



## Financing development

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Moderator: **Michel Fouquin**, Deputy Director, CEPPII, France

**Richard Carey**, Director, Development Co-operation Directorate, OECD

**Dennis George**, General Secretary, Federation of Unions of South Africa

**Hetty Kovach**, Policy and Advocacy Officer, Oxfam GB, United Kingdom

**Francisco J. Wulff**, Director, Corporacion Andina de Fomento (CAF), Venezuela

If China and India are excluded from the calculations, the World Bank estimates that emerging countries' growth will be negative in 2009. Private financing to developing countries has been divided by four over the past year, while remittances from overseas have also fallen. Hopefully official development assistance (ODA) will increase slightly this year to counterbalance this drop.

At the beginning of the decade African countries managed to run capital account surpluses, moderator **Michel Fouquin** recalled at the start of this session. Today they are suffering from the crisis, placing an obligation on rich countries to pursue sound macroeconomic policies on a global scale to prevent such swings from being repeated.

According to OECD's **Richard Carey**, the global financial system is currently in a state of disrepair. In the long run, emerging countries should not need to depend on aid: hopefully they will be able to rely on good governance, trade and exports. In some parts of the world, countries have managed to secure financial independence and sustainable growth. Yet 1.4 billion people worldwide are still living under the poverty line. What is to be done to fulfil the aid commitments, especially the Millennium Development Goals (MDGs) and the targets for increasing aid flows set at the Gleneagles summit in 2005? The target date is 2010, and as yet only half the promised aid has been delivered. The targets need to be strongly reaffirmed.

However, there is also a need to increase the effectiveness of aid in order to encourage donor countries. Developed countries want to monitor the impact of multilateral aid, because it is a matter of billions: for instance the IMF will be lending \$4 billion this year and the World Bank \$2 billion.

**Hetty Kovach** made the point that, even during this time of hardship for rich countries, aid remains affordable. "Aid-bashing" has become increasingly influential (especially given the influence of Dambisa Moyo's recently published book, *Dead Aid*, which recommends an end to aid within five years). But Oxfam thinks it is morally reprehensible to claim that the time has come to stop aid. It is true that in the past aid has sometimes been wasted or has financed corrupt regimes. But when aid is carefully monitored, its impact can be "tremendous". Today, rich countries are giving roughly the same percentage of GDP in aid as they were in the 1960s. In

comparison, they spent 75 times more money in 2008 on bank bailouts as they did on aid. Opinion polls suggest that the majority of citizens in developed countries continue to believe that their governments should meet their aid commitments, even though they also tend to overestimate the actual amount of money given. The true question is whether there is a real political will to follow through on existing promises.

**Dennis George**, speaking on behalf of the South African trade union federations, reminded the audience that poor countries are suffering deeply from a crisis for which they are not responsible. In sub-Saharan Africa, aid flows had begun to show tangible results, but much of this progress has been undermined by the global financial crisis, which has contributed to a sharp rise in unemployment in many countries. Aid is also required to compensate the “brain drain” that undermines poor countries’ efforts as skilled people leave in search of work in the developed world. For example, doctors in South Africa are on strike over pay, because they have strong bargaining power due to the greater financial opportunities available to them abroad. The demand for aid remains high and rich countries need to stick to their promises.

On the basis of his experience of coordinating aid efforts in Latin America, **Francisco Wulff** stressed the importance of involving poor countries in the development process. The Corporacion Andina de Fomento (CAF) has become the biggest multilateral aid provider in Latin America over the last 15 years, a position it has achieved by placing special emphasis on borrower’s needs and views in the development process. In many instances, the provision of hands-on, practical expertise is an even more useful role for foreign donors to play than the provision of funds. Therefore rich countries need to work hand in hand with local institutions, paying attention to their needs rather than trying to impose conditions on aid from a distance. Financial intermediaries like the CAF also require flexibility to adjust to external shocks to the economy, which are deeply felt in South America because the continent is a price taker in many key export markets.

In questions from the floor, a delegate asked why recent data show developing countries with net capital outflows, rather than inflows. In response, Mr George agreed that capital flight remains a major hindrance to the mobilization of domestic resources for development. Mr Carey added that capital flows out of poor countries happen because domestic regimes are not sufficiently stable or transparent, and that investors are consequently prone to rapid swings in confidence regarding developing countries. Mr Wulff agreed with this analysis, adding that capital outflows are merely a logical consequence of bad macroeconomic policy, which is a requirement if investors’ confidence is to be maintained. Mr Wulff also noted that there is no unique formula to stimulate growth; that each country needs to find its own unique balance. More than money, what is required is a true commitment of donor countries to the whole development process, and that includes investment.

There was a degree of consensus on the need for some changes. For instance, most panellists agreed that the current aid architecture needs to be rethought, because it is too fragmented. Furthermore, since we live in a global world, we need to correct the under representation of poor countries in financial institutions, especially at the IMF. In addition, there is a need to tackle the issue of tax havens and fiscal evasion if developing countries are to capture domestic resources to assist in their own

domestic development, and prevent them from being siphoned-off to offshore accounts.

Michel Fouquin highlighted what he saw as the three main points of the discussion. Firstly, although aid monitoring and effectiveness could be improved, aid remains indispensable. Secondly, the volatility of the world economy and resulting global imbalances undermine developing countries' efforts to help themselves. Finally, to be effective, the aid process needs to involve everybody – both donors and recipients – in a meaningful and productive way: where aid is concerned, we are all stakeholders.

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