Conditions for a sustainable financial structure for the development process: Lessons from the 2007-2008 global turmoil

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

Key words: Development financing, global financial crisis, official development assistance, South-South foreign direct investments, sustainable financial structure.

Subject classification codes: F30-F53-O19-O20

1. Introduction

This article seeks to analyse the effects of the 2007-2008 global financial crisis on the traditional external financing mechanisms for the development process. It argues that Developing Countries (DCs)\(^2\), as well as advanced economies, are market-based monetary economies that display some common structural characteristics. Those characteristics call for a radical change in development financing especially in the context of their market-based international integration within a liberalised, open, and market-friendly global financial system. Such system, also called the financial integration, rests on an asymmetric framework that renders DCs structurally dependent

\(^2\) According to the World Bank classification, DCs are categorised as “low and middle income” in terms of GNI per capita.
on the advanced economies’ boom-and-bust cycles, without providing them with strengthened financial markets and institutions. In other words, financial integration does not lead developing financial markets to work as a sustainable financial structure for development. The interdependences between different economies cause DCs to become rather vulnerable to various real and financial shocks\(^3\) while continuing to suffer from several structural weaknesses.

While the level of development and international integration of financial markets in DCs may be lower than in advanced economies, DCs can still be regarded as monetary economies since they are driven by the same capitalist objectives: growth and private capital accumulation. They use the same means to reach those objectives: the private interest-based economic activity and financial efficiency criteria. In other words, they are systemically integrated in the global economic and financial framework.

DCs were hit by the global financial crisis a couple of months after it first hit the United States and other advanced capitalist economies. The specific purpose of this article is to examine the consequences of the crisis with regard to their financial inflows (such as Official Development Assistance (ODA)\(^4\), Foreign Direct Investment (FDI),

\(^3\) For real shocks, one can consider the effects of the changes of the world demand for DCs export products, the consequences of cumulated imbalances for the sustainability of international trade, etc. For financial shocks, worldwide banking and financial disequilibria, financial crises, euro zone crisis, etc. might be regarded as the major phenomena that have huge influence on DCs economic situation.

\(^4\) OECD (2008, p.1) defines ODA as “those flows to countries and territories on the DAC [Development Assistance Committee] List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is
etc.) and to draw some lessons with regard to the conditions for a sustainable
development financing. The crisis did not really change the global financial governance
and have structural consequences on the mechanisms of development financing.
However, this crisis might be seen as an incentive to rethink our development financing
model. Grabel (2018) suggests the concept of “productive incoherence” to show that the
crisis contributed to think more about the financial system and development financing.

From this perspective, the section two focuses on the extent to which the long-
term financing needs of DCs are compatible with the short-term interests of the market-
based financial system. The section 3 then develops a statistical analysis showing the
effects of the global financial crisis on the external financial resources for DCs
development. The section 4 draw some conclusions and propositions regarding
sustainable development financing of DCs.

2. The incompatibility of DCs development financing needs with market-
   based financial system
This section seeks to show that the long-term financial needs of DCs are not compatible
with the assertions developed within the standard financial theory. The latter advocates
an economy-wide liberalisation of financial systems and asserts that the financial needs
of economic development can be met thanks to free financial markets on the short-term.
It is the core for arguments developed in the so-called financial repression literature
(McKinnon, 1973; Shaw, 1973; Fry, 1980) tackling government interventions in
financial markets. In this literature, the government would seek to finance its debt at

concessional in character and conveys a grant element of at least 25 per cent (calculated at
a rate of discount of 10 per cent). This calculation helps determine whether a loan is
concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as
ODA”.
low interest rates, thus disturbing the “equilibrium of free markets”. Parallel to this, works on the finance-growth nexus (Levine, 2005; Marwa and Zhanje, 2015; Ülgen, 2017) are more mitigated as they point to some positive or negative links between the development of financial markets – usually thought of through the financial liberalisation and opening-up process – and economic development in DCs. However, various experiences in advanced economies and in DCs along the decades reveal that financial liberalisation is not a panacea and often induces systemic instabilities in financial markets and puts the productive systems under significant pressures impeding growth and development. So, the market dynamics, usually relying on short-sighted micro-rational strategies, are incapable of considering the financial needs of the development process in a relevant way. From this perspective, it does not seem to be possible to elaborate and implement a sustainable and feasible financing model for DCs while relying on ungrounded and speculative behaviour of financial markets in force in a liberalised environment. The micro-rationality of financial market efficiency is incompatible with the prerequisites of long-term development strategies, namely: sustainable financing and macroeconomic stability.

2.1 Financial resources available for development financing
The existing literature largely argues (Gerschenkron, 1966; Lewis, 1955; Chenery and Strout, 1966; UNCTAD, 2017) that financial resources of a developing country rest on available domestic resources (basically fiscal resources collected by the government and private domestic households and companies savings) and external resources (such as FDI or ODA) (Figure 1).
Figure 1: Potential financial resources for development in DCs

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

Source: Figure from the author

This assertion relies on the two (neo) classical assumptions of equilibrium economics:

(1) Domestic economies are studied at an individual basis. They are isolated and had to be involved in international economic relations with given budget constraints. This involvement in international economic relations is justified by different assumptions, among these: the Ricardian comparative advantage theory, Heckscher-Ohlin-Samuelson’s Factorial differences approach or Krugman’s Differentiation and intra-sectorial trade approach;
International trade dynamics can be understood in terms of the macro-
equilibrium framework that rests on the Balance-of-Payment equilibrium\(^5\).

Traditionally, capital flow from developed to developing economies.

I exclude from the analysis the internal/domestic resources\(^6\) for development
financing as well as migrant remittances, tourism, international trade or other
international (portfolio) investments (which are not considered as FDI). The following
Figure 2\(^7\) shows the evolution of amount of external financing sources to DCs (FDIs,
remittances, ODA and portfolio equity) since 1970 until 2018. I only focus on ODA
and FDIs, considered as the two main traditional external development financing tools
for DCs.

\(^5\) In a few words, the expected equilibrium condition is given by the core accounting identity
that is interpreted as a macro-equilibrium condition with: \(Y\) (domestic income, GDP, for
instance) = \(C\) (private, households consumption) + \(I\) (private, enterprises investment) and
\(Y=C+S\) (private savings), thus \(I=S\). With the intervention of the public sector, this
equation becomes: \(Y=C+I+G\), which is also called the domestic absorption or domestic
demand. When it comes to the international trade, we have: \(Y+M\) (Importations) =
\(C+I+G+X\) (Exportations). Therefore, if the households consume, enterprises invest and
government spends more than what the nation produces, there would be an external deficit
equal to the difference between \(M\) and \(X\). Roughly speaking, if the development process
requires more domestic investment, the domestic economy have to finance this
supplementary expenditure by increasing its savings and/or by borrowing from abroad
under the constraint of external debt repayment. The latter is the well-known external
financial resources (on the private side) called FDI that might be augmented by another
specific type of external resource (on the public side) which is the ODA.

\(^6\) The use of internal or domestic resources for long-term development in DCs is expected to be
the subject of a future article.

\(^7\) The figure 2 was inspired by an UNCTAD (2018, p.12) figure, which only represents these
flows between 2005 and 2017. The main difference with these two figures, apart from their
time frame, is the database used for the portfolios equity and the absence of the “other
investments” flows in this article.
Figure 2: Sources of external finance, developing economies, 1970-2018


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

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

Kregel (2004, p.1) states: “From the first UN resolutions on financing development, to the creation of the International Finance Corporation in the IBRD, to the UN Special Fund and the UNDP, to the First UN Development

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

Decade\textsuperscript{10}, and the Alliance for Progress\textsuperscript{11}, up to the recent Monterrey Consensus, the thrust of international development policy has continued to stress the importance of high and stable capital flows from developed to developing countries, although the central role in the process has shifted from emphasis on multilateral and bilateral official flows to private flows.”

Since the early days of the United Nations in the 1950s, the United Nations General Assembly has adopted several resolutions that put forward the necessity to increase international funds to DCs (United Nations, 1950, 1952, 1954)\textsuperscript{12}. The United Nations Special Fund (UNSF) the United Nations Development Programmes (UNDP) and the Monterrey consensus – as well as other previous initiatives – reinforce the commitment of developed countries to help DCs attain a sustainable development (interpreted by them as a durable increase in their growth rate) through Official Development Assistance.

During the 1960s, African countries gain independence and this decolonisation wave coincided with the rise of ODA. As more economies needed help and more countries offered help, several institutions were created to coordinate the assistance, on top of which the Development Assistance Committee (DAC)\textsuperscript{13} created in 1960. Before

\textsuperscript{10} From 1960 to 1970, the United Nations implemented the first Development Decade, a special decade for international economic cooperation. The aim was to support DCs so they could increase their growth rate (United Nations, 1961).

\textsuperscript{11} The United States President John F. Kennedy initiated in 1961 a cooperation with Latin America to notably promote economic growth.

\textsuperscript{12} Resolutions at the time referred to developing countries as “under-developed countries”.

\textsuperscript{13} The DAC was created to promote the expansion of aid towards DCs and to improve the effectiveness of these allocated resources. There were nine funding countries: Germany, Belgium, Canada, the United States, France, Italy, Portugal, the United Kingdom, and the European Commission). Currently there are 30 members of the DAC. To get a full review on the DAC history, see OECD (2006).
the 1960s, aid was principally given by the United States in a bilateral logic. From the 1960s, the logic changes as ODA is given by multiple donors in a multilateral way (World Bank, the United Nations, etc.). In the 1960s, ODA is seen as a mean to primarily finance industrialisation of DCs and more particularly infrastructures and agriculture as the domestic private savings of DCs were not considered to be sufficient to finance these projects (Moyo, 2009).

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

Since the 1980s, development financing is merely based on external resources mobilisation as the DCs were considered not able to realise growth-promoting investments\(^14\) (Moyo, 2009). The liberal economists (Edwards, 1993; Romer, 1994) usually argue that the debt crisis and public deficit in DCs after the 1980s were caused by a bad allocation of their domestic resources. The proposed solution was to implement “Structural Adjustment Programmes (SAPs)\(^15\)” – to better allocate resources and push countries to adopt market-friendly structural reforms and trade openness.

\(^{14}\) To recall the context in the 1980s in DCs and more particularly in Latin America which was affected, the debt crisis happened after the two oil crises (1973 and 1979) and DCs received massive loans and ODA from developed countries to recover. Liberal economists (Edwards, 1993; Romer, 1994) consider that development and poverty reduction could only be achieved thanks to the support of external aid as DCs are bad managers of their own resources and are heavily indebted (Ben Hammouda et al., 2010).

\(^{15}\) For critical assessments of Structural Adjustment Programmes, see Dollar and Svensson (2000); Berr and Combarrous (2005); Ben Hammouda et al. (2010).
Moyo (2009) called the 1980s, the decade of assistance as an instrument of stabilisation and structural adjustment.

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

During the 1990s (Structural Adjustment Programmes still apply and they are now referred to as the “Washington Consensus”16), the World Bank and the IMF started

16 Williamson (1990) was the first to coin the term “Washington consensus” to designate “the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarised in 10 propositions: Fiscal discipline; A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; Tax reform (to lower marginal rates and broaden the tax base); Interest rate liberalization; A competitive exchange rate; Trade liberalization; Liberalization of inflows of foreign direct investment; Privatization; Deregulation (to
noticing the failure of ODA to finance development. The World Bank, as well as other donors, adopted, new development financing strategies which incorporate “good governance” criteria that promote stronger institutions of DCs (World Bank, 1992, 1994)\(^\text{17}\).

After the adoption of the United Nations Millennium Declaration in 2000\(^\text{18}\), there was a shift in the development financing architecture (Figure 1). The declaration widely encouraged the mobilisation of private external resources, like FDIs, which meant that public external resources, especially ODA, is not anymore the only important source for development financing. Later in 2002, the International Conference on Financing for Development took place in Monterrey and a consensus emerged that ODA should double and FDIs should complement ODA to finance development (United Nations, 2002; United Nations, 2003). One can say that the main idea behind this consensus was that DCs, those which are attractive to FDIs, should rely more on private funding and lower their reliance on public funding, particularly ODA (Chauvet and Mesplé-Somps, 2007). Since then, the High Level Fora on Aid Effectiveness, organised by the OECD to make aid more effective and to attain the MDGs, reaffirmed the importance of private aid over (or in addition to) public aid in 2002, 2005, 2008 and 2011.

These calls for external and market-relying development financing tools in a new worldwide liberal era did not provide DCs with more sustainable and stable

\[\text{abolish barriers to entry and exit); Secure property rights” (Williamson, 2000, pp.252-253).}\]

\(^{17}\) To get a full review on the “good governance” genesis, see Diarra and Plane (2012).

\(^{18}\) The Declaration (United Nations, 2000) sets a series of eight targets, the Millennium Development Goals (MDGs) to reduce extreme poverty by 2015.
financial resources. On the contrary, it often resulted in serious banking, financial and foreign exchange crises (Williamson and Mahar, 1998).

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

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

DCs have massively opened and liberalised their domestic (real and financial) markets from the end of the 1980s, they can be regarded as a part of a globally integrated financial markets with different levels of integration. Therefore, the 2007 financial crisis spread to DCs through multiple channels such as the decrease in international demand and trade, fluctuations of migrants’ remittances and of tourism revenues, etc. (Ben Hammouda et al., 2010). However, I do not aim to study the propagation mechanisms of the crisis19, but rather seek to show how the crisis affected external financial sources for DCs development.

But before going into the details of external financial flows of DCs, it is worth showing how the financial crisis that hit developed countries in 2007 affected the development process of DCs in general. As growth rates are commonly used as an indicator of development20. Figure 3, below, shows the growth rates of DCs and developed economies before and after the crisis (World Bank, 2019).

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

20 I argue that the development process is far more complex than a raise of the growth domestic product because economic growth does not mean automatically an increase of the well-being of most of the population (Seers, 1969; Todaro and Smith, 2014).
Between 2007 and 2010, developed economies gained 0.4 points of growth in comparison to a 1.1-point decrease in DCs. The crisis severely affected DCs growth rates in the short-term (more than it affected the developed economies).

In 2018, DCs are still not even close to the same levels of growth they attained before the crisis. DCs nearly attain an 8% growth rate in 2006 a decade after the crisis they were only able to reach a 4.6% growth rate in 2018, 3.5 points lower than before the crisis. While when it comes to developed economies, in 2006, their growth rate was at 3.1% and in 2018, it reached 2.2%, while it is still lower with 0.9 points but it is not far from full recovery and from attaining levels they had before the crisis.

Figure 3: Real GDP growth (annual per cent change), 2000-2018


Setting aside the effects of the crisis on advanced economies given that their level of development is not even questionable, this proves how the financial crisis had and still has a significant effect on the development process in DCs21.

21 Contrary to Bellocq (2013), I disagree with the idea that financial crisis did not have an impact or had a small impact on DCs.
Going beyond the growth rate, Ravallion and Chen (2009, p.4) from the World Bank estimated in 2009 that “the crisis will add 53 million people to the 2009 count of the number of people living below $1.25 a day and 64 million to the count of the number of people living under $2 a day”. For DCs – that had far better growth rates before the crisis – the impact of the crisis on poverty can be massive.

The section 3 focuses on showing how the crisis affected external capital flows, particularly Foreign Direct Investments (3.1) and Official Development Assistance (3.2), which are considered as key to financing development of DCs.

### 3.1 The financial turmoil and the growing power of South-South FDIs

Figure 4, below, presents the FDI inflows in DCs and the FDI outflows of both developed and developing economies between 1990 and 2018\(^\text{22}\). There are three noticeable trends in this figure:

1. FDI inflows in DCs increase in the overall period even after the global crisis except in 2009 and 2016.
2. FDI outflows of developed economies increase in the overall period but collapse in 2001-2002, 2008 and 2009 after a peak in 2007 (1.84 trillion U.S. dollars). Between 2007 and 2009, the outflows of developed economies decreased by more than 55% which points to the significant financial instability the crisis had caused and lead to the aggravation of developed countries FDIs volatility.

Considering these two trends, it can be observed that developed economies FDI outflows decrease and FDI inflows of DCs increase after the crisis. At the first look, these trends tend to contradict our fundamental argument which is that

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\(^{22}\) I only consider data from 1990 because FDI flows were not significant before this date.
developing economies were affected by the crisis notably through FDI flows (one of the main external financing development tools) as developing economies seem to maintain a “good” level of FDIs. This contradiction can even lead to argue that developing economies are not dependent on the economic situation of developed economies. This leads to the importance of the third trend in Figure 4, which helps reveal how developing economies managed to keep “good” levels of FDI inflows after the crisis.

(3) FDI outflows of developing economies grow in the overall period but their level stays low until 2005. From 2006 to 2018, these FDIs more than doubled going from 200 billion U.S. dollars to more than 400 billion U.S. dollars. The reaction from DCs to the global crisis was to increase their FDI outflows and to direct them to other DCs to compensate for the lack of FDIs coming from developed countries (United Nations, 2009). These flows, called South-South FDI, have heavily increased as United Nations (2009, p.21) noted: “Developing economies have also become magnets for investment from all regions, including South-South flows. The outflow of foreign direct investment from DCs, which hit a record $253 billion in 2007, is another clear South-South success story, for some 40 per cent of it has been intra-South”. DCs gain importance in FDI flows (in volume) and manage to change the orientation of flows with more South-South flows. This explains how they managed to keep receiving external financial resources to support their development processes.
Figure 4: FDI flows, 1990-2018

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

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

ODA inflows for DCs are uncertain and volatile\textsuperscript{23}. Therefore, DCs seek to reduce their reliance on ODA to engage in a development process.

\textsuperscript{23} To get a full review of literature concerning the consequence of the global financial crisis on ODA, see the article of Debasish and Champa (2013).
3.2.1 The volatility and uncertainty of ODA

Figure 5, below, presents the evolution of Official Development Assistance (ODA) from Development Assistance Committee (DAC) members to DCs in USD million and in % of gross national income (GNI) from 2000 to 2018. It shows that there is an increase of the ODA to DCs on the whole period (from 54 billion dollars in 2000 to 149 billion in 2018). Nevertheless, it can be observed that DAC countries volume of ODA witnessed a steady increase starting at the beginning of the years 2000 which can be related to the significant increase in U.S. aid towards Iraq and Afghanistan in the context of the “War on terrorism” up until the year 2005 (Carbonnier, 2010). If we look at the years 2006, 2007, 2009, 2012 and 2015, despite the picking up of ODA volumes, these years witnessed a decrease that can be explained by the repercussion of the financial crisis, but also by political events which can also affect the stability of ODA, for example, the U.S. elections… etc.

Figure 5: Net ODA of DAC members to developing countries (2000-2018)

Source: OECD (2019a)
Since ODA globally increased between 2000 and 2018, it can be argued that the financial needs of DCs can be met to assure their development process as they globally get more ODA inflows on the overall period. Nonetheless, this statement can be questioned for two reasons:

(1) If we take apart the volume of ODA disbursements itself, the very problem seems to be the uncertainty and the volatility of these flows. Even in times of economic stability or boom in developed economies, ODA is too volatile and uncertain to ensure a long-term development process (Bulir and Hamann, 2001). 

(2) Even if the volume of ODA globally increased between 2000 and 2018, when the global financial crisis hit developed economies, ODA volumes sharply diminished, as well as ODA commitments\(^\text{24}\). The OECD (2010b) suggested that “at least USD 10-15 billion must still be added to current forward spending plans if donors are to meet their current 2010 commitments.” ODA donors do not necessarily respect their commitments, and there is a gap between what they disburse and what they commit to. This reinforces the idea that ODA is unpredictable and that DCs cannot rely on it to finance in a sustainable way their long-term development process.

ODA is volatile, nevertheless, the crisis did not induce a direct decrease in ODA (i.e. the crisis did not make ODA more volatile than it is). Parallel to the volatility and

\(^{24}\) The OECD (2010a, p.6) defines commitments as “a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency.”
uncertainty of the ODA flows, it is also important to understand to what extent DCs depend on these flows for their development process.

3.2.2 DCs do not need ODA to engage a development process

Contrary to the usual assertions on ODA, I argue that ODA do not support DCs for a sustainable development process. To do so, it is worth considering a statistical study to analyse ODA from the recipient’s side (i.e. DCs ODA in % of their GNI). ODA is indeed a traditional development tool that has long been more concerned with the interests of donor countries than recipient countries (see the section 2.2). This statistical study (Figure 6) shows that ODA in % of GNI of DCs received has globally decreased from 2000 to 2017 and sharply declined between 2006 (0.98% of DCs’ GNI) and 2012 (0.57% of DCs’ GNI) (OECD, 2019a). Three observations can be put forwards to support this interpretation:

25 Easterly (2006) affirms that massive aid and massive ODA flows does not automatically lead to EMEs growth. In this vein, Boone (1996) explains that ODA donors can have political linkages with recipients economies or they were ex-colonies, so ODA help to maintain these relationship (i.e. donors will give ODA no matter DCs capacity to realise productive investments on the long-term and attain better growth rate). Clemens et al. (2011) put the link between aid and growth into perspective and find that aid has a positive modest effect on growth which decreases with high level of aid.
First, this decrease in ODA (as % of DCs’ GNI) received can be explained by the increase in DC’s GNI volume over the period 2000 to 2016. Figure 7, below, shows that the GNI of DCs increased from 5691 billion U.S. dollars in 2000 to 30881 billion U.S dollars in 2016 (i.e an increase up to 442%) (World Bank, 2019). One could, therefore, draw from this that GNI of DCs was not closely dependent on ODA provided by DAC members which witnessed a significantly lower increase in volume from 54 billion in 2000 to 150 billion in 2018 (i.e. an increase up to 177%) (Figure 5) (OECD, 2019a).
Figure 7: GNI of developing countries (2000-2018)

Second, according to Figure 8 below, the share of ODA in % of DCs GNI is considerably low on the overall period and decrease over the period: ODA share in % of DCs GNI reached its highest level in 2005, when it was only 1.17% of DCs’ GNI. It supports the idea that this share (in times of crisis or in times of financial stability of developed economies) is not sufficient to support and sustain a long-term development process in DCs as it only represents a small amount of their total GNI.

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

Figure 8, below, shows this comparison between the external debt of DCs from 2000 to 2017 in % of DCs GNI and ODA in % of DCs GNI (World Bank, 2019). The gap between the share of external debt (minimum 20% of DCs GNI in 2008 – maximum
36% of DCs GNI in 2000) and the share of ODA is very large. This means that DCs have huge financial needs which are not fulfilled by ODA. DCs cannot rely on ODA to finance their economic activities.

Figure 8: Developing economies external debt Vs/ net ODA received (2000-2017)

This figure can lead to the following conclusions:

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

**Source:** World Bank (2019).

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26 I do not mean that DCs need more ODA in volume (or an increase of the share ODA in % of DCs’ GNI) as the United Nations (2006) or Sachs (2005) recommend. I am arguing that the level of ODA over the studied period is not compatible with a long-term development process.
These results show that ODA donors have to question their traditional
development financing process relative to the small impact it has on DCs and on their
development. DCs did not need the 2007 financial crisis to happen to realise this flow is volatile and that their needs cannot be fulfilled by ODA.

4. Concluding remarks

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

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

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

First, with regard to FDIs, the crisis led mainly to a decrease in FDI outflows of the developed economies while FDI inflows of DCs increased. This can be explained by the significant increase in South-South FDI flows to alleviate DCs reliance on advanced economies to finance their development process.
Second, ODA remains a tool (in times of economic stability or turmoil) on which DCs should not rely to engage in a long-term sustainable development financing process. Therefore, developed and developing countries have to reconsider their traditional financing development strategies.

Such findings indicate the impossibility to set up a sustainable and feasible financing model for DCs that would be based on long-term projects while the funding operations are resting on short-term and market-related ungrounded speculative activities and expectations.

In brief, the last crisis confirms that traditional approaches to financing development, and their reliance on unstable financial markets, are not compatible with the long-term financial needs of DCs. This calls for a necessary in-depth questioning of the traditional ways of providing DCs with financial aid and resources in the development process and more generally, in the so-called worldwide fight against poverty campaign. The transition of the United Nations from *Millennium Development Goals (MDGs)* of the 2000s to the the *Sustainable Development Goals (SDGs)* of the 2012s illustrates the failure of the traditional development finance agenda even if a contradictory message is sent by the international institutions (United Nations, 2016).

We can also add that, since the 1990s, DCs are net exporter of capital (according to their balance of payment current account) and some developed economies are net importer of capital (e.g. the United States, Australia, etc). It implies that the South is financing the North (Gurtner, 2007) and that traditional development finance has to evolve.

After careful consideration, a major question arises after the crisis concerning the type of financial and monetary (regional) system that might help DCs to emancipate
from this asymmetric-dependence relationship to imagine and design alternative ways of fulfilling the financial prerequisites of their development processes.

The crisis created new policy space for DCs and institutions to rethink the development process (Grabel, 2018). I do not aim in this article to propose an alternative development financing process but I quickly evoke some preliminary thoughts. First, the creation or expansion of National Development Banks (NDBs) is a solution proposed by Griffith-Jones and Ocampo (2018) for DCs to fight against the short-term interests of markets, support structural transformation, provide public goods etc. Second, the IMF itself launched researches on liberalisation and capital controls. One of their report on the subject (2013) stated that under some conditions, controls could increase financial stability. Finally, we should recall the work on Kalecki which questions the sustainability of the development financing process (1976). He was already examining how the system could evolve to equally redistribute resources and lead DCs to long-term development. Could these thoughts lay the foundation for an alternative finance model for DCs?

27 A future article more broadly questions the concept of South-South cooperation as an alternative to finance development.
References


