FACULTÉ d'ÉCONOMIE
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SUSTAINABLE FINANCING FOR THE DEVELOPMENT PROCESS: WHAT ALTERNATIVES?

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Introduction

- Urgent need for a more sustainable financing process of development
  - 2007/8 crisis : strong dependence of the economic path of Developing countries (DCs) on advanced economies' growth/instability cycle
  - The after-WWII traditional North-South development financing process rests on market liberalisation and opening-up reforms from DCs and Emerging market economies (EMEs)

Purpose of the article

Assessing the consistency of some alternative development financing models with regard to the specific features of the development process.

Plan of work

1. Financing process in a monetary economy: some basic characteristics and related issues
2. Development cooperation and the characteristics of developing market-based economies
3. Alternative finance and South-South cooperation
4. Conclusion: Some structural implications

1. Financing process in a monetary economy: some basic characteristics and related issues

- Market-based capitalist economies are monetary economies

- A monetary economy is a private-decisions-based decentralized financing process

This process rests on debt-creation / circulation / repayment cycle

- Hence **two major (social) constraints**:

- **Financing constraint**: need of financing of plans leading to credit/debt relations (mainly between banks and spending units)
- **Repayment constraint**: debts must be repaid (leading to the use of financial products / processes in markets that seek to allow indebted units to levy funds or economic agents to speculate on various positions)

Those monetary-financial relations are society-wide and are mainly organized through profit-seeking markets.

Every agent – including national economic entities (DCs as well) – is involved (directly as a spending unit, or indirectly as a wage-earner relying on the decisions of spending units, for instance, enterprises or states) within the monetary - financing process and related financial operations.

⇒ Developing economies have huge needs of financing (stable long-term financial resources) to fulfill the requirements of the long-lasting economic development process.

Question:

May profit-seeking finance and development-seeking needs of nations be compatible with each other?

2. Development cooperation and the characteristics of developing market-based economies

- **From traditional official development assistance (ODA) to market-based foreign direct investments (FDI)**
- **Objectives of development cooperation (Alonso and Glennie, 2015):**
  - Basic human rights and social standards
  - Increasing income and well-being
  - Reducing inequalities
- **Financing through (international) financial markets and the crisis have pointed to some specific characteristics of DCs**

Characteristics of DCs (and Least Developed Countries, LDCs):

- ➔Fragile environment with weak institutions
- ➔Weak (or lack of) infrastructures
- ➔Low resilience to sudden changes
- ➔Huge economic, social, ecological … needs to be satisfied in a durable and continuous way ⇒ rather out of the reach of decentralized and private-interest-based market mechanisms
- ➔Financial sector of LDCs : small and simple (not « developed ») => then « easily transformable (?) » into a development strategy-related structure if the government has the will (private interest-related issue) and freedom of choice (international asymmetries and related policy constraints)

The 2007-2008 crisis revealed that:

- financial markets do not spontaneously serve financial needs of long-term activities
- Same concerns for development needs
- Public expenditures of industrialised countries decreased → Investments, consumption, international traffic and ODA have decreased

<u>Developing countries are dependent on the northern countries' growth and instability cycle :</u>

- Volatility of financial flows in times of monetary and/or financial turmoil (sharp decrease of ODA, FDI)
- Conditionality of the financial assistance which leaves no room for national and independent development strategies

What type of financial and monetary "regional" system might help the southern countries to emancipate from this asymmetric-dependence relationship?

3. Alternative finance and South-South cooperation

- Gained interest after the 2007 crisis for a more stable/symmetrical way to finance economies
- Link between finance and development called into question
- Regarded as an alternative to the traditional North-South way of financing development and mainly to ODA

South-South cooperation definition :

"A manifestation of solidarity among peoples and countries of the South that contributes to their national well-being, their national and collective self-reliance and the attainment of internationally agreed development goals, including the Millennium Development Goals" (UN General Assembly Resolution 64/222).

- Different types of South-South cooperation (Griffith-Jones, 2012):
  - South-South FDI
  - Regional monetary cooperation
  - South-South development bank (focus)

Is South-South cooperation and more specifically a South-South development bank a panacea?

It could formally be the case since:

- Aim of South-South development banks: use the ressources of developing countries (such as foreign exchange reserves) to invest in LDCs at the long-run (Griffith-Jones, 2012)
- Development banks cover market imperfections; want a durable development; give more power to developing countries; give a better answer to the regional development needs.

Nevertheless, examples are ambiguous:

➔The difficulties within the Mercosur and **BancoSur** (a monetary fund and lending organization estd on September 2009 by Ar,Br,Para,uru,Ecua, Boliv and Ven with an expected initial K of US$20b. But as of 2016, the bank had not been capitalized!

➔ The BRICS development bank was asymmetrical (// Bretton Woods system) :

- China : super power over the other countries (larger share)
- The BRICS did not agree on common objectives to work for together
- More projects for India and China + headquarter in China

➔ Alternatives to the existing development finance? No, just complements.

4. Conclusion: Some structural implications

➔What could be drawn from those arguments?

→ *Mobilizing domestic resources?*

→ ***Stronger financial cooperation in favor of a sustainable development financing => what cooperation for what sustainable development?)***

Minimal conditions for a relevant alternative:

- ➔Symmetry of members (one nation one vote)
- ➔Centralization of payments within the bank and use of a common super-national unite of account for inter-members payment and settlement operations (a Keynes-like plan?),
- ➔Use of bank's surpluses to finance collectively decided development projects in the member countries,
- ➔ Multi-facet coordination and cooperation (monetary & financial & industrial) with common collective targets and supervisory mechanisms.

THANKS A LOT FOR YOUR ATTENTION (AND PATIENCE)

- **MORE DETAILS FROM THE AUTHORS UPON REQUEST**

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