached nearly US\$ 24 billion in 2008 up from just over US\$ 5 billion (in nominal terms) in the late 1990s (OECD/DAC 2010).

Putting the increase in Northern aid in perspective

The trends in Northern aid have, however, fallen short of the Gleneagles commitments. The overall expected level of Northern ODA for 2010 is estimated to leave a shortfall of US\$ 18 billion (in 2004 prices) against the 2005 commitments.⁵ Similarly, whereas annual Northern aid to Africa is estimated to have increased by US\$ 12 billion in 2004 prices, this is well below the US\$ 25 billion target announced at the Gleneagles Summit for Africa.

The increase in the Northern aid/GNI ratio, further, has stalled at 0.31 percent. This is short of the Gleneagles pledge of increasing the aid effort to 0.36 percent of projected

Figure 3: Trends in net Northern ODA, 1970-2008



Source: OECD-DAC Statistics Online

donor national income by 2010 (DCR 2010, p. 98); remains on the lower side of the historic average of the 1970-1990 period (see Figure 2); and is well below the UN target of 0.7 percent to which all DAC members apart from the US and Switzerland are formally committed and which the EU-DAC countries have pledged to reach by 2015.

Aid and special interests

The rapid increase in aid over the last decade from DAC countries has often been steered by donors’ special interests. This includes exceptional debt relief, in particular for Nigeria and Iraq between 2005 and 2007, as well as significant ODA allocations to Iraq and Afghanistan (and neighbouring countries). While Northern ODA has grown since 2002, the increase has often been in the form of ‘special purpose grants’, including debt relief, technical cooperation, emergency assistance and administrative costs. This has not necessarily implied higher availability of more flexible forms of funding for developing countries. Table 1 (in the appendix) illustrates trends in the components of net DAC ODA between 1990 and 2008. Only since 2005, we see how ODA minus special purpose grants has started to increase, also as a percentage of donor national income.

The OECD/DAC has introduced a new measure for aid, namely country programmable aid, also referred to as core aid, to assess its donors’ progress on the aid effectiveness agenda (see

also below). Core aid corrects gross aid flows by subtracting aid that is unpredictable by nature (i.e. humanitarian aid and debt relief); aid that does not entail cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries); aid that does not form part of co-operation agreements between governments (food aid and aid from local governments); and aid that is not country programmable by the donor (such as for instance core funding of NGOs). Further, core aid is measured in disbursement terms, i.e. it reflects the actual transfer of resources rather than commitments (OECD 2009, p. 15).

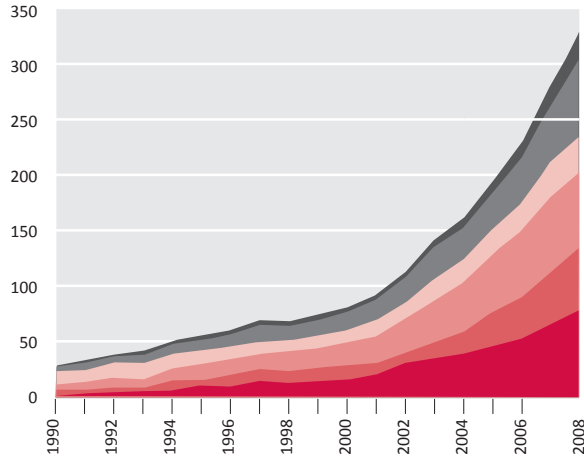
For DAC bilateral donors, core aid has on average represented only 54 percent of their gross bilateral ODA between 2004 and 2008 (ibid, p. 15). The core aid share of multilateral ODA is much higher (92 percent) than the bilateral core aid share (although this figure may be overstated as some multilaterals do not report administrative costs to the DAC) (ibid, p. 43).

Northern official solidarity versus workers’ remittances

Northern donor efforts appear particularly miserly when put against dramatic growth in workers’ remittances to developing countries.

These trends are equally striking when we consider the changing sectoral composition of aid to Least Developed Countries. ODA to social infrastructure and services constituted

Figure 4: Workers’ Remittances, US \$ billion, 1990-2008



Source: Global Development Finance [online]

Figure 4 documents trends in workers' remittances to developing countries between 1990 and 2008.

In nominal terms, remittances increased nearly tenfold over the last two decades.⁶ Table 2 indicates the relative importance of remittances for the different regions.

Aid to the poorest countries

Although the share of net DAC aid going to Least Developed Countries had started to increase significantly during the first years of the 2000s, recent years have seen a significant drop in this share, followed by some recovery. The share of net Northern aid going to Least Developed Countries, currently remains at levels below what was attained in the late 1980s.

Sectoral distribution of aid

Over the last two decades, capacity-building became a predominant preoccupation within the Northern donor community. Capacity development has taken on a different character from its practices in the past, as it has become centrally concerned with exercising a particular leverage on governments in line with policies already developed externally by donors (see also Fraser 2006, p. 43). This is in contrast to earlier capacity-building, which had been, according to Puryear (1979, p. 5 as quoted in King 2004, p. 6), more inclined: 'to create and strengthen institutions which could endure after our eventual withdrawal and would set their own research and development agenda'.

A distinctive feature of Northern capacity building is its emphasis on what are perceived to be 'software' elements of the development process to do with human resources and institutions across various sectors, rather than

on 'hardware' such as physical infrastructure or equipment, with a presumption that the rest will come from the private sector. This has been reflected in a shift in the sectoral composition of aid away from productive sectors towards the social sectors, and in particular, towards the category of 'government and civil society', as well as a persistently high share of technical cooperation.

Table 3 (in appendix) illustrates the shift in the sectoral composition of bilateral and multilateral aid since 1995.

Table 3 indicates the rapid increase in aid going to 'government and civil society' (formerly known as 'public administration and planning') in the last 15 years, from initially very marginal shares of total aid allocation, to a very substantial proportion –even the largest proportion for DAC bilateral aid in 2008. This has been at the expense of the share of aid allocated to infrastructure (with the exception of transport for multilateral agencies) and the productive sectors (agriculture in particular). The increasing share to 'government and civil society' reflects the preoccupation with 'capacity' and 'institution' building and the expectation that remaining capital requirements for investments in infrastructure or agriculture would come from private domestic and foreign investments (often through such arrangements as Public-Private Partnerships). The last few years have seen a renewal of attention in infrastructure and agriculture, particularly at the World Bank, but this trend remains steered by the overall 'private turn' characterising the Northern donor community, with a persistent emphasis on deploying aid to leverage private resources to these sectors (see also below).

Table 2: Relative importance of remittances for regions, averages for 2005-2007

	East Asia and Pacific	Europe and Central Asia	Latin America and Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
Share of imports	3.7	4.0	7.0	13.3	13.6	4.5
Share of GNI	1.5	1.6	1.9	4.2	3.6	1.9
Share of official flows	639.7	713.9	835.5	132.8	450.0	37.4
share of private flows	31.7	25.2	60.4	114.2	113.3	36.2

Source: Global Development Finance and World Development Indicators [online]

42 percent of net ODA disbursements to the Least Developed Countries in 2006, up from an average of 34 percent during 2000-2004, and 21 percent in the first half of the 1990s (UNCTAD 2006 and 2008). Aid for the productive sectors and economic infrastructure has, however, received less priority. The share of aid committed to economic infrastructure and production sectors constituted just 19 percent of net total ODA disbursements to the Least Developed Countries in 2006, down from 37 percent in 1992-1994. The 2008 Least Developed Countries Report commented that: ‘Despite all the rhetoric of a renewed interest in economic infrastructure, support to sectors that could best facilitate the economic capability-building process in the LDCs has been dramatically downsized in relative terms’ (p. 31, my emphasis). The Report continues to highlight that sustainable poverty reduction ‘requires the expansion of employment and income-earning opportunities, and for this, aid for productive sectors and economic infrastructure is vital’. In general, Northern ODA moved away from a direct concern to building productive capacity to a concern with ‘enabling’ the policy and institutional environment for the private sector to take on this task.

‘Aid effectiveness’

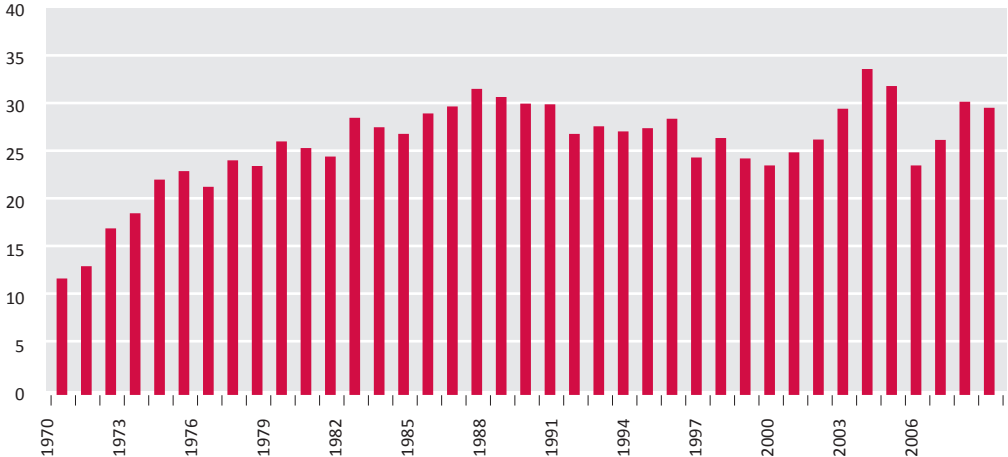
There has been slow progress on what DAC donors have coined the ‘aid effectiveness’ agenda (2005 Paris Declaration and 2008

Accra Agenda for Action). For instance, on aid fragmentation, a recent OECD report (OECD 2009) asserts that there is ‘too little aid from too many donors’ (p. 13). Sixty developing countries have 25 donors or more (Ethiopia and Vietnam have 35 donors); 51 countries between 16 and 24 donors, while 40 countries have 15 donors or less (p. 17). Between 2004 and 2008 aid fragmentation increased with 79 out of 150 countries now dealing with between 1 and 9 additional donors. This has mostly affected low-income countries.

Further, nearly 40 percent of donor-recipient relationships have been classified as ‘insignificant’. A non-significant aid relationship arises when the donor gives less aid to the recipient than its global share of aid would suggest, and is among the smaller donors that together account for less than 10 percent of the recipient’s aid (p. 20). For bilateral donors, insignificant relationships account for 42 percent of bilateral relationships, up from 30 percent in 2004, whereas for multilateral donors insignificant relations represent 34 percent of total multilateral relations (unchanged since 2004) (p. 20).

On the use of country systems, the 2010 Development Cooperation Report (OECD/DAC, p. 47) illustrates how only 45 percent of aid to 54 developing countries in 2007 used those countries’ public financial management systems, against a target of 80 percent set in

Figure 5: Share of net DAC ODA going to Least Developed Countries, 1970-2008



Source: OECD-DAC Statistics Online

the Paris Declaration. The Report adds that only a weak correlation seems to exist between the quality of country's systems and its use by donors, implying that donors' decisions to use country systems are not necessarily informed by the strength (or weakness) of those systems (p. 47). Further, close to 20 percent of DAC bilateral aid remains tied (OECD/DAC 2010, p. 23), with the current crisis raising the spectre of a worsening tying record. Aid also remains volatile, although its volatility is probably lower as compared to certain private capital flows.

Aid and Global Public Goods (including climate change)

There has been a shift in Northern donor discourse reflecting a preoccupation with a set of issues broadly subsumed under the category of International or Global Public Goods. A host of definitions of IPGs prevail, with the following issues most commonly identified as key: eradicating contagious diseases; creating and disseminating knowledge; protecting the environment; safeguarding peace; and maintaining financial stability. To the extent that donors use resources from development budgets to finance these international public goods, the issue of (resource) 'additionality' arises. This is particularly pertinent in the context of climate finance.⁷ Box 1 reproduces various estimates of annual 'adaptation' costs (to climate change) in developing countries which range between US\$ 9 and US \$100 billion.⁸

Brown et al. (2010) assert that 'without explicit mentioning of additionality of climate finance and aid, increased climate finance activities might lead to less aid flows to Africa and lower aid flows to sectors such as education, health or aid for trade thereby putting development efforts in jeopardy' (p. 31). A set of options exist for achieving additional resources for climate

finance. These include: additional budgetary contributions (on top of ODA); carbon markets; taxation variously proposed on global carbon emissions, civil aviation, maritime transport, or global monetary transactions; and other innovative funding mechanisms including the issuance of bonds, the currency transaction tax, and capital risk or climate safety funds (see Brown et al. 2010, pp. 24-5).

New sources of development finance

In the context of the latter and more generally against the ODA target of 0.7 percent and the achievement of the MDGs by 2015, issues pertaining to innovative sources of finance have become increasingly pertinent. Since the Monterrey Consensus' recognition of the importance of innovative sources of finance, a set of new mechanisms to raise additional financing were piloted. Today, several mechanisms are in place and new ones are planned. Existing and planned schemes are summed up in a UN Progress Report (see UN 2009a); see also Table 4 in the Appendix.

Private 'non-profit' financing of development

Flows via private CSOs and foundations have increased dramatically over the last decade reaching close to US\$ 15 billion in 2007. This trend has been particularly important in the health sector. DFI (2009) notes that while the funds provided through these initiatives are welcome, they are often cumbersome in terms of procedures and not always aligned with national priorities. Further, a high proportion of these funds do not reach low-income countries, but are spent on research in the North. For those funds that reach the South, two issues are highlighted by DFI (2009): first, too much public service delivery is seen as going through international CSOs rather than government, particularly in post-conflict states; and second,

Box 1: Projections of Annual Adaptation Costs in Developing Countries

UNDP (2007)	\$ 86 billion	2015
UNFCCC (2007)	\$26-67 billion	2030
World Bank (2006)	\$9 -41 billion	Present
Oxfam (2007)	\$50 billion +	Present
Stern Review (2006)	\$4-37 billion	Present
World Bank (2009)	\$75-100 billion	2010-50 per annum

Reproduced from Brown et al. (2010, p. 12)

funds channelled through these CSOs need to be better coordinated with government.

South-South cooperation

Last, but not least, South-South cooperation has expanded very rapidly in the last decade, as already documented above. Although today these flows remain small compared to Northern flows, they are growing very fast and are altering the realities on the ground in specific countries in the South. The assistance offered by Southern donors tends to be more generous and attractive compared to the Northern record. It tends to be characterised by a focus on upgrading productive capacity, with special attention for infrastructure and less inclined to interfere with domestic affairs. The presence of these donors certainly introduces competitive pressures in the aid system, where traditional donors are increasingly worried about losing clients in the South who are now presented with more (and often better) options.

2.2 Aid and the private turn

The last two decades have seen the ascent in the Northern donor community of a firm belief in and strong commitment to the potential of private flows to finance development – now projected as a superior substitute for aid. In its discourse, the essential purpose of development cooperation has become to foster the emergence of ‘competent societies’ (OECD 1998, p. 18). Aid is to fill institutional rather than financial gaps as it is to be primarily used to improve domestic investment climates in developing countries and to be targeted both at building institutional and human capacity and liberalisation (DAC 2002, p. 2). ODA is understood as key in leveraging private finance for the major investments needed in infrastructure, health and education; and mechanisms such as public-private partnerships are to be instrumental in pooling the necessary (and often foreign) resources for such investments.

Significantly, the Monterrey Consensus (UN 2002) embedded the premise that financing for development was increasingly to be extracted from international capital markets. It prescribed how, in order to overcome high levels of

poverty, developing countries must be in a position to attract private international capital flows by attempting to achieve a transparent, stable and predictable investment climate with special attention to property rights and business-friendly macroeconomic policies and institutions. A mainly residual and auxiliary role for aid emerges as part and parcel of the rapid expansion of private financial flows, with an emphasis on its role in ‘capacity’ or ‘institution’ building, promoting an enabling environment for private investment, both domestic and foreign.

These ideas were reiterated at the Doha Review Conference on Financing for Development (December 2008). In the midst of the unfolding global financial and economic crisis, the Doha Declaration insisted that there was a persistent need (paragraph 23):

“to strengthen national, bilateral and multilateral efforts to assist developing countries in overcoming the structural or other constraints which currently limit their attractiveness as a destination for private



The essential purpose of development cooperation has become to foster the emergence of ‘competent societies’.

capital and FDI ... Such efforts could include the provision of technical, financial and other forms of assistance; the promotion and strengthening of partnership, including public-private partnerships and cooperation arrangements at all levels.”

The text continued (paragraph 24):

“The programmes, mechanisms and instruments at the disposal of multilateral development agencies and bilateral donors can be used for encouraging business investment, including by contributing to mitigating some risks faced by private investors ... ODA and other mechanisms, such as, inter alia, guarantees and public-private partnership, can play a catalytic role in mobilising private flows.”

The emphasis was on an ‘enabling domestic and international investment climate’, with particular attention for contract enforcement and respect of property rights (paragraph 25). Special mention was made of the need to improve support for private foreign investment in infrastructure development. In sum, greater opportunities for ODA to leverage private resources were to be sought (paragraph 47): ‘the interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resource flows’. Further, ‘capacity development’ and technical cooperation were understood as important ways to enhance developing countries’ prospects to achieve development objectives (paragraph 53), with technical cooperation in such areas as governance, institution building and promotion of best practice acquiring specific importance.⁹

This approach is nicely summed by a senior advisor to the Japan International Cooperation Agency (Arakawa 2008) in a presentation entitled ‘Rethinking Catalytic Roles of ODA’. In the specific context of an electrical power project in Vietnam, with substantial private sector participation, the roles of ODA were understood to be threefold: 1) to mitigate risks for the private sector; 2) to reform the policy and institutional or investment environment (this was done through a Poverty Reduction Support Credit – which ‘paved the way for equal

treatment for domestic and foreign firms’); and 3) to assist a ‘bottleneck facility’ (loans to a transmission line/distribution system), which was to assure there were no bottlenecks up- or downstream from the (private) investment (p. 15).¹⁰

The projected ‘complementarity’ between ODA and private investment (or more exactly the subservience of ODA to private – often foreign - investment) has had implications for the sectoral and thematic distributions of aid (with an emphasis on capacity building and private sector development); it has implied the ascent of a set of new aid instruments seeking to provide risk mitigation for the private sector (through various guarantee instruments); and the persistent pervasiveness of a set of (neo-liberal) conditionalities implied in Northern aid flows, with the International Financial Institutions exercising the lead in defining the terms of an ‘appropriate’ policy environment – most emblematic in the Country Policy and Institutional Assessments (CPIA) of the World Bank.¹¹

2.3 Aid impact within recipient countries

The realities of aid at the level of each recipient are complex and highly diverse – if sharing a set of features (volatility, fragmentation, inappropriate conditionality, etc.) Assessing the effectiveness of aid for a specific country demands attention to the structural features of the environment within which aid and its various policies take form and effect. This has both domestic and international dimensions.

Domestically, aid impact will be affected by the particular social, economic and political realities prevailing within the country, apart from the various qualitative features of aid. In this context, Castel-Branco (2007, p. 23) comments how:

“the partner of aid dependence is not only built from outside but is also the result of domestic crisis, context, conflict and established interests reacting to the local crisis and its international context.”

i.e. specific aid outcomes are affected by its

qualitative (often negative) features implied by donor policies, but are also, and crucially, conditioned by domestic (economic, social and political) realities, including domestic power relations. Castel-Branco elaborates in the context of least developed countries (p. 7):

In the vast majority of cases, least developed countries, like Mozambique, became aid dependent as they turned to the West for help to address serious political, social and economic difficulties. Aid dependency is not only associated with resource gaps – fiscal, foreign exchange, savings and skills – but with significant policy shifts in the context of globalising dynamics that try to impose one stereotyped model of capitalism across the world. These shifts are not only forced by external dynamics, but are often internal responses to internal crisis. In turn, these internal responses are driven by the dynamics of the crisis and social conflict as well as by the influence of international experience, interests and ideas.

Aid impact is further affected by international structural features, including the historical relations between the donor and recipient, as well as the nature of the integration of the country in the world economy (touching upon trade, migration, debt, etc.). For instance, the nature of the exposure to commodity price volatility, with implications for the exchange rate, may have implications for perceived reserve needs and this may affect the extent to which aid translates into reserve accumulation rather than budgetary augmentations. Further, the nature of the capital account regime will affect exposure to volatile private flows and capital flight, and again reserve requirements and preferred uses of aid. The nature of a country's external debt relations will affect the extent to which aid is used for debt repayment, again instead of translating into increased availability of resources within the economy.

However, in each of these instances, a judgment will need to be made by the authorities as to what constitutes a priority and a choice will be exercised – even under harsh constraints. Is it a priority to service external debt or balance the budget as compared to sustaining jobs, or to combating inflation as compared to damaging

capital accumulation, etc. (see also Castel-Branco 2007)?

A host of domestic and international pressures are hence at play in the processes that determine the way aid will affect the domestic economy. There tends to be sufficient acknowledgement of, and attention to, the failures of aid as implied by donor policies, but often insufficient attention to how domestic realities interact with aid. Progressive use of resources, both domestic and external, not only requires changing the broad conditions under which aid is disbursed (and more generally the way in which the country is integrated in the global economy), but equally necessitates the existence (and fostering) of progressive domestic coalitions capable of articulating and demanding the alignment of domestic policies with what could be described as the broad national interest (accumulation, poverty reduction and environmental preservation).

In concrete terms, a recent study (Serieux 2009) found how, for sub-Saharan African countries, a significant proportion of ODA was simply converted into a reverse capital outflow, either for debt repayments or for the accumulation of foreign exchange reserves. In a similar vein, an IMF study (IEO 2007) noted that 36 percent of ODA to Sub-Saharan African PRGF countries in the period from 1999 to 2005 went into reserve accumulation, while another 37 percent was used to retire domestic debt. The 2009 Least Developed Countries Report (UNCTAD 2009, p. 71) observes how, during the 1990s, when ODA was falling, low-income countries resorted to domestic debt as an alternative means of financing government revenue. When ODA was rising, domestic debt was being paid off, so a significant proportion (58 percent of non-reserve financing available for fiscal expansion) was used for that purpose. As such, the increase in ODA during the early 2000s was 'in effect merely compensating for its decline during the 1990s' (p. 71) The Report adds that if paying off the domestic debt would have lowered real rates of interests in least developed countries in SSA, the general economic situation would have improved, but that such an outcome did not materialise, with real rates of interest above 6 percent in more than 80 percent of Sub-Saharan African countries.

3. The Global Financial Crisis and development finance

3.1 Realities of a crisis

The global financial crisis has had dramatic implications for development finance. Net private capital flows, which had reached a peak in 2007, nearly halved in 2008 and declined further in 2009. Certain types of private flows are particularly cyclical: short-term debt, portfolio equity and bonds to developing countries fell sharply in 2008 (see World Bank 2010c). Foreign direct investment seems to have been more resilient and continued its expansion – supported by the high commodity prices that persisted in much of 2008 – although at a slower pace. Further, emerging-market borrowers, both public and private, will face increased costs of accessing international capital as they encounter increased competition from developed countries which have dramatically expanded government deficit financing as well as government-guaranteed bank debt issuance. The fallout from the crisis is likely to change the landscape for finance and growth over the next 10 years. A recent document exploring the contours of what a new World Bank Group would look like observed (WB 2010):

“Developing countries are likely to face reduced access to global capital flows for a protracted period. In particular, syndicated cross-border bond and bank lending, as well as portfolio equity flows are likely to be constrained by the new global financial environment. Foreign bank participation in developing country domestic financial systems may also be limited by the need for parent banks in advanced countries to build up their capital in a more restrictive regulatory environment, as well as through “financial protectionism” that places pressure on banks to concentrate more on home markets. Lower-income countries may suffer the most from this shrinkage, as their already small share of total private capital flows (2.6 percent in 2007) dwindles to almost nothing in 2010 and is not expected to bounce back anytime soon.”

The altered conditions in the international financial environment affect all developing regions. The falling trend in private capital

flows will also affect low income countries, where private flows had been growing recently, even if they remained small in global terms. This has several dimensions. First, if less commented upon, the option that had recently been created for low income countries to engage in international bond issuance (Ghana and Gabon) may no longer be available for these countries in the near future. Certain low income countries (including Kenya, Uganda, Tanzania, Mozambique and Cape Verde) had started to explore the possibility of engaging in international bond issuance prior to the crisis as another manner to find additional financing, notably for infrastructure projects (see DFI 2009, p. 14).¹²

Second, FDI to low income countries is likely to decline over the next few years. Such prospects reflect reduced expectations of profitability; reduced access to credit to finance new investments; and balance sheet consolidation by transnational corporations in the face of financial pressures (see UNCTAD 2009, p. 4). The course of commodity prices (minerals in particular) will significantly affect the future trends of FDI to low income countries, which is often natural-resource seeking and focused on extractive sectors.

It should also be noted that, even though FDI had increased to a set of LICs in the years preceding the crisis, this was often accompanied by profit repatriation of similar, if not greater, magnitudes – with the latter having accelerated during the crisis period. Bhinda and Martin (2009) document that, while Sub-Saharan Africa witnessed record FDI flows in the period 2003-7, ‘these were often exceeded or matched by profits remitted, raising serious questions about the sustainability of FDI’. Further, UNCTAD (2009) provides a mainly negative assessment of FDI in least developed countries, where their projected role in diversifying economies has not materialised, as weak linkages to the rest of the economy tend to characterise FDI. A host of measures are crucial to ameliorate FDI’s contribution to the local economy. These include (Bhinda and Martin 2009): encourage FDI investors to create joint ventures; foster backward and forward linkages to local inputs and value-added processes; strengthen technology transfer and employment creation

potential of FDI. Crucially, Bhinda and Martin (2009) draw attention to the futile impact of the set of reforms promoted by the North under the 'investment climate' banner, including the legal and regulatory framework and preferential tax arrangements on FDI inflows. The latter are more likely to respond to improved infrastructure, an adequate skill base in the economy and, indeed, good growth prospects.

Third, while the years preceding the crisis had seen some improvements in debt indicators as debt stocks were reduced in the context of the HIPC and MDRI initiatives, debt sustainability is expected to worsen as fiscal balances and external payment accounts deteriorate as a result of the crisis. UNCTAD has been a strong advocate of a proposal for a temporary moratorium on official debt for low income countries, which could amount to around US\$ 26 billion for 48 low income countries for 2009 and 2010. Further, the BWI-designed Debt Sustainability Framework needs to be redesigned, with the current concern that it may act pro-cyclically, with rising debt ratios resulting from crisis-induced declining tax revenues combined with rising expenditures.


Finally, given the tightening of financing conditions facing low income countries and the dangers regarding debt that have worsened, aid will remain an important external resource. It is, however, imperative that aid is reoriented so that it can support upgrading and diversification of low income economies. Aid should also be provided with the particular end-purpose of increasing the prospects for domestic resource mobilisation (see also below). The 2008 LDC Report (UNCTAD 2008, p. 41) had observed how:

"the key to ensuring debt sustainability is to develop productive capacities. The problem with the current situation and the focus on social sectors [own: implied by the MDG targets] is that this is not being done. On the contrary, the MDGs build up fiscal obligations for governments without generating at the same time a sound fiscal base to raise these revenues. ... Unless there is a shift in emphasis to building up the productive base of poor economies and promote structural

change to reduce vulnerability to commodity price shocks, they will inevitably become unsustainably indebted again."

Such an assessment prevailed before the implications of the global crisis had started to make themselves felt in the low income countries. In the context of the global financial and economic crisis, the imperative forcefully reasserts itself to create a context within which poor countries can embark upon much needed diversification of their economies. Although the resource needs implied by the crisis are tremendous, the crisis may also have contributed to some form of 'productive incoherence' (Grabel 2010), opening up the space within which development policies are conceptualised (see section four below).

The next section singles out two different areas within the global response to the crisis that we think need closer attention in terms of their implications for future realities of development. These pertain, on the one hand, to the revival of the BWIs and the specific policy



The private turn is being consolidated through the particular way in which the World Bank Group has responded to the crisis and how it conceives of its post-crisis role.

directions these are likely to promote. On the other hand, we cast a brief glance at issues of global financial regulation, teasing out three particular areas we believe are of immediate importance for the developing (and rapidly also the industrialised - Eurozone) world.

3.2 Global policy response: continuities or/and change?

3.2.1 Revival of the BWIs

For the World Bank, as for the IMF, the crisis has provided a golden opportunity to strengthen its role in development finance.¹³ The nature of the Bank's reassertion will have implications for broader policies pertaining to development finance. It is our contention that the private turn already alluded to above, which had been very much underwritten by the WB, is being consolidated through the particular way in which the World Bank Group has responded to the crisis and how it conceives of its post-crisis role.

In April 2010, the WB received its first general capital increase for 20 years for over US\$ 86 billion. This followed the rapid expansion of IBRD lending in 2009, when lending nearly tripled, exceeding US\$ 32 billion (commitments).¹⁴ The Bank projects IBRD lending to range between US \$40 and US\$ 50 billion for 2010. This comes on the back of a period of stagnation and decline in demand for IBRD resources since the turn of the century, with net disbursements (disbursements minus repayments) persistently negative between 2002 and 2008.

The IFC also benefited from a capital increase (US\$200 million), while planning to raise additional capital through a (hybrid) bond issuance and from retained earnings. This follows the very rapid expansion of IFC activities as its (net) investments (loans, equity and debt securities) doubled between 2005 and 2008, from US\$ 11,5 billion to US\$ 23,3 billion and remained high at just over US\$ 22 billion in 2009 (World Bank 2009b). The Bank further hopes to obtain a replenishment of IDA of around US\$ 50 billion (compared to the IDA 15 replenishment of US\$ 42 billion).

The WB sees a particular role for itself in the building of a 'new multilateralism' in the post-crisis era, a vision set out in a set of recently disclosed documents. Apart from reasserting a strong lending role, the post-crisis vision remains strongly committed to a projected 'knowledge role' for the Bank, understanding knowledge as 'the Bank's core strategic asset'. Yet, in terms of paradigms of development, the radical set of circumstances triggered by the crisis, do not seem to necessitate a revolution in policy. Instead, for the Bank, 'the crisis may help accelerate the shift toward a more pragmatic policy framework which continues to give primacy to a competitive private sector and a dynamic export sector as drivers of growth, employment and productivity' (WB 2010a, p. 5).

It is our contention that the agenda of private sector development which was driving WB activities prior to the crisis has persisted during the crisis and will define WB activities post-crisis. In its 2007 Long Term Strategic Exercise the Bank had asserted how (WB 2007, p. 8):

"with the increased focus in the development community on the private sector, and with the strong positioning of IFC and MIGA and the investment climate operations within IDA and IBRD activities, the WBG is particularly well positioned to contribute further to the development of the private sector. This raises the issue of how best to align the Group focus on the private sector at the corporate level and subsequently at the regional and country levels. A stronger focus on Private Sector Development (PSD) is important to better and stronger synergy across the WBG."

With the fast-growing commitment to the agenda of PSD at the heart of WBG activities, the scope for synergies between the private and public sector arms of the WBG took on special importance. The search for complementarities implied that the IFC would focus on mobilising private finance for development projects, while the public sector arms, IBRD and IDA, would support institution- and capacity-building activities to aid the expansion of the private

sector, or guarantee its income through such mechanisms as output-based aid.¹⁵

The different arms of the WBG would hence work together to promote the market (and thus private, and often foreign, enterprise). Such an altered operational configuration implied that private firms rapidly increased as a proportion of WBG clients. (In 2008, IFC lending surpassed combined IBRD and IDA lending).

Since the crisis, the discourse has been of 'modernising' or 'new' multilateralism. The talk is of private capital and markets to remain the 'drivers of growth', even in the wake of the dramatic failures of the private sector highlighted by the crisis. Private capital remains understood as 'the critical factor in building infrastructure, supplying energy, financing businesses and trade, and fostering regional integration with an open global economy' (Zoellick 2009).

Such an approach was reflected in the crisis response and continues to characterise the 'new' strategic vision embodied in the post-crisis documents produced by the Bank. Within the context of the crisis response, organised through the Vulnerability Framework, infrastructure received special emphasis. Indeed, concerns were real that governments and private finance would cut back on much-needed infrastructure as the crisis unfolded.

The Bank proposed the Infrastructure Recovery and Asset Platform as one pillar of the Vulnerability Fund. The objectives of the proposed three-year INFRA Platform are to: (a) assist partner country governments respond to the negative effects of the global crisis on their infrastructure services and investment programs; (b) provide them with customized policy options to minimize the impact of the crisis, while limiting market distortions; and (c) provide technical and financial support for continued private sector activity and for public investment projects in infrastructure. Significantly, the 2009 WB Annual Report highlights (p. 21, my emphasis):

"The new INFRA Platform, developed as part of the Bank's Vulnerability Fund, will work in tandem with IFC's new Infrastructure Crisis

Facility to provide developing countries with a set of technical and financial assistance proposals that enable them to maintain or expand infrastructure investments during global economic downturns. INFRA will support governments that want to use infrastructure investments to advance the "green agenda," with financing in areas such as renewable energy, mass transit systems, and water and sanitation. These infrastructure investments, expected to reach \$15 billion a year over fiscal 2009–11, will leverage and support private sector initiatives in the field."

The WB's response to the projected fall in infrastructure investment as a result of the crisis has, from the start, been characterised by a strong continuing commitment to public-private partnerships. The WB is explicitly committed to expanding its efforts to leverage the private sector through: support for governments in strengthening the environment for public private partnerships; directly



If the shift is used to spread the capacity of the Bank to define the policy and institutional environment beyond its own financial engagement ... this may open up a race to the bottom in terms of environmental and social safeguards.

leveraging private sector financing (through the WB, IFC and MIGA); and scaling up of support to new financing and partnerships (see World Bank Group Sustainable Infrastructure Action Plan). The combined use of WBG guarantees, risk mitigation instruments, financing, and the leveraging of private flows aims to assure such a course in infrastructure investments.

In this context, MIGA has expanded cover for private investors in infrastructure projects in low-income countries. It is developing new products 'aimed at mitigating political risk for investors in infrastructure, particularly in public-private partnerships, by providing insurance cover against changes to regulatory frameworks and other commitments' (WB 2010a, p. 16). In 2009, MIGA further extended its reach through a number of revisions to its Operational Regulations. These included the addition of a new cover in the event of non-honouring of sovereign financial obligations. The Bank comments (WB 2010d, p. 8) how: 'the new cover is particularly well suited for public-private partnerships but may be used for other investment structures, particularly in complex infrastructure projects in its poorest member countries'.

Finally, the implications of the proposed shift by the World Bank towards Risk Based Investment Lending will need to be examined. If the shift implies greater use of country systems, this may be a good development. However, if the shift is used to spread the capacity of the Bank to define the policy and institutional environment beyond its own financial engagement as in setting terms e.g. regarding how delivery/production in a particular sector should be organised, this may be more problematic. There are also legitimate concerns among NGOs in both North and South that this may open up a race to the bottom in terms of environmental and social safeguards.

3.2.2 Financial regulation

As a glance at Table 5 in the Appendix illustrates, the field of global financial regulation is fiendishly complicated (and the list there is only an indicative one – it should not be seen as exhaustive or authoritative). At one extreme, key decisions on many of the issues will be decided before Eurodad starts to implement its

next workplan. At the other extreme are issues for which, barring further and deeper ruptures in the global economy, progress still seems a distant prospect.

The important question should be asked which of these many issues and processes are priorities for developing countries? More specifically, which are priorities for a 'progressive' agenda in which Eurodad's partners have an interest? For us, three areas stand out: capital flows, the debt regime and commodity derivatives regulation.¹⁶

Firstly, we should explain our reluctance to emphasise work on reform of the global monetary and exchange rate regime. These issues go to the core of continuing inequities between countries and instability in the global economy which hits the vulnerable the hardest. However, there is not yet evidence that there is sufficient progressive political momentum behind fundamental reforms. Moreover, it is understandably difficult for Northern-based NGOs to convince Southern partners (NGOs and social movements) that work on these high-level abstract debates is time well-spent. For these reasons, and due to their technical complexity (suggesting a high likelihood of unanticipated distributional outcomes) we have not considered them to be of immediate importance. Eurodad staff and partners may disagree with this assessment, and certainly may wish to re-visit the circumstances regularly.

The deployment of a broad range of capital account management techniques is a pivotal ingredient in any attempt to recapture democratic control of financial systems, and policy space more generally. While we are sceptical about whether the recent changes at the IMF represent a fundamental shift, clearly the institution's former intransigence is wavering. If, as Dullien (2009), McKinley (2009) and others argue, developing countries are to use their domestic credit creation powers to fund development, rather than being perpetually trapped in reliance on either FDI or aid, full flexibility in the use of capital controls is essential (see also below).

However, a number of challenges to the


flexibility to implement capital controls lie in (often unactivated) clauses of bilateral and multilateral trade agreements. Gallagher's (2010) recent paper provides a starting point to assess which countries are vulnerable. A number of NGOs and networks have done work on this front including (but not limited to): Our World is Not for Sale, TWN, Seattle to Brussels, Public Citizen, and SOMO. Beyond the headline issue of capital controls, critical directives relating to foreign bank entry and cross-border bank lending are found in these agreements.

A second issue of importance to developing countries is the absence of a just international regime for working-out both sovereign and non-sovereign debt restructuring. Events in Europe suggest that political momentum may once again drive this issue up the agenda. There are outstanding issues to do with the nature and extent of existing debt cancellation initiatives. Furthermore, those countries which have been most vulnerable to the recent downturn have once again seen their debt reach levels where re-financing pressures will demand harsh cuts to already inadequate social provision. Obviously this builds on longstanding NGO work in the area, and can hope to draw upon support from the UN General Assembly Working Group as well as a number of governments, both North and South. The proposal from the General Assembly expert panel broadens the issue to include a re-thinking of the role of the World Bank's International Centre for the Settlement of Investment Disputes (ICSID) in adjudicating investment disputes between private corporations and states.

We have judged many of the institutional reforms listed in the Appendix to be of mid-level importance to developing countries. Partly this represents timing issues, but also there are serious questions around accountability. How can regulation be made democratically accountable rather than spending resources in endless bouts of technocratic rule-making and demands for transparency? Through experience with the IFIs, the G20 and other such bodies, NGOs have learned that simply having the participation of Southern governments at the table may do little or nothing to ensure that the needs of workers, farmers and indigenous peoples are addressed.

Preferable is to seek representation of bodies which champion the interests of these diverse constituencies. But even this should be seen as a second-best solution. It will be important for NGOs not to provide cover for the failure of the market supervisory approach. This will involve demands both that voluntary bodies and industry 'codes of practice' be replaced by forums of genuine democratic accountability, and that the lobbying efforts of private industry groups (Counterparty Risk Management Policy Group influence on the FSB and BCBS, the IIF's Market Monitoring Group on BIS, etc.) be monitored and exposed.

Our judgment as to the importance of these institutional reforms are somewhat arbitrary since all of these issues will have an impact on the size and nature of both domestic and international financial institutions operating in developing countries, as well as on the implementation burden on states. However, more relevant to a progressive agenda are measures to turn developing countries' financial systems towards a development agenda. This



Where countries have liberalised their markets, these price swings can result in a misleading allocation of resources, which at its worst can lead to food shortages.

will be discussed further under the heading of domestic policy space.

The third area which is both timely and of high importance to developing countries is the regulation of commodities derivatives. The evidence is now overwhelming that financial market pressures have led to ever more volatile commodity prices, especially over the past decade (Newman 2009; UNCTAD 2009; Ghosh 2010). These pressures have been brought to bear on staple foods, both directly on those which are traded on commodity markets (wheat, maize, rice), and indirectly on grains in competition with these (sorghum, millet, cassava). They affect non-staple 'cash crops', both food or food-related (soy, cocoa, sugar, coffee, groundnut) and non-food (cotton, biofuel inputs), as well as prices of minerals, oil and gas.

The impact of these pressures is widespread and complex. It can push food prices up, usually with little benefit to the poorest producers. It also can lead to increased volatility on the consumption side, both for end consumers' and for business (though business may be better able to manage this volatility), and on the production side, for farmers, millers, miners, etc. Where countries have liberalised their markets, these price swings can result in a misleading allocation of resources, which at its worst can lead to food shortages.

It should however be stressed that the impact of these financial pressures must be examined in relation to the specific market structure, degree of concentration, etc. of a particular commodity. There has been a tendency in

some of the early NGO work in this area to make sweeping generalizations from the realities in one commodity market, such as coffee, to a broader basket of goods.

In many ways this issue is well suited to foster North-South solidarity. Impacts are felt most acutely in more vulnerable countries, but they are also felt in Northern countries. The physical location of trading and brokering is in financial centres such as London, Chicago, New York, and Zurich, as well as Singapore, Shanghai and Sao Paulo. There are three major actors: banks, 'alternative' funds and pension funds.

The most powerful global players are US and European banks like Goldman Sachs, Morgan Stanley, J.P. Morgan Chase, Barclays Capital, Société Générale, Crédit Suisse, UBS, Deutsche Bank. Of hedge funds and private equity involved, some 80 per cent of such funds are UK based. Key players in the pension funds are in the US, UK and the Netherlands. Analysis of the immediate policy opportunities, as well as longer term solutions can be found in the work of IATP (Suppan, 2010), WDM (Lines 2010) and others.

A final note: it will be important for NGOs not to be seen as working only on market regulation, and by inference providing support for the argument that regulated financial markets are the answer for problems of price volatility in commodity markets. A broad-based agenda which touches upon the role of the state in regulating prices where needed, marketing boards, buffer stocks, etc. will need to be clearly elaborated.

4. Beyond the hazards of external development finance

4.1 Mobilising domestic resources for growth

If a country is to emancipate itself from the multiple hazards of external finance, attention should be directed to ways to increase the capacity to mobilise resources domestically. Domestic resources for accumulation can be mobilised through enhancing domestic savings as well as the capacity of the state to raise domestic revenue.¹⁷ Mobilising domestic resources for growth, further, crucially hinges on accelerating growth or accumulation rates in the domestic economy. This reaffirms the urgency of reasserting a growth-oriented policy framework (instead of the deflationary bias that has characterised policies promoted by the IFIs over the last decades).

Mobilising domestic savings

The mobilisation of savings can occur through forced savings schemes such as mandatory retirement programmes or as a result of particular pricing policies of state-owned enterprises, as well as result from the strengthening of domestic financial institutions with the aim of enhancing their capacity to mobilise and allocate savings for public and private investment.

Section 4.3 below provides a broad account of issues pertaining to financial systems and development. Here we briefly document, following the 2009 Least Developed Countries Report, three ways through which the objective of strengthening domestic financial institutions' capacity to mobilise and allocate savings for domestic investment could be advanced. First, the credit allocation mechanisms of formal financial institutions could be improved. This could be done, for instance, through the provision of public guarantees for a proportion of the loans offered by commercial banks. Such a measure would imply that the loans offered by these institutions could carry a lower rate of interest. Borrowers, in return, would have to be held accountable for repaying such concessional loans through some form of collateral and the use of monitoring and performance targets. Government could also institute different asset-based reserve requirements on lending to different sectors in an attempt to direct lending to strategic sectors for growth. This could be

complemented by restrictions on lending to certain sectors (real estate, securities trading, offshore investment). Further, the importance of developing a long-term government bond market also arises. Such an institutional development would enable the state to raise funds domestically on a longer term basis which would create opportunities to fund much-needed infrastructure works without incurring maturity mismatches between the gestation period of the investment and the maturity of the loan.

Second, formal and informal credit institutions could be linked in an attempt for commercial banks to extend their deposit base and for informal credit institutions to extend their loan activities. Commercial banks in low-income countries are often reluctant to lend, even though they have resources available, due to their perceptions of risk. Informal institutions tend to fill the gap, but lack the resources or capacity for extensive lending. Closer ties between the two types of institutions may help overcoming these problems.

Third, public financial institutions should be revived. The LDC Report highlights that, p. 82: 'Despite reported inefficiencies, they were often effective at performing the essential function of mobilising and allocating long-term investment-focused development finance'. Public financial institutions could take different forms, including development banks, agricultural banks, as well as postal savings banks.

Raising domestic revenue

Domestic resources are further mobilised through the state's capacity to raise revenue (through taxes and non-tax revenues such as mineral rents). Both mobilising savings and domestic revenue are greatly enhanced by an acceleration of the growth rate of the economy, as the base from which resources can be mobilised increases. This highlights the urgency of a growth or accumulation oriented policy framework once more. We make some brief remarks regarding the particular policies that would feed into such a framework further below. First, however, we briefly comment on specific issues pertaining to the state's revenue raising capacity, and the role of aid in this regard.

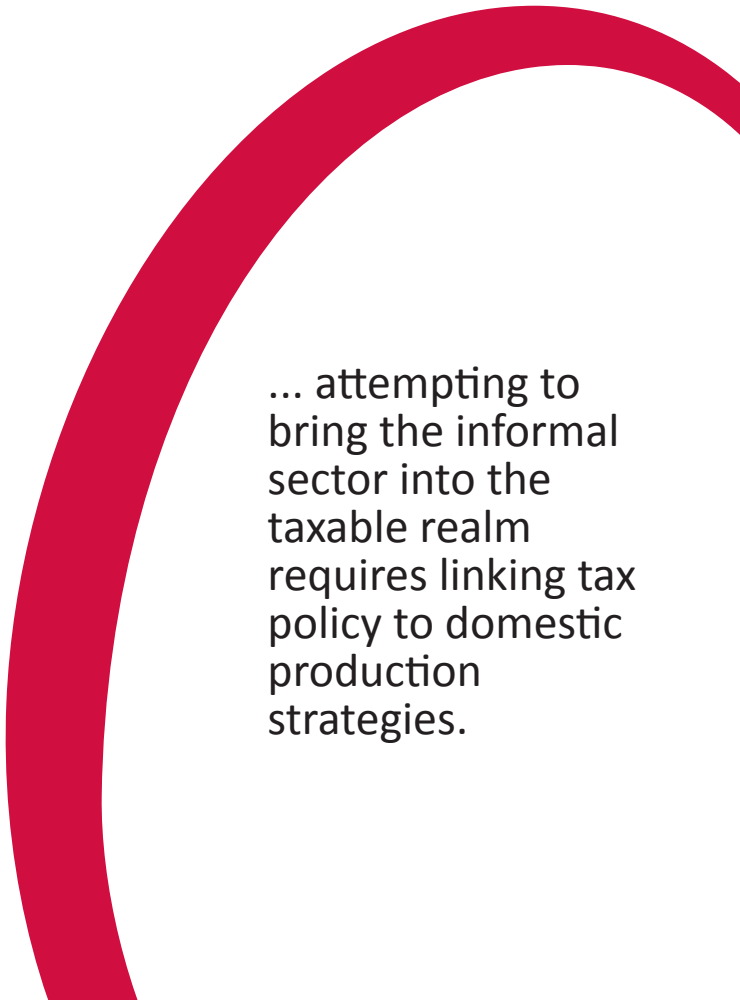
From the outset, a crucial caveat is in order regarding the role of taxation in development. Di John (2008) notes that for improved tax collection to enhance the growth prospects of the economy, policies should be pursued that aim to translate improved revenue generation into the construction of productive capacities. Improved tax collection in the absence of the latter is not likely to accelerate domestic accumulation rates, and may even damage growth prospects.

In the orthodox development framework that has prevailed over the last few decades, taxes are mainly understood to be a disincentive to the private sector rather than providing the means to fund public expenditures, including and crucially public investment. IFI-promoted tax advice, in particular, has sought to lower trade and corporate taxes, reflecting the idea that such measures would boost hidden dynamism in the domestic economy as well align the country's productive potential with its international comparative advantage. Value-added taxes have been promoted to make up for lost revenue that resulted from such tax advice (and the various liberalisation efforts impinging upon revenue collection). Yet, Baunsgaard and Keen (2005) documented how, in low-income countries, VAT had not compensated for the loss of trade taxes, with VAT only accounting for around 30 percent of lost revenue due to lower trade taxes.¹⁸

In an attempt to enhance the state's revenue raising capacity a set of measures may be appropriate. Countries should halt any further reduction in tariffs. VAT could be increased on luxury consumption items. This would also address the regressive nature of a standard VAT rate across consumption goods. Excise taxes, such as on alcohol, tobacco and vehicles, could be strengthened. Income taxes should be progressive, with higher top tax rates on personal income. Tax holidays and exemptions for corporations should be reduced, and cuts in corporate taxes should be resisted. Di John (2008) further adds how the common policy of exempting high-income earning expatriate residents from paying income taxes should be reconsidered. He points in particular to the poor demonstration effect (for high-income

nationals) implied by this practice in poor countries trying to build domestic tax bases.

Moreover, urban property taxes remain an underexplored avenue for revenue collection. Di John (2008) points to a set of reasons why governments, especially at local levels should focus on this tax. It could provide financing for urban infrastructure investment which would improve production and export capacity of light manufacturing plants, often located in urban centres. Further, urban property taxes could be levied by municipal governments, who, with the extensive decentralisation exercises that have been pursued in poor countries (as elsewhere) have become increasingly responsible for public service delivery without necessarily having been allocated the necessary resources to do so. Urban property tax reform has been relatively absent from the policy agenda in developing countries as donor-led reforms of taxation (with an important role played the IMF) have focused on national tax efforts and because an urban property tax scheme requires investment in capacity (often neglected in the



... attempting to bring the informal sector into the taxable realm requires linking tax policy to domestic production strategies.

presence of the availability of the quick-fix solutions such as VAT).

A set of structural impediments are often identified limiting the possibility of raising tax revenues. In low income countries, these typically include the existence of a large informal sector and a small share of wages in national income. The issue of informality could potentially be addressed through the provision of specific incentives to businesses that fear loss of income as a result of taxation once part of the formal economy. Such incentives could include upgraded infrastructure, support for marketing and distribution as well as access to credit. This implies that attempting to bring the informal sector into the taxable realm requires linking tax policy to domestic production strategies.

Finally, there are a host of issues implied by the interaction between aid and taxation. These include the longstanding debate over whether aid lowers national savings, including public savings. The empirical evidence tends to lean towards the conclusion that ODA does not entirely displace domestic savings: ODA is used both to increase consumption and investment. ODA is, further, variable and unpredictable making macroeconomic management and planning more difficult. Linking aid more directly to the financing of domestic investment to expand productive capacities could help to overcome the former issue. Adopting a longer time-frame within which donors operate could help towards addressing the latter. Di John (2008) proposes a “matching funds” approach to address these problems. With such an approach, donors would agree to match a percentage of the funds collected by the government up to a fixed limit, where the matching limit could be decreased over time in response to the improved capacity of the government to raise revenue. Such an approach would increase the incentives for the government for revenue collection, as extra revenue would result in supplementary concessional resources.

A growth-oriented policy framework

Finally, both revenue and savings increases will result from a strategy that accelerates growth in the economy. This emphasises

the urgency, once more, of moving towards development strategies that allow for rapid acceleration of accumulation in the economy, led by public investment. These issues have been discussed most recently in *Standing in the Way of Development* (Van Waeyenberge et al. 2010) and do not need reiterating here. Most generally, a country could opt for expansionary fiscal policies, led by public investment, with monetary policy playing a supportive accommodating role. This would have positive effects on resource mobilisation through its effect on growth and associated increases in savings and domestic revenue.

It would, however, be crucial to protect domestic resources from capture by financialised interests (which would direct the resources away from productive interests into speculative activities), and management of the capital account appears crucial in any attempt to upgrade domestic resource mobilisation efforts. Capital controls would allow, first to exercise some control over the use to which domestic savings are put; and second, would allow for better retention and deployment of external resources of finance as provided, for instance, through ODA- particularly in countries plagued by capital flight.

4.2 Financial systems for development¹⁹

The financial structure of a country takes on particular importance in efforts to improve domestic resource mobilisation efforts, as well as strongly affects the way in which these resources are allocated. This section seeks to raise a few issues pertaining to financial systems and development. A good starting point might be to try to question our understanding of the role of financial systems in development. From there we need to ask what are the key concerns as regards financial systems from a developing country point of view? And therefore, what are the actions which need to be taken both to facilitate such an agenda and to roll-back measures which might prevent the implementation of such an agenda?

Financial Systems for Development

Within such a brief piece of work as this, it is obviously impossible to do justice to the

complexity of the question of 'what role financial systems in development, and which systems?'. There is an extensive history of scholarship which has grappled with exactly this. For a long time it was dominated by the 'timing of industrialisation' thesis – the belief that a successful financial system needed to respond to the 'backwardness' of the economy in order to facilitate industrialisation (Gerschenkron, 1962). Catch-up economies such as Germany required universal banks which could direct credit to industrial development. More 'backward' economies such as Russia required state intervention in the financial system to accomplish the same.

Later scholars, examining the historical record in more detail, began to question this assertion (Cameron, 1972, Goldsmith, 1969). In its place, they suggested that the structural characteristics of a particular economy, as well as its laws, regulations and customs, might make different financial systems appropriate at various stages of development. This led them to investigate the impact of issues such as the size of the financial system relative to the economy, the distribution and density of banks, the demand for financial services, and the attitudes of authorities and elites toward finance.

This line of serious investigation was cut short by the neoliberal turn. The dominant analysis began to emphasize the function of finance as an intermediary between utility-maximizing savers and investors. Efficiency in this role was therefore paramount, and eliminating so-called 'financial repression'²⁰ became a central obsession (McKinnon, 1973, Fry, 1988). Increasing the size of a lumpen financial system relative to the economy ('financial deepening') was increasingly accepted as a sine qua non of economic growth. The special role of the banking system in determining the money supply was to be regulated by an independent central bank with inflation control as its sole objective. Prior interest in the role of the financial system in both the creative process of innovation (Schumpeter, 1912) and in the allocation and distribution of resources within an economy was dismissed.

Crudely put, this was the view adopted by the international financial institutions. Of course it was never universally accepted in practice, as shown by the continued use of state-directed credit in several countries ('core' as well as 'periphery'), the presence of national development banks in Latin America, the very different nature of financial systems in East Asia, etc. And in theory, some scholarship, against the mainstream current, attempted to advance the understanding of the complex relationship between financial systems, states and industry (Zysman, 1983).

In this neoliberal milieu there was and still is extensive scholarly debate over whether bank-based or market-based systems more efficiently allocate capital to its best use. Germany is put forward as the ideal type for the former, while the US serves as a model for the latter. Market-based advocates say that capital markets do a better job at mobilising savings, and providing risk management through portfolio diversification. Capital allocation benefits from the 'wisdom of markets', and borrowers are disciplined through shareholder activism and corporate takeovers. Bank-based supporters retort that banks raise more stable, long-term capital (so-called 'patient capital'), taking on the maturity mismatch themselves rather than passing it on to individual depositors. They are able to make strategic investments, and are able to discipline borrowers through direct oversight of their activities.

Until the current crisis, the market-based advocates dominated the debate. Both the advice and the explicit conditionality accompanying IFI lending supported the development of capital markets and the liberalisation of domestic banking (predominantly through foreign bank entry) and the markets for corporate control. The East Asian crisis of 1997-8 was conventionally understood as an indictment of the clientelism inherent in local bank-industry conglomerates, rather than as a result of capital account liberalisation facilitating the speculative behaviour of footloose capital both domestic and international.

The current crisis has, however briefly, brought much of 'accepted wisdom' under new scrutiny.

Within the repositories of erstwhile economic power, the changes so far appear fairly superficial. Witness the IMF's change of heart about capital controls and inflation targeting, or the World Bank's chief economist's willingness to engage in circumscribed discussions of industrial policy and banking structures. But perhaps more encouragingly, there is a renewed scholarship and broader interest in issues that are broadly captured under the heading of 'financialisation'. Questions are being asked once again about what it is about the nature of our financial systems which has brought us to the precipice of a global financial collapse. How big is too big? What types of activities should our financial systems foster? And ultimately, who should control the institutions of our financial systems and how should the surplus they generate be shared?

As stated at the outset, these debates are too complicated to be resolved here. However, it is enough for our present purposes to point out three key lessons from a half-century or more of debate over financial systems and development. Firstly, financial systems matter. While their shape, relative importance and the strength of causality can be debated, it is simply not tenable to suggest that they passively respond to developments in a mistakenly-opposed 'real' economy. Secondly, there is no single 'optimal' financial system for development. Financial systems should evolve to respond to the needs of society. In any particular epoch, some types of structures will produce better results than others. Finally, it is clear that the forgotten questions of allocation and distribution must be brought to the fore if financial systems are to serve those needs (see also above). This means rejecting the illusory mantra that striving solely for technical measures of efficiency will automatically produce optimal outcomes.

Key concerns of a developmental financial system: A developing country point of view

While not losing sight of our assertion that there is no single 'optimal' financial system for development, we can begin to probe more deeply into what the key functions are that many developing countries need their financial system to play. What measures are needed to build a 'positive agenda' around

these functions, and which are needed to roll-back any obstacles to such development? Five elements are highlighted here:

- Securing strategic SME access to financing;
- Ensuring large corporations use financing for productive (as well as socially and environmentally responsible) investment; preventing their financialisation (investment in financial assets rather than in productive assets);
- Providing households with access to financial services;
- Ensuring government access to financing; and
- Maintaining international price stability (exchange rates, commodity prices).

Table 6 in the appendix elaborates in shorthand the agenda that is invoked by a focus on developing a financial system which responds to these needs. While space will not allow us to go into all of these issues in detail, a select few are highlighted below.

There is no single 'optimal' financial system for development. Financial systems should evolve to respond to the needs of society.

a. Secure strategic SME access to finance

SMEs are often projected as important in developing countries, both for their central role in employment, and for their role in innovation and entrepreneurial development – although important debate exists questioning such an understanding of SMEs (see also below).²¹ Yet, if committed to SMEs as a strategy of development, their financing woes need to be recognised. These range from private banks which would rather hold portfolios of less risky large corporate or government bonds, to failing state-owned specialized institutions which are supposedly designed for their needs.

A priority then is for the creation of domestic alliances across state-industry-citizens' group lines which ensure the establishment and proper functioning of banks which serve SMEs (including agriculture). These banks may be publicly-owned, cooperatively-owned or privately-owned with a public interest mandate. The potential opposition of domestic interest groups should not be underestimated. Choosing to prioritise one sector over another (and one recipient over another) is part of the 'creative destruction' of the banking sector, and therefore will be vehemently opposed by beneficiaries of the status quo. Systems must be in place to withdraw rents from favoured sectors where management is judged to have failed (see (Khan, 2006)).

Equally important will be to remove legislative and structural impediments which hinder the provision of strategic access to credit for the SME sector. A first priority is to examine measures which either have been agreed to or which lie on the negotiating table in multilateral, regional or bilateral trade and investment treaties (Raghavan, 2009, Singh and Van der Stichele, 2009, Ghosh, 2010, Gallagher, 2010, Amalric, 2003). Secondly, considering a growing body of research which posits negative impacts on SME financing from foreign bank entry (Stein, 2010), there is need to monitor pressure for foreign bank entry. This pressure may be felt through a number of channels: trade and investment agreements, explicit aid conditionality, and enforced compliance with standards and codes. If, as can reasonably be expected, economic prospects continue to be gloomy

in rich countries for the foreseeable future, pressure from transnational banks to enter into and expand their activities in developing countries seem unavoidable (though perhaps after a period of retrenchment). Cross-border moves of southern-based transnational banks should be monitored closely.

A final note that SME finance should not be viewed uncritically. SMEs can, for example, pose significant difficulties for the organisation of labour and the enforcement of environmental standards. Providing credit to SMEs may be one way for governments or donors to tacitly support the privatisation of service provision or undermine public provision in energy, transport, communications, etc. For this reason, initiatives such as the G-20's Financial Inclusion Experts' Group 'SME finance challenge' will need to carefully monitored.

b. Prevent the financialisation of developing country economies

While a number of issues are highlighted in the chart (and there are more besides) which are necessary to prevent the financialisation of developing country economies, one critical area that has received relatively little attention is the need to look at insurance, pension and housing reforms through the lens of financialisation. This may be an issue more pertinent to middle-income countries at present, but it is crucial that low-income countries do not lock-in policies which will serve them poorly in the future.

There is not space to go into all of these arguments in detail, but there is an emerging awareness of the critical role that the privatisation of the insurance and pension markets (Engelen, 2003, Langley, 2004, Blackburn, 2006), as well as housing and housing finance (Leyshon and Thrift, 2007, Aalbers, 2008, Watson, 2008, Schwartz and Seabrooke, 2009) have played in the financialisation of rich country economies.²² To put it crudely, poorly designed liberalisation of these asset classes risks exploitation of vulnerable segments of society as well as financial instability through the creation of asset bubbles.

Evidence is starting to emerge that these same processes are being replicated in

some developing countries. Insurance and pension reforms may be pushed through IFI conditionality or policy advice (Blackburn, 2006), or restricted through measures agreed to in multilateral or bilateral trade and investment treaties. (Pressure to observe international standards and codes in this area could be included in this list of policy vectors, however, rising cynicism about the 'rightness' of Anglo-American standards would suggest that these should have relatively less 'bite' than other measures (Mosley, 2009, Singer, 2009)). Similarly, the securitisation of the mortgage market has been proposed by several international organisations (IFC, EBRD, IOSCO, etc.) as the way forward to finance affordable housing in developing countries (dos Santos, 2008, Stein, 2010, Underhill and Zhang, 2008).

Work on these issues presents both opportunities and challenges. This is an area where most NGOs lack expertise and experience. However, it also offers the chance to both reach out to a new constituency in developing countries (groups working on the right to housing for example) and to link this work up with a social justice agenda at home.

c. Provide household access to financial services

As a preface to remarks on this issue, it should be made clear that there is a vital distinction to be made between a progressive agenda for household access to a full range of financial services, and the orthodox agenda of household access to credit. Credit provision in the absence of collective productive organisation and/or income re-distribution (let alone proper regulatory supervision) is a recipe for debt peonage. Some NGOs are guilty of either explicitly or tacitly supporting such an agenda

and its various multilateral initiatives.

Financial institutions serving low-income households under the mandate of a public interest agenda are a crucial part of financial systems for development. These institutions can provide savings facilities, collect insurance premiums and pension fund contributions, support welfare provision, and provide housing, investment or consumption credit at fair rates of interest. Once again, their ownership is a critical issue. They can be public (postal banks, for example), cooperatively-owned, or private institutions with a clear public interest mandate and regulatory framework. To be sure, the record of state banks in this regard is mixed; however, so too, is that of private banks which also introduce monitoring and enforcement difficulties for authorities (Stallings and Studart, 2006, Kasekende, 2010).

From the discussion at the beginning of this section, it was made clear that what is critical is that the ownership (public, cooperative, private) structures (the formal / informal mix, geographic spread, degree of concentration, etc.) and instruments (interest rate ceilings, credit allocation, etc.) of these financial institutions should suit the stage of national (or even regional) development, respond to identified social needs and be democratically decided. At the domestic level, this will require the strengthening of citizens' groups which can engage with state authorities and industry interests to demand appropriate reforms. At the international level, as was the case with SME finance, legislative and structural impediments to this agenda should be opposed or rolled back. This includes those in trade and investment treaties, IFI conditionality and in compliance with standards and codes.

5. Conclusion

The crisis has put in stark relief the persistent financing needs in the South. A host of poor countries remain characterised by weakly diversified economies, suffering from the vagaries of commodity price fluctuations, capital inflows and aid. If anything, the crisis once again demonstrated the urgency of changing the terms along which poor economies are integrated in the global economy.

Such a drastic course of events would necessitate a dramatic change in prevailing policy approaches in North and South. One of the opportunities provided by the crisis may be a relatively more open environment in which to reflect about the appropriateness of particular economic regimes, both domestically and globally ('productive incoherence', Grabel 2010).

However, while we remain in a very volatile world where alternative policies previously considered out of bounds all of sudden become available (if not necessary), the forces of the status quo also exert strong power. In a recent article, assessing the implications of the crisis for the prevailing development paradigm, McCulloch and Sumner (2009, p. 101) observe:

"The Global Financial Crisis may change the development paradigm through its impact on the attitudes of developing country policymakers towards the prevailing policy prescriptions rather than through major structural changes in global economic governance. Although the geopolitical and attitudinal changes will be significant, it is likely that the development paradigm after the crisis will be similar to that before. A greater tendency for developing countries to explore new development models and to rely on their own analysis and knowledge to fashion solutions to their problems, could be a positive outcome of this crisis."

We would tend to agree with this statement, where the opportunities for a recapturing of the policy space at the domestic level will be determined by the specific political-economic realities, both domestic and international, confronting a particular country. In this context, the ascent of the Southern donors has a strong potential role to play. It will however be

crucially important not to let the International Financial Institutions set the contours of the debate, as first indications are that a tendency persists within these environments for an approach much like before. Delimiting the capacity of the IFIs to set the terms of the debate will be particularly challenging given their reinvigorated role since the crisis.

In the policy realm, a host of issues remain pertinent both to the domestic and international sphere. We picked upon the implications of the revival of the World Bank for the continued promotion of private (foreign) interests in poor countries, and the particular way aid instruments are tailored to this endeavour, as well as pointed to a set of urgent matters of global financial regulation relating to capital flows, debt restructuring mechanisms and commodities regulation.

Finally, as argued above, if countries are to emancipate themselves from the various hazards implied by their lop-sided dependence on external finance, efforts at domestic resource mobilisation need dramatic upscaling. We outlined a set of issues pertaining to domestic resource mobilisation. Countries need to re-think savings creation and mobilisation, and raising especially domestic sources of revenue, within the context of a growth-oriented policy framework. Special attention was devoted to the specificities of the domestic financial system required to respond to the needs of key sectors and to forestall the financialisation of the growth effort.

Yet, whether the crisis will allow for new policy alternatives to succeed at the domestic level will crucially depend on the nature of the political forces on the ground, as well as the possibilities to articulate and promote alternative frameworks beyond the terms set by the existing global economic and financial order.

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Notes

- 1 See Helleiner and Pagliari (2009) for an assessment.
- 2 Eichengreen (2006, p. 5) quoted in Fine (2010, p. 16) notes that: 'The uses to which developing countries have put foreign funds are very different than in earlier years ... emerging countries ... put into international reserves every single dollar of private capital received in the last five years, on net, from the rest of the world'.
- 3 Much of the regulatory groundwork in response to the current crisis, for example, will be set in motion by the time the workplan for which this research has been commissioned is implemented.
- 4 See <http://www.focac.org/eng/>
- 5 http://www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html
- 6 It could be noted that these data are officially recorded remittance flows and, as such, underestimate actual remittance flows, as a large part of these flows can be presumed to be channelled through unofficial channels.
- 7 Climate finance seeks 'to help developing countries adapt to climate change and adjust to a new low-carbon development path, i.e. a path that is consistent with global warming of no more than 2 degrees Celsius from current levels' (Brown et al. 2010, p. 6). Hence, climate finance has both an 'adaptation' and a 'mitigation' dimension.
- 8 Apart from adaptation costs, mitigation costs (additional investment required to keep below 2 degrees of global warming) for developing countries have been estimated to vary between US \$ 92-97 billion (UNFCCC 2007), US \$ 80-120 billion (Project Catalyst 2009) and US \$140 billion (EC 2009), see Brown et al. (2010, p. 13).
- 9 This is despite the powerful classic critique by Berg (1993) of institutional development through technical cooperation.¹⁰ Global Financial Integrity. "Illicit financial flows from developing countries 2002-2006", November 2008
- 10 See further the recent Report, Bottom Lines, Better Lives? Rethinking Multilateral Financing to the Private Sector in Developing Countries (2010), for a recent account of the scale and nature of financing to the private sector by multilateral institutions.¹² See: www.financialsecrecyindex.com/2009results.html
- 11 See Van Waeyenberge (2009) for an elaborate account of the CPIA. Without a sense of irony, the World Bank most recently noted that low-income countries which suffered a higher impact during the recent crisis, also had a higher average CPIA compared to countries which were less affected by the crisis (IDA 2009 CRW, p. 16). The Bank commented: 'This is likely to be due to the fact that strong CPIA performers typically have reached a higher degree of integration with the global economy'.
- 12 It should be noted that the BWIs reacted negatively to Ghana's accessing of international capital markets by cutting its concessional loan allocations. This was done on the basis of a penalty argument resulting from the bond issuance apparently violating Ghana's minimum concessionality threshold, determined on the basis of the Debt Sustainability Framework. Apart from the well-known problems with the latter, not in the least its reliance on the CPIA, the incident seemed to indicate an opportunistic recourse to the framework on behalf of the BWIs in response to an "unruly" client, rather than a genuine concern with debt sustainability (see DFI 2009). Indeed, DFI (2009) documents how Ghana had conducted its own debt sustainability analysis which had demonstrated that the bond issuance did not constitute a threat to its debt sustainability. It adds how the concessionality thresholds contained in IMF programmes 'appear to have little relationship to the relative risk of unsustainable debt levels assessed by the DSF' (p. 10). The Ghana episode then seems to point towards a rather more sinister dynamic, where the exercise of sovereignty by a low income country was penalised, maybe to discourage others from embarking on a similar more autonomous path.
- 13 On the IMF and its policies in LICs, see the recent Report, Standing in the Way of Development (Van Waeyenberge et al. 2010), commissioned by Heinrich Boell, Eurodad and Third World Network.
- 14 Disbursements nearly doubled during that same period.
- 15 While traditional project aid focuses on financing inputs ('input-based aid'), OBA draws on contracts that shift the responsibilities for construction, operation and/or maintenance of a facility to investors (for-profit and not-for-profit) and seek to reap benefits from performance-based incentive structures as funds are disbursed against achievement of contractually agreed outputs. As such, in contrast to traditional approaches of channelling support to inputs used by public sector providers, OBA delegates service delivery to third parties under contracts that tie payment to the outputs or results actually delivered. This financial support can complement or substitute for contributions from users (with subsidies for low-income users).
- 16 Our opinion on this question should be viewed sceptically. But nonetheless it is clear that this is one of the questions that Eurodad's network should be arguing over!
- 17 The latest UNCTAD Least Developed Countries Report (UNCTAD 2009) sets out a practical agenda for the upgrading of domestic capacity to mobilise resources. This section heavily draws on this Report.
- 18 Di John (2008, p. 22), however, notes that trade liberalisation does not necessarily reduce revenue from trade taxes. This may be the case in any of the following liberalisation events: - non-tariff barriers are reduced by converting them into explicit tariffs; - exemptions are reduced to establish a more uniform structure; - tariffs are cut that had been originally set, for protective reasons, at very high levels, with a cut in these high tariffs likely to increase trade volumes sufficiently to offset the direct revenue loss from lower rates.
- 19 Financial systems for development is here used to refer to financial structures and policies at the domestic, regional and international level.
- 20 A term used to denote a whole series of measures including capital controls, restrictions on entry to the financial sector, government ownership of banks, the use of directed credit (say to agriculture or SMEs), interest rate ceilings, etc
- 21 The evidence does not tend to confirm that SMEs are generally better for growth nor that they do more to alleviate poverty and decrease income inequality than any other firms (see Kurokawa et al. 2009).
- 22 Privatisation of infrastructure and essential services could be included in this list, but clearly these are areas which are already attracting considerable NGO attention, if not for exactly these reasons.

Appendix

Table 1: Net ODA disbursements, 1990 – 2009, US\$ billion (current) and percentages

	1990		1995		2000		2005		2006		2007		2008	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Total net ODA	57,2		65,1		59,8		120,4		119,8		120,7		145,7	
Bilateral ODA	41,1	71.7	46	70.6	41,3	69	94,2	78.2	91,1	76	88,9	73.7	109,2	74.9
of which:														
Debt Relief	4,3	7.5	3.7	5.7	2.1	3.4	25	20.8	18.6	15.5	9.6	8	11.1	7.6
Technical Cooperation	11,6	20.3	14.5	22.3	13	21.8	21.4	17.8	23	19.2	15.9	13.2	18.9	12.9
Emergency Assistance	1,2	2.1	2.8	4.4	2.7	4.6	8.5	7.1	8.2	6.9	8	6.6	10.8	7.4
Administrative Costs	1,9	3.4	3	4.6	3.2	5.4	4.9	4	5.1	4.2	5.4	4.5	6.3	4.3
Special purpose grants	1,9	33.3	24.1	37.0	21.0	35.1	59.8	49.7	54.9	45.9	38.9	32.3	47	32.2
Total ODA - special purpose grants	38,1		41.0		38,8		60,6		64,8		81,2		98,8	
Total ODA - special purpose grants as a % of DAC GNI	0.23		0.18		0.15		0.17		0.17		0.20		0.23	

Source: OECD-DAC Statistics Online

Table 3: Sectoral shifts in ODA, bilateral and multilateral

	DAC bilateral			EU Aid			Multilateral agencies (except IDA)			IDA		
	1995	2005	2008	1995	2005	2008	1995	2005	2008	1995	2005	2008
Social infrastructure and services	30.58	30.77	38.84	35.32	26.05	37.89	22.54	43.04	35.78	40.85	55.79	49.92
Education	11.21	5.91	8.08	15.22	8.41	12.02	3.39	7.71	5.12	7.55	9.52	11.62
Health	4.02	3.64	4.18	4.77	3.55	4.43	2.57	8.35	7.17	5.63	10.59	9.89
Water supply and sanitation	5.68	4.70	5.00	4.79	2.66	5.33	5.12	5.25	2.12	12.94	6.86	10.05
Government and civil society	3.32	9.56	11.34	3.66	7.40	10.71	0.99	13.04	10.97	3.20	12.11	11.14
Other	6.35	6.96	10.24	6.89	4.03	5.40	10.46	8.69	10.39	11.53	16.71	7.22
Economic infrastructure	23.85	10.91	16.73	13.78	8.14	13.26	19.21	15.73	20.26	18.90	28.29	30.17
Transport and communications	11.75	5.66	8.06	8.11	2.81	4.35	12.54	9.84	13.92	2.54	8.35	13.59
Energy	10.12	3.34	4.85	3.89	2.58	3.77	4.81	3.21	3.62	10.64	9.99	9.96
Other	1.98	1.92	3.82	1.78	2.75	5.14	1.86	2.67	2.72	5.72	9.95	6.62
Production sectors	10.62	5.34	6.57	9.81	3.82	4.96	15.98	7.77	5.73	24.19	14.51	18.60
Agriculture, forestry and fishing	7.36	3.41	4.28	7.10	2.66	3.15	10.55	4.26	3.64	23.10	9.03	12.86
Industry, mining and construction	1.59	1.43	1.70	1.79	0.90	1.17	3.51	2.46	0.94	1.09	4.17	3.56
Trade and tourism	0.23	0.51	0.59	0.50	0.26	0.64	0.00	1.06	1.16	0.00	1.31	2.17
Multisector	4.86	6.15	5.94	6.30	8.27	7.52	9.82	9.45	14.05	7.85	0.80	1.22
Others												
o/w: Programme assistance	5.78	2.65	4.71	6.68	2.08	6.05	15.59	9.86	13.06	4.71	0.00	0.00
Debt relief	7.28	26.77	9.63	11.78	35.43	14.15	0.00	0.00	0.30	0.00	0.61	0.09
Emergency assistance	4.35	8.25	7.74	5.32	5.51	5.49	2.16	8.40	5.90	0.00	0.00	0.00
Administrative costs	4.78	4.01	4.98	4.47	3.46	4.48	0.00	4.43	4.38	0.00	0.00	0.00
Unspecified	6.15	1.80	1.60	4.73	3.02	2.09	14.69	1.32	0.55	3.50	0.00	0.00

Source: OECD-DAC Statistics Online

Table 4: Innovative sources of development finance

Mechanism	Annual amount raised (US\$ mn current prices)	Potential annual revenues (US\$m current prices)	Source
Air ticket levies	300	980	SG Progress Report on innovative sources of development finance, 29 July 2009, p. 7.
IFFim	862	50,000	SG Progress Report on innovative sources of development finance, 29 July 2009, p. 8. See also: www.iff-immunisation.org/01_about_iffim.html . See also, UK HM Treasury: www.hm-treasury.gov.uk/IFF
Advance Market Commitments	1,500	9,000	Leading Group on Innovative Financing for Development: www.leadinggroup.org/rubrique178.html
Debt2Health	450		Debt2 Health, Global Fund: www.theglobalfund.org/en/innovativefinancing/debt2health/overview/
International financial transactions tax	0	33,000	SG Progress Report on innovative sources of development finance, 29 July 2009, p. 13. This amount refers to the amounts which could be raised if a coordinated 0.005% tax is levied on all major currencies.
Carbon taxes	0	75,000	SG Progress Report on innovative sources of development finance, 29 July 2009, p. 13.
Payment for environmental services	54.10		UNREDD: http://www.undp.org/mdtf/unredd/overview.shtml
Digital solidarity levy	30		Global Digital Solidarity Fund: http://www.dsf-fsn.org
SDR allocations	11,000		ActionAid & TWN Fruits of the Crisis, Jan. 2010, p. 6.
Migrant remittances	338		World Bank Migrant Remittances
Fight illicit financial flows	0.00	1,100.00	Global Financial Integrity. See: http://www.gfi.org
Fight trade mispricing	0	100	Global Financial Integrity. See: http://www.gfi.org
Massivegood		250	Leading Group: www.leadinggroup.org/article567.html .
Global Lottery/ Humanitarian Lottery	0	540	Leading Group: http://www.leadinggroup.org/article200.html

Source: Eurodad

Table 5: International financial regulation

Issue	Proposal	Official Institution/ Process	Timeline	Monitors/ Allies	Relevance for developing countries
GLOBAL REGIMES					
Global monetary and exchange rate regime	Global Economic Coordination Council	ECOSOC	None	GA expert panel	HI - LT
	Global Redesign Initiative	WEF	Unspecified	Berne declaration?	
	Global liquidity buffers	CBCM	G20 Nov	New Rules	
		FSNEG			
	SDR reform	IMF	Lengthy	TWN, BWP	HI - LT
	Global Reserve Bank	IMF or ECOSOC	Lengthy	GA expert panel	HI - LT
	Regional monetary arrangements (Chiang Mai Initiative, Quito Initiative, Sucre, WAEMU)	Various	Ongoing slow development	Focus, Latindadd	HI - MT
International imbalances	Mutual Assessment Process	IMF	Existing	BWP	
International debt regime	Sovereign Debt Restructuring Mechanism	IMF	Killed in 2003	BWP	
	Fair and Transparent Arbitration Procedure	Proposal of global coalition of NGOs	Not on agenda	Jubilee	HI - immediate
	International Debt Restructuring Court	UN	None	GA expert panel	
Trade and tourism	0.23	0.51	0.59	0.50	0.26
CAPITAL ACCOUNT MANAGEMENT					
Capital flows	Allow use of capital controls	IMF	ongoing debate	BWP	HI - immediate
	Provisions of bilateral, multilateral trade and investment agreements prohibit use of capital controls	WTO + various	GATS stuck; others ongoing	Our World is not for sale; Seattle to Brussels; Public Citizen; TWN	HI - immediate
	Financial Transaction Tax	Proposal of global coalition of NGOs; on-again, off-again support from some European governments	Not favoured by IMF; window likely closes end year	Robin Hood tax campaign, ATTAC, WEED, many academics, etc.	HI - immediate
Financial Services Liberalisation (deregulation in this case)	Key issues: capital account liberalisation, foreign bank entry, cross-border banking flows, etc.	WTO GATS + various bilat trade and investment	Ongoing	Our World is not for sale; Seattle to Brussels; Public Citizen; TWN	HI - immediate
Administrative costs	4.78	4.01	4.98	4.47	3.46
Unspecified	6.15	1.80	1.60	4.73	3.02

Source: OECD-DAC Statistics Online

Table 5: International financial regulation

Issue	Proposal	Official Institution/ Process	Timeline	Monitors/ Allies	Relevance for developing countries
INSTITUTIONS					
Banking	Basel II implementation	BCBS	Most finished; applied in EU since 07 via CRD2; US and EMEs throughout 2010-11	CIEL?	MED
	Basel III framework	BCBS		CIEL?	MED
	Capital adequacy ratios - strengthening and countercyclicality	BCBS	July BIS meeting	New Rules	
G20 Nov	New Rules	MED			
	Prudential regulation (likely surcharge on systemically important institutions)	FSB and IMF	G20 Nov	New Rules	LOW
	Bank levy - Financial Stability Contribution & Financial Activities Tax	IMF	G20 June	New Rules	MED
	Recommendations for Cross- Border Crisis Resolution - fails to deal with question of burden sharing	BCBS, under FSB's CBCM	Existing - ongoing monitoring		MED
	European Systemic Risk Board		Passed May; Begin operations in 2011	EFR, SOMO	LOW
	European System of Financial Supervisors (European Banking Authority)	ECB	Passed May; entry into force Jan 2011	EFR, SOMO	MED
	Reform of Capital Requirements Directive (CRD3) - covers capital requirements for re- securitisations, remuneration policy, etc.	EU	Draft due end June; EP vote end September	EFR, SOMO	MED
	Drafting of CRD4	EU	Consultation stage	SOMO	LOW
	Financial Reform Bill - ban on banks' proprietary trading with federal money, fiduciary duties on market makers, huge reduction in OTC trades, creation of a resolution authority, etc.	US - CFTC, SEC, OCC, EC DG Internal Markets	U.S. Senate vote in May; likely final bill by end of June; DG Internal Markets consultation in September	AFR, CMOC, EFR, SOMO	MED
Hedge Funds, Private Equity Funds	Stricter regulation	IOSCO	G20 Nov	New Rules, ITUC	MED
	Guidelines for hedge fund reporting	IOSCO			LOW
	Framework for sharing of systemic information on hedge funds	US SEC and UK FSA	?		LOW
	Alternative Investment Fund Managers - stricter regulation of hedge funds, private equity and real estate funds	EU	To be voted on 17 May	EFR, SOMO	HI

Source: OECD-DAC Statistics Online

Table 5: International financial regulation

Issue	Proposal	Official Institution/ Process	Timeline	Monitors/ Allies	Relevance for developing countries
Sovereign Wealth Funds	Generally Accepted Principles and Practices (GAPP, or 'Santiago Rules')	IWG of SWFs; IMF	Agreed Oct 2008		MED
	Disclosure of ownership		None	GA expert panel	
Securities markets	Objectives and Principles of Securities Regulation	IOSCO	Ongoing review by SCSI		LOW
	Review of standards for systemically important financial market infrastructure	CPSS-IOSCO	Draft by early 2011		LOW
	European System of Financial Supervisors (European Securities and Markets Authority) with responsibility for securities markets and credit rating agencies - authority to ban financial products		Passed; entry into force Jan 2011	SOMO	LOW
Bond markets	GDP-linked, commodity-linked bonds Asian Bond Market Initiative Solidarity Bonds (Venezuela-Argentina)			GA expert panel	HI - MT
Insurance and Pensions	Insurance Core Principles	IAIS	Existing		LOW
	Framework for Supervision of Internationally Active Insurance Groups	IAIS	Concept paper 2011; Full framework 2013		MED
	European System of Financial Supervisors (European Insurance and Occupational Pensions Authority)	ECB	Passed May; entry into force Jan 2011		LOW
Rating agencies	CRA code of conduct fundamentals	IOSCO	Existing		MED
	US Financial Reform Bill - lowering the bar for proving fraud, assignment of agencies by SEC	US SEC	Being debated	AFR	MED
	Centralised supervision of CRAs, transparency, creation of a European CRA, disembed CRAs from regulatory frameworks	EC	Legislative proposal due June 2010	EFR, SOMO	MED
INSTRUMENTS					
Derivatives	Standardized	CPSS and IOSCO	Proposal early 2011; implementation by end 2012	New Rules, IATP	HI
	AIFM (see above)	EU	Currently debated; proposals expected by year-end	SOMO	HI
	Review of reporting rules in the Markets in Financial Instruments Directive (MiFID)	EU	Early 2011	SOMO	

Source: OECD-DAC Statistics Online

Table 5: International financial regulation

Issue	Proposal	Official Institution/ Process	Timeline	Monitors/ Allies	Relevance for developing countries
	Review of Market Abuse Directive - likely to cover OTC derivatives	EU	End 2010	SOMO	
	See financial reform bill (above)	US			
Credit Default Swaps (CDSs)	Proposal that CDS should be exchange traded and cleared; initiative on short selling	EC	Likely October 2010	SOMO	MED
Commodities Derivatives	Eliminate position limit exemptions for "non-commercials" (financial institutions) traders; new position limits on agricultural "softs" (e.g. cocoa) and base metals	US CFTC, DG Internal Markets	U.S. Ongoing; DG Internal Markets; end 2010	UNCTAD, IATP, CMOC, WDM	HI - immediate
Securitisation	Disclosure principles for asset-backed securities	IOSCO	Published April 2010		LOW
	Study to 'encourage revival of sound securitisation markets'	FSB	?		LOW
	Reform of asset-backed securities eligibility criteria	ECB	Implemented by spring 2011		LOW
	Requirement for banks to hold 5 percent of securitised loans	US FDIC	Passed May 2010	AFR, General Assembly WG expert panel	LOW
CORPORATE GOVERNANCE					
Compensation and incentives	Principles for Sound Compensation Packages	SCSI, FSB	Published March; To be assessed by FSB in Q11 2011	New Rules	LOW
	See CRD 3 above	EU			
	Green paper on corporate governance in financial firms	EU	Due June 2010		
Accounting standards	Convergence of GAAP and IFRS to be considered	IASB	Mid 2011; US SEC to decide in 2011 whether to accept use of IFRS		LOW
	Standards for the use of 'fair value' accounting adopted in IFRS 9	IASB	2013		LOW
Tax issues	Greater transparency, information-sharing	UN Tax Cmte, OECD, FSB	Ongoing	TJN, GA WG expert panel, many NGOs	HI

Source: OECD-DAC Statistics Online

Table 6: Financial Policy for Development – some key elements

CONCERN	MEASURE / PROCESS	LEVEL	TIMEFRAME	CHALLENGES / OPPORTUNITIES
Ensure SME access to financing	Monitor pressure for foreign bank entry (and mode of entry), performance - trade/inv agreements, aid conditionality, standards & codes	Natl - Intl	Ongoing (WTO, RTA, BITS timings relevant)	Working across trade - development boundaries; Synergy with existing work on conditionality
	Expansion of state/cooperative/private banks for agriculture and SMEs	National	Ongoing	Need for state / industry / consumer group alliances; opposition of domestic monopolies; govt capacity/record; GATS/RTA provisions?
	Shape / monitor implementation of Basel II (III?) accords, SME finance challenge of the G20 Financial Inclusion Experts Group	Natl - Intl	Short-term, then ongoing	Representation and accountability
Developing country (large) corporations use financing for productive (as well as soc/env responsible) investment	Monitor pressures for securities market liberalisation (IFC, IMF's FSSA/ROSC, IOSCO)	Natl - Intl	Ongoing	Expertise and capacity
Prevent financialisation of developing country large corporations	Monitor pressures for capital account liberalisation (FSA WTO, RTA-BITS, IFIs)	Natl - Intl	Ongoing	Working across trade - development boundaries; Synergy with existing work on conditionality
	Establishment of / reform existing development banks	Natl - Regl	Ongoing	Need for state / industry / consumer group alliances, domestic monopolies, govt capacity / record; GATS provisions?
	Monitor pressure for insurance and pension reforms (IFIs, GATS, RTA-BITS, Solvency II-cum-stds&codes)	Natl - Intl	Ongoing	Expertise and capacity
	Establishment of / deepening of domestic currency bond markets	Natl (Regl)	Ongoing	Specific to nationally-specific financial structure

Source: OECD-DAC Statistics Online

Table 6: Financial Policy for Development – some key elements

CONCERN	MEASURE / PROCESS	LEVEL	TIMEFRAME	CHALLENGES / OPPORTUNITIES
Household access to financial services	Prevent predatory (micro) credit	National (some Intl)	Ongoing	Intra-NGO conflict; state capacity (in LICs)
	Expansion of state/postal/cooperative banks for individual and housing finance	National	Ongoing	Need for state / industry / consumer group alliances, domestic monopolies, govt capacity/record; GATS provisions?
	Monitor international pressure for mortgage securitisation (IFC, IOSCO)	Natl - Intl	Ongoing	Monitoring capacity
Government access to finance	Development of domestic treasury bond market (growth-indexed)	Natl (Intl)	Ongoing	govt capacity/record
	Increased revenue mobilisation (broaden tax base/prevent capital flight)	Natl	Ongoing	
	Aid-debt complex	Natl - Intl	Ongoing	Familiar
	Development of regional monetary fund arrangements	Regl	Ongoing	Lessons from Chiang Mai and Quito Initiatives; BRIC process; Asian FSB?
International financial stability	Financial Transaction Tax	Intl	Immediate window, then?	Seen as competing with other proposals on the table; financial services lobby
	Capital controls (RTA provisions?) / Capital flight	Natl - Intl	Ongoing	
	Reform global reserve currency	Intl	Long-term	Expertise, capacity, legitimacy
	Reform global exchange rate system			FSB opacity
	Representation on international regulatory bodies	Intl	Immediate needs, then ongoing	Issue of democratic accountability

Source: OECD-DAC Statistics Online

Acronyms

AFR = Americans for Financial Reform, NGO	Supervisors
BCBS = Basel Committee on Banking Supervision, under FSB	IASB = International Accounting Standards Board
BWI = Bretton Woods Institutions	IATP = Institute for Agricultural Trade Policy, US-based NGO
BWP = Bretton Woods Project, UK NGO	IFRS = International Financial Reporting Standards, IASB
CBCM = Cross-Border Crisis Management Working Group, under FSB	IOSCO = International Organisation of Securities Commissions
CFTC = US Commodity Futures Trading Commission	ITUC = International Trades Union Congress
CMOC = (US) Commodity Markets Oversight Coalition	Joint Forum = BCBS + IAIS + IOSCO
CPSS = Committee on Payment and Settlement Systems, under FSB	MDRI = Multilateral Debt Relief Initiative
DAC = Development Assistance Committee (OECD)	OCC = (US) Office of the Currency Comptroller
ECB = European Central Bank	ODA = Official Development Assistance
EFR = Europeans for Financial Reform, NGO	PSD = Private Sector Development
FSA = UK Financial Services Authority	SCSI = Standing Committee on Standards Implementation, FSB
FSB = Financial Stability Board	SEC = US Securities and Exchange Commission
FSNEG = Financial Safety Net Experts Group, under G20	SOMO = Dutch NGO
GA expert panel = UN General Assembly Working Group Expert Panel, formerly the 'Stiglitz Commission' (mandate currently being debated)	TJN = Tax Justice Network
GAAP = Generally Accepted Accounting Principles (US)	TWN = Third World Network
HIPC = Heavily indebted poor countries	WBG = World Bank Group
IAIS = International Association of Insurance	WDM = World Development Movement, UK NGO
	WEF = World Economic Forum



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