



Fifth Annual Conference OECD-CEPII

Developing Countries and the Global Crisis  
26<sup>th</sup> November 2009

# **A New Financial Framework For Development?**

**Andrew Mold**  
**Senior Economist**  
**OECD Development Centre**





# A New Financial Framework For Development?

Is this the right moment for ‘innovation’ in finance, even development finance?

Does the financial crisis provide an opportunity for a serious rethink about the viability of existing instruments?



# Three major questions need to be addressed

Question 1. What are the financing needs? And at what level?

Question 2. How far are the IFIs stepping into the gap?

Question 3. What are the possible solutions?



# Question 1.

## What are the financing needs?

- The *external financing gap* opened up by the economic crisis in developing countries is estimated **between \$352 billion and \$635 billion in 2009** (between \$30 and \$45 billion in sub-Saharan Africa) (World Bank).
- The *fiscal balance* (including grants) in sub-Saharan Africa is projected to have declined from an estimated surplus of \$20.8bn in 2008 to a deficit of \$48.4bn in 2009 (4.8% of GDP) (IMF).
- Financing shortfalls to cover at-risk core spending on *health, education, safety nets, and infrastructure* amount to about \$11.6 billion (1.1% of GDP) for 60 of the poorest countries. Over two-thirds of this is for countries in sub-Saharan Africa (World Bank).



## Question 2.

# How far are the IFIs stepping into the gap?

1. Not enough, so far. Efforts of stepping financing but as of July 2009, 82% of the newly loaned IMF resources had gone to European countries, and *just 1.6% to countries in Africa*
2. Although the IMF has been implementing some far-reaching reforms, conditionality continues to be a problem: the credibility of *policy* conditionality is particularly in question.



# Question 3.

## What are the possible solutions?

### At macro level

- Changing the governance structure of the IMF?
- Regional solutions (e.g. Chiang Mai Initiative, Johnson proposal)
- Increase Aid Efficiency (Paris Declaration/AAA)
- *Landau Commission* concluded that there was a range of international taxes that were both feasible and could raise significant sums, for example:
  - **Environmental taxes**
  - **Taxes on financial transactions**
  - **A tax on arms sales**
  - **A surtax on the profits of TNCs**



## Question 3. What are the possible solutions?

### At micro level

- Excessive emphasis on microfinance? (debt-led growth?)
- The poor are in desperate need of a way of channeling their savings: the poor save much more of their resources than we commonly expect (up to 25%).
- How to channel these savings, provide security and returns for poor households is a key issue (e.g. Microsave initiative)

# Aid conditionality and policy ownership in the light of the crisis

## *Appropriation et Conditionnalité de l'aide: Une Revue Critique a la lumière de la Crise Financière*

Par Andrew Mold, OECD Development Centre Study,  
2009

The financial crisis provides an unique opportunity to  
rethink how conditionality is applied, to whom and  
under what terms

In an ideal world: budget support and outcome-based  
conditionality but political realities circumvent  
technical assessments, and not all countries are well  
placed to receive budget support.



# Aid conditionality and policy ownership in the light of the crisis

- Two particular circumstances in which conditionality is justified:
  - Human rights
  - Fiduciary conditionality
- Eliminate *policy* conditionality altogether and reduce other conditionalities to a minimum?
- In order to increase ownership and policy space, avoid 'conditionalities' in other spheres (e.g. through trade deals).



# Conclusions

- Finance does indeed have to become less ‘innovative’ and more tied to the needs of the real economy
- This does not preclude investigating new forms of finance , but following a few basic principles:
  - Case for raising money quickly through financial markets to support interventions with an effective and sustained impact on the population (e.g. through funding immunisation).
  - But those approaches should not create public finance liabilities for the future. ***Passing the cost of our policies to the next generations is not innovation.***
  - We should also ensure innovative financing mechanisms are ***simple, transparent*** and ***easy*** to understand for the public opinion.



CENTRE DE DEVELOPMENT  
DEVELOPPEMENT CENTRE



**Thank you!**

**OECD Development Centre**

[www.oecd.org/dev](http://www.oecd.org/dev)

**Global Development Outlook**