

FINANCIALISATION OF OFFICIAL DEVELOPMENT ASSISTANCE

Viktor Jakupec

Faculty of Arts and Education, Deakin University, Victoria, Australia

viktor.jakupec@deakin.edu.au

Max Kelly 

Faculty of Arts and Education, Deakin University, Victoria, Australia

max.kelly@deakin.edu.au

Abstract

Official Development Assistance is a significant global enterprise. Organisations engaged in funding and implementing ODA (the bilateral donors, multilateral organisations such as the World Bank and IMF) have unprecedented political and economic influence over a large number of sovereign developing countries. This paper analyses if, and how financialisation impacts on development aid, and implications for effective aid policy agendas, drawing on and linking critical debate on financialisation, and ODA. Subsequent to the Global Financial Crisis (GFC) and the persistence of the European Monetary Crisis (EMC), specific needs of developing countries became increasingly sub-ordinated to political and ideological power relations between 'real' economics and financial economics otherwise known as financialisation. The paper finds 'financialisation' as the ideological, political and economic catalyst for economic growth potentially confusing long-term development to combat poverty, and a short term need to overcome the lack of financial capacity in developing recipient countries. Sustainable economic development requires developing countries to forsake the pursuit of financialisation and to re-delineate their national finance, trade and investment regimes, and re-state it in a balanced manner as to take into account their unique economic development needs rather than the donor agencies' demands and to advance their own 'real' economies.

Keywords: *Financialisation, ODA, Neoliberalism, Globalisation, Poverty Alleviation, Development, Aid, Poverty*

INTRODUCTION

Official Development Assistance (ODA) has since its inception in 1940s become a significant global enterprise. It supports and is supported by a large number of bi-lateral donors, multi-lateral organisations such as the World Bank Group, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development and many others. These organizations have significant financial and human resources, know-how, infrastructure, and above all they have an unprecedented political and economic influence over a large number of sovereign developing countries, their governments, public enterprises, industry and society. The influences underpinning these bi- and multi-lateral agencies are based on a range of different economic propositions ranging from Keynesian economics and modernization following WWII to the advent of neo-liberal economics in 1970s. The latter become firmly entrenched in the 1980s, through the impact of the “new right”, driven by Thatcher and Reagan (cf. Lal 1983; Balassa 1981).

By 1970's a trend towards 'financial mercantilism' of ODA among multi- and bi-lateral aid agencies such as the World Bank, Asian Development Bank and other 'banks' emerged. This trend was further strengthened during the Latin American debt crises in the early 1980' and the Asian crises 1997-1998. By the end of the last century the development 'banks' pursued to a certain extent aid investment policies using 'emerging' economies as a model for development based neo-liberalism economics (Phillips, 1994). More recently during and subsequent to the Global Financial Crisis (GFC) and the persistence of the European Monetary Crisis (EMC), specific needs of developing countries became increasingly sub-ordinated to political and ideological power relations between 'real' economics and financial economics otherwise known as 'financialisation' (Epstein 2005, Montgomerie and Williams 2009, Fine 2010). Despite the broad acceptance of the phenomenon of financialisation in the developed world there has been very limited discussion of the potential and actual implications for developing world, most particularly in regard to ODA.

This paper analyses if, and how financialisation impacts on development aid, and implications for effective aid policy agendas. The authors will first consider financialisation within a contemporary global setting by delineating the concept of financialisation and reviewing the emergence, adaptation and financialisation of ODA. Against this background ODA will be discussed in a context of international political economy (IPE), globalization and the neoliberal agenda, the emerging problematics and the paradigms and concepts governing of ODA 'Value-for-Money' and 'Aid-for-Trade'.

The migration of financialisation into the development agenda is the focus of the final section, highlighting issues and opportunities for developing world, which must be addressed in development policy agendas, for more effective aid.

DELINEATION OF THE CONCEPT CALLED FINANCIALISATION

Financialisation is a term often found in discussion of neoliberalism and globalisation, but with little common or critical understanding. To elucidate, Kevin Phillips (1994) used the term financialisation in the mid 1990s, specifically identifying a “prolonged” split between real and financial economies. However, Lapavistas considers financialisation to be “a structural transformation of core capitalist economies that has gathered momentum since the crisis of 1973-4” (2009:109). Generally in relevant literature financialisation is referred to as the state where financial players, such as financial institutions, financial markets, financial purposes and aims assume a pre-dominant role in domestic and international economies (Stockhammer 2004; Epstein 2005; Crotty 2005; Demir 2007; Palley 2007).

Alternatively, ‘financialisation’ has been defined as the way financial markets domineeringly intervene into the workings of economies and enterprises (Montgomerie and Williams, 2009). Another mode of delineating ‘financialisation’ is on the basis of how national and international economic activities are subjected to the paradigms of ‘interest-bearing capital’ (Fine, 2010). Of course there are other modes, but there is no need to labour the point. For our discussion it shall suffice to say that ‘financialisation’ refers to the dominance of the financial economy over all other economic sectors, be they primary, secondary or tertiary sectors (Krippner 2005). Financialisation is a combination of a large and growing financial sector, the expansion of financial relationships into social, economic (and assumedly political) structures, and finally, and perhaps most importantly the increasing reliance on financial activity to drive economic growth (Casey, 2012).

That is, under aspects of financialisation, social, manufacturing and business sectors are not only determined by their production and investment but more so through the deterministic economic logic, that operate to a large extent independent of the society and primary and secondary industries and infrastructures provisions. The ratio of real activity to financial assets has swung phenomenally towards the later (Lapavistas, 2009). If this stands to reason then financialisation is a somewhat imprecise phenomenon, which is contested and in need of discursive unpacking. Despite the relatively current emergence of debate on financialisation, Sawyer (2013) notes the phenomenon itself is not new, but has occurred in various forms over many years. He argues that the form and pace is however variable, with the present version emerging around 1980 in conjunction with the rise of the neoliberal agenda.

Be this as it may, the financialisation phenomenon i.e. dominance of financial economy over other economic sectors, has significantly changed the landscape of advanced economies and thus donor countries approach to ODA. Perhaps the change is best described as a change away from 'authentic' economy sectors towards financial economy sector. As far as ODA is concerned financialisation may be defined as an elite project, i.e. the processes by which the international rentier organisations and donor governments redistribute profits to themselves (Cf. Shiller, 2012; Friedrich Ebert Stiftung, 2012). This point will be 'unpacked' further after an analysis of the links between ODA and financialisation.

EMERGENCE, ADAPTATION AND FINANCIALISATION OF ODA

According to Sachs (1992) development aid emerged in the late 1940s as a form of politico-economic imperialism, namely for developed countries to enact new interactions of control on developing countries which were trying to escape colonialism. The concept of 'Official Development Assistance' as it is known today is often seen as an outcome of the *Point Four* program announced by President Truman in 1949 (Macekura 2013). However as a multi-lateral phenomenon, international development assistance emerged in 1948 as projects funded by the then World Bank predecessor, namely the International Bank of Reconstruction and Development. Much has been written about the preeminent role played by the dominant international institutions in development, namely the World Bank and IMF (and an ever-increasing number of International Financial Institutions including the Asian Development Bank and African Development Bank. The political nature of aid is undeniable (cf. Riddell, 2007; Whitman, 2002) and political agendas of these institutions reflecting their prevailing economic and ideological trends of the key stakeholders. Peet and Hartwick(2009:91) argue that the World Bank "has become far more important in setting development policy than its annual \$24.7 billion of lending – a mere 2-3% of the capital flows to the Third World – would suggest".

The Bretton Woods financial system emanating from the post WWII Keynesian era in the early 1970s led to acceptance of alternative economic ideologies. This can be summarized as a move from focus on modernization as growth paradigm to a neoliberal economic approach that reduces the role of the state in the economy (Peet and Hartwick, 2009). The global financial institutions most heavily pushing this agenda through ODA were of course the World Bank and the IMF, using what was known as Structural Adjustment Programs (SAPs).

Following its inception in the late 1940s, international development assistance experienced some structural changes. It was not until the 1970s and 1980s that there was a global reorganization of ODA. This was the era of *international transfer of resources* focusing on

North-South capital flow and *structural adjustment programmes* based on the *Washington Consensus* ideology (i.e. national policy reforms towards free market economy in recipient developing countries). The failures of SAPS and the rise of globalisation as an ideology within a neoliberal economic paradigm moved more towards country ownership (PSRPs) and a focus on free market, and trade (Peet and Hartwick, 2009). However it should be noted that post GFC there has been some softening of the neoliberal orthodoxy in OECD countries. Some of the contradictions and implications for this move are discussed later.

Irrespective of the various changes over time ODA has since its inception in 1940s become a momentous global enterprise. As noted earlier, the dependency of many developing country economies on aid has resulted in multilateral and bilateral donors having an unprecedented political and economic influence over a large number of sovereign developing countries.

Setting the debate of the multi-lateral and bi-lateral aid agencies influence on developing countries aside it may be important to note a general agreement among most if not all actors that ODA is an economic development incentive, which aims to provide a required improvement in developing economies. On one side of the debate are the arguments that economic growth is development, and that the concessional lending and grants of the IFIs promote economic growth (Burnside and Dollar, 2000; Collier and Dollar 2001). However the counter argument is that that aid creates dependency, does not contribute significantly to poverty reduction, and that economic growth and free market agendas increase inequality, and reduce resilience particularly in contemporary form where political ideologies and the securitization of aid agendas have dominated agendas (Hansen and Tarp, 2000; Hunt, 2012).

In essence developing countries were to follow the advanced economies of the 'rich' developed countries. This of course did not prevent governments of developed countries and their organizations through which aid is distributed, such as the World Bank, Asian Development bank, African Development Bank and others, in advancing their geo-political and economic strategic interests. Thus, often the donor, rather than recipient countries' economies became the beneficiaries, particularly through aid conditionality (Killick, 2002, Yanguas, 2014). The debate on whether aid "works" (Riddell, 2007) is unlikely to draw to a close any time soon, particularly due to the changing nature and drivers of aid policy and practice. The push for aid to contribute to a positive investment environment for foreign direct investment, the overwhelmingly market driven focus of many aid projects (aid for trade, Making Market works for the Poor (M4P), Public Private Partnerships and so on) brings us to the debate on the issue of aid policy that is based on a neoliberal agenda, in a globalized world economy, in which financialisation increasingly stars.

Today, the primary protagonists of financialisation within the ODA arena, as we stated else were in this paper, are the World Bank Group, the Asian Development Bank, African Development Bank, the European Banks for Reconstruction and Development and other regional development banks – albeit with a strong politico-economic support from the International Monetary Fund. These ‘banks’ were instrumental in directing developing countries economies through ‘shock therapy’ neoliberal policies based on the Washington Consensus (Stiglitz 2003).

CRITICAL REFLECTIONS ON INTERNATIONAL POLITICAL ECONOMY (IPE), GLOBALISATION AND THE NEOLIBERAL AGENDA

Let us take, however briefly, a historical view. As we mentioned elsewhere in this paper there was since the end of WWII a shift from Keynesian economics via structuralism of the 1970s to neo-liberal economics in the 1980’s. Within development studies the Modernisation Theorists on the one end of the spectrum and by the Underdevelopment or Dependency Theorists on the other hijacked the discussion. As history has show, the former could not and the latter must not be right in their arguments. The latter argued that developed countries ‘exploited’ developing countries, and by doing so created poverty in poor aid dependent countries. The former argued that it the inherent economic weakness of poor countries militate against economic advancement and thus prosperity. Yet they had one thing in common, namely their focus on IPE and globalisation. Be this as it may, neither the Modernisation nor the Underdevelopment theorists were able to fully encapsulate the intricate economic and political challenges confronting developing countries. (Greig et al, 2007; Peet and Hartwick, 2009)

The dialectics between Modernisation and the Underdevelopment theorists is generally known in the relevant scholarly development studies literature as an ‘impasse’, which was not deprived of some robust discussions. In development policies and economics these debates were considered as an academic cul-de-sac. Thus, so the argument went, there was a need for more intrepid ideas. By the 1980s, at political and economic levels the (new right) neoliberalism emerged (cf. Peet and Hartwick, 2009).

However it is noteworthy that neoliberalism is a broad and at times difficult to define concept. Today, neoliberalism is simplistically seen as ‘pro-free market and anti-government interpolation’. Reid-Henry (2012) argues that neoliberalism is more accurately the harnessing of policies for the benefit of big business, transnational corporations, and of particular interest to this debate, finance. This of course raises the interesting specter of a free market for global and regional aid agencies,

However, as an ideological economic and political construct the Thatcher government in UK and the Reagan government in the USA throughout the 1980s embraced neoliberalism.

Other Western countries such as Australia, Canada etc. followed suite. There were less aggressively market-oriented approaches in a similar vein such as Germanys *Ordoliberalism* (Bonefield, 2012).

It is arguable if Thatcherism and Reganism influenced the Washington Consensus institutions such as the World Bank (WB) the International Monetary Fund (IMF) and the then General Agreement on Tariffs and Trade (now World Trade Organisation [WTO]) or if these institutions influenced the respective governments. The interplay of neoliberal politics and economics in form of IPE, at various government levels, and the constellation of alignment between WB, IMF and WTO, lead to the enhancement of the concept called globalisation, which in itself is as offspring of neo-liberal ideology.

There is a clear link in the relevant literature between IPE, globalisation and the neoliberal agenda generally as well as within the ODA arena. To paraphrase Wolf (2004) and others, globalisation may be seen as free market borderless economic activities. To restate, given the free market emphasis, globalisation is politically and ideologically firmly rooted in neoliberal ideology. Like any other ideology, neo-liberalism is both evocative and doctrinaire and as such it prescribes and defines ODA processes and aid projects

There are a number of issues, which need to be clarified, for example the nexus between IPE and ODA. As previously noted and being in danger of oversimplification, ODA is often provided for the purpose of advancing the strategic and political interests of the donor countries. These interests include creating allies, gaining access to natural resources, and ensuring commercial and monetary policies presence in certain strategically important developing country or region. There is also much evidence that ODA is provided as loan and only to a lesser extent as absolute grants (ODA must contain a minimum of 25% grant). Hence, the GFC and the EMC contemporary thinking in IPE within a context of ODA led to financial integration of developed and developing countries. Subsequently, this has provided a basis for financialisation throughout the global economic structures.

The relationship between financialisation and neoliberalism is not entirely agreed. With somewhat of a causality dilemma they are still strongly linked. The free market ideology of neoliberalism has been heavily applied in the financial markets (Fine, 2011). Fine (2011) argues that financialisation is the defining aspect of neo-liberalism, whereas Kotz (2011) argues that financialisation is the result of neo-liberal restructuring. Keeping an historical perspective Kotz argues that financialisation is a tendency in any capitalist system, and neoliberalism just reduced the constraints to it. In Kotz' (2011) view every stage of capitalism contains contradictions which inevitably result in crisis, evinced by the GFC, and EMC in the current

iteration. Without delving into too much depth on the political economy of financial crises this is a widely held view (see also Wolfson and Epstein, 2013).

As we noted above, in contemporary discourse it is of course difficult to discuss neoliberalism without accompanying discussion on globalisation. Whilst much has been written about neoliberalism and globalisation, the key point of this discussion is the financial and economic integration of both developed and developing countries. Financial and industrial globalisation has had significant and well-documented impact on developing world, including access to foreign capital. The most often cited benefit of globalisation is freer trade between countries (or more accurately between corporations).

Access to foreign capital is of course another well-commented phenomenon, which at first glance seems positive. However, as with all aspects of economic thought, and practice there are multiple actual outcomes. Passell (2012) notes the contradiction in the fact that trillions of dollars are moving around the globe annually searching for profit. However this capital is flowing out of developing countries at a greater rate than in. Of course this raises all sorts of questions about the role of financial capital in driving growth in developing countries. Issues of the absorptive capacity of foreign capital, in particular without sufficient “institutional quality” (a term used by Prasad et al, 2007) are appearing. In short, there are widespread concerns about the potential for the triumvirate of neoliberal economic policy, globalisation, and financialisation to contribute to the economic growth, which is assumed to occur from these policies.

The afore-said GFC and EMC has brought to the fore the enormous importance of multi-lateral and bi-lateral aid organisations’ interventions, addressing directly the consequences of the GFC on the ‘real’ economies in developing recipient countries. In this context multi-lateral and bi-lateral aid organisations are continuing to support financialisation. Yet, from an economic theoretical point of view, GFC has been brought about to a large extent by financialisation. This presented new challenges for the various development banks like the World Bank group, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, and others. Arguably, these ‘banks’ are responsible for the financialisation of developing aid recipient countries, especially as these ‘banks’ are at the interphase of capital flow from developed donor to the developing recipient countries as far as ODA is concerned.

It may be opportune here to pause and to consider some theoretical financialisation issues on the role of development aid banks. For the purpose of this discussion we will focus on the political economy where the ‘banks’ alignment with financialisation of ODA is discernable. As we stated before, multi-lateral organisations such as the World Bank and other regional banks are mainly concerned with providing technical assistance, grants and loans akin to any

other financial institution, but with an emphasis on influencing political economy of the recipient country.

Thus it is not surprising that multi-lateral and bi-lateral aid projects are focused on broad systemic effects and are concentrating on fiscal reform measures leading in accordance with current World Bank thinking to financialisation. A justification for this comes among others from, for example from the World Bank, which suggests that the creation and expansion of a developing country's financial markets is closely related to its overall economic development (World Bank 2014). This, if we are not mistaken, influences economic policies through the 'bank's' financial aid. This gives the World Bank and other multi-lateral 'banks' power to shape the social development throughout the developing world.

FINANCIALISATION PROBLEMATICS

The impacts of financialisation are widely debated, across a range of sectors, but with limited attention to developing world. Fine and Hall (2012) summarizes some of the consequences of financialisation in the developed world as:

Reduces overall levels and efficacy of real investment as financial instruments and activities expand at its expense even if excessive investment does take place in particular sectors at particular times (as with the dotcom bubble of a decade ago);

Prioritizes shareholder value or financial worth over other economic and social values;

Pushes policies towards conservatism and commercialization in all respects;

Extends influence more broadly, both directly and indirectly, over economic and social policy;

Places more aspects of economic and social life at the risk of volatility from financial instability and, conversely, places the economy and social life at risk of crisis from triggers within particular markets (as with the food and energy crises that preceded the financial crisis). (p50)

Building on Fine and Hall (2012), our thesis is: Following the GFC and the subsequent EMC there were significant change in the way that ODA is viewed, from a political as well as economic perspectives. These crises led to an articulation of an International Political Economy (IPE) with a strong emphasis on financialisation in ODA. Perhaps the most pronounced change at the Political Economy (PE) in the post GFC and the EMC is the embracement of the 'value for money' and 'aid for trade' paradigms.

However, we have to be careful here, for financialisation existed within the ODA arena even before the GFC and the EMC. Prior to 2007, financialisation of ODA was a background phenomenon in comparison to other issues such as globalisation and free trade economic policies. Being in danger of oversimplification we suggest that perhaps the thinking within bi-lateral and multi lateral aid agencies and donor governments was that free trade and

globalisation would take care of ODA in a neo-liberal key. The perception was that recipient governments will introduce economic structures to support 'aid-for-trade' tied aid money, and the donor governments will provide aid as long as there is 'value for [aid] money'.

This may account for the fact that prior to GFC and EMC there was in development studies a slow uptake on analysis and critique of the impact of financialisation on ODA. In comparison other disciplines such as economics, especially in heterodox economics (cf. Cypher 2014; Whitfield, 2012; Easterly 2002, 2006), sociology and economic sociology (Deacon and Stubbs 2013; EunMee Kim and Jinhwan Oh 2012; Adler et al. 2010), human geography (cf. Mawdsley 2012; Auty 2010; Stiglitz 2002), finance and politics (cf. Montgomerie 2008) the discourse about financialisation has taken roots and has emerged as a multi-disciplinary scholarly endeavour.

For example cultural economists have critiqued financialisation pointing to a lack of reflective stratagems offered by its proponents (Froud et al. 2006). Other critique comes from the economic sociology camp. They question financialisation claiming an absence of adequate consideration of social actors roles within the in macro- and/or micro- economic growth paradigms (Noya and Clarence 2007, MacKenzie and Millo 2003). Students of post Keynesian economics critique financialisation, from a vantage point of an elusiveness of finance controlled economic growth (Lapavitsas 2011). When one turns to development studies, one discovers that there is a poverty of discourse about financialisation of ODA. However where it exists it is mainly focusing on a policy oriented discourse with reference to neo-liberalism (Jessop 2014; Fine 2009).

ODA, VALUE-FOR-MONEY AND AID-FOR-TRADE

Prior to the discussion concerning financialisation of ODA, it may be useful to unpack some dominant ODA paradigms, which are couched within the general context of financialisation. These are *value-for-money* and *aid-for-trade* paradigms, respectively.

In our introduction, we have alluded briefly to the *value-for-money* and *aid-for-trade* paradigms within the post GFC and EMC context. If we are not mistaken both are neo-liberal economic constructs, which overlap with financialisation (Glyn 2006, Harvey 2005, Dumenil and Levy 2004). To be sure, neo-liberalism may well be viewed as a mechanism for assuring profitability to donors and recipients with a context of ODA. Against the claims that neo-liberalism promotes free-markets, we suggest that in contrast to classical liberalism it attempts to create markets. This market creation supports the aid for trade paradigm taken by donor governments and bi-lateral and multi-lateral aid agencies.

Aid for trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access. (WTO Task Force on Aid for Trade cited in OECD/WTO 2014:1)

From this vantage point *aid-for-trade* does not necessarily lead to liberation of markets but to creation of markets (World Bank 2002). This means that, as a number of neo-Keynesian and neo-Institutionalist economist have argued, markets have to be created and sustained rather than postulated. In other words, free markets in support of *aid-for-trade* do not suddenly emerge, but have to be developed, supported and sustained by governments.

Now let us turn to *value-for-money* paradigm. ODA funding was always based on the premise of *value-for-money*. However since the GFC and EMC, ODA funding has become sparser and for the foreseeable future the drive by donor governments for effectiveness and efficiency will most likely increase (OECD 2011). As (OECD 2011:9) notes:

In the current environment of budget constraints, proving that development assistance provides value for money is more important than ever. Governments face increasing pressure from legislative bodies and civil society to scrutinise and even limit multilateral aid, which often appears too far removed from their financial oversight.

This leads among other things to ODA being akin to Foucault's notion of 'governance by competitive subjectification'. To elucidate: due to the emphases on a *value-for-money* paradigm, aid agencies see themselves increasingly as primarily financial institutions, not aid donors. Thus, aid money is managed like an assets portfolio. Multi-lateral and bi-lateral aid agencies focus on relative rates of return for ODA. This increases commodification of the social relation between donor agencies and governments on the one hand and recipient countries governments on the other. However, and notwithstanding that commodification of aid money is often viewed by donor countries as liquid assets, governments in recipient countries see it as a shift in power relation from economic and social sovereignty to dependency on and acceptance of neo-liberal economics.

In short, within a paradigm of neo-liberal notion of *value-for-money* recipient countries have to perform within the guidelines of donor agencies' financial governance and economic competitiveness. On the one hand there is a need for recipient countries to become increasingly competitive through *aid-for-trade* and on the other hand there is a need to show that they adhere to principles of *value-for-money*. That is, aid agencies under the umbrella of *value-for-money* are becoming increasingly interventionist to specific forms of economic governance. Accordingly, the role of recipient governments is to promote competition through the creation of free market-based mechanisms such as decentralization, privatization, entrepreneurialism of social as well as economic sectors. Thus it could be argued that recipient governments' capacity

to function under the *value-for-money* rule of donor aid agencies becomes its main criterion for legitimizing claims for ODA.

Let us now return to financialisation. There appears to be a certain ambiguity between the ODA based on *value-for-money* and *aid-for-trade* paradigms. If we are not mistaken, financialisation drives to some extent a wedge between these two paradigms. Whilst the pursuit of *aid-for-trade* has insignificantly increased the global market share of developing countries and the quest for *value-for-money* has not delivered significant impact of ODA funding on economic effectiveness of recipient countries, donor countries have significantly benefitted, albeit indirectly, from both due to a reliance on financialisation as the driving force in post-GFC and EMC era.

As it has been shown, financialisation of ODA enables private enterprise to progressively profit through, for example, the aid agencies' provisions of international competitive bidding. This allows corporate identities from donor countries to focus on transferring liquid capital (ODA funding) from recipient country, without a need to invest in a recipient country's industry ensuring value-for-money. Neither is it necessary to facilitate commodity exchange under the umbrella of *aid-for-trade* (Kripner 2005; UNCTAD 2010, 2011).

MIGRATION OF FINANCIALISATION INTO THE DEVELOPMENT AGENDA A CRITICAL VIEW

As far as neoliberal ODA policies are concerned, financialisation as an integral part of globalisation leads to the perception that globalisation equals development in both developed donor countries and in developing recipient countries. Thus financialisation and globalisation are seen as two sides of the same neoliberal coin. If this stands to reason, it could be said the developing aid recipient countries should follow neoliberal IPE development policies ensuring that local markets and society follow new global imperatives including financialisation. Thus financialisation may well be seen as the means as well as desired end of development.

To explain, neoliberal development policies are in comparison to the afore-said Structuralism and Keynesian economics to a large extent more dogmatic. In order to assure that these policies were implemented as required, a number of policies needed to be implemented concurrently in developing aid recipient countries. For example the recipient country's government should minimise its involvement in the market. At best it should facilitate free market conditions. It should also among other things remove all barriers to foreign investment and restructure and privatise industries. Subsequently financialisation became the organising value of economic life. The philosophy of 'trade not aid' began to dominate ODA.

In other words, if the market conditions are right, and financialisation of the aid recipient country is in place, poverty reduction and economic progress and development will follow.

Acceptance of these arguments by donor governments and the major multi- and bi-lateral aid agencies such as the World Bank, European Bank Development and Reconstruction, Asian Development Bank, African Development Bank, DfID, Millennium Challenge Corporation, USAID and many others lead naturally and uncompromisingly to migration of financialisation into the development agenda. However such unyielding approach did not deliver the anticipated results as far as developing countries are concerned. In all fairness, it may be claimed that financialisation has surmounted some difficulties of earlier development aid strategies, such as re-financialisation and capital inflow into developing countries, which are well into industrialisation and modernisation stages. It also may have overcome an overreliance on state subsidies and aid dependencies. This gave credence to the neoliberal ideology and the project of financialisation. The donor and recipient actors within the realm of ODA were convinced that the previously dominant structuralism of earlier development aid economics revealed an unduly political, as opposed to an economic, inclination to which the neoliberal ideology including the advance of financialisation were resistant.

But this is exactly the type of dogmatism, which made the migration of financialisation in the development agenda to development aid donor agencies and development aid recipient countries more attractive than the previously dominating ideologies. However during and in a post-GFC era it could be argued that there are grater dangers. Financialisation is considered as a main factor that brought about the GFC and the subsequently accompanying austerity measures. As many developing nations have witnessed their export trade diminished, whilst the financialisation measures increased. Yet there are no mitigating factors for aid debt repayment. However there are structural adjustment policies in place, which are frequently used by developing countries aid debt as a leaver for more free market oriented reforms and a reliance on financialisation, in preference to 'real' economies.

Thus, many developing countries are caught in vicious circle of neoliberal financialisation, which drives the migration of financialisation into all aspects of the respective aid agenda. Notwithstanding the fact that neoliberal development theories and practices as much as its focus on financialisation are heavily criticised they are very much in vogue in the corridors of power at the major multi- and bi-lateral aid agencies and their economic and political masters.

CONCLUSION

The shift towards 'financialisation' as the ideological, political and economic catalyst for economic growth leads potentially to a confusion between a long-term development to combat poverty at grass-root level and a short term need to overcome the lack of financial capacity in developing recipient countries. From this vantage point the ideology of development aid is seeking compensation for lack of financial resources in form of savings and capital through financialisation. This seems curious, especially since it appears that there is a net capital transfer from developing countries to the developed donor countries (cf Lucas, 1990; Prasad et al, 2007; Passell, 2012).

There is a compelling argument to be made for developing aid recipient countries to step back from the current model of aid conditionality based on neo-liberal ideologies and its reliance on financialisation. To turn this argument around, there is no logical economic and social reason for recipient developing countries including transition and post-crises countries to simply replicate neo-liberal economic ideologies by replicating market liberalization, trade deregulation, and privatization. It may be more advantageous to build nationally productive capacities in 'real' economics such as primary, secondary and tertiary industry sectors, with a view to provide employment opportunities nationally and regionally. This may well lead to sustainable economic development through expansion of national markets.

In order to achieve a sustainable economic development, developing countries need to forsake the pursuit of financialisation and to re-delineate their national finance, trade and investment regimes, and re-state it in a balanced manner as to take into account their unique economic development needs rather than the donor agencies' demands and to advance their own 'real' economies.

This of course would require a resolute political will by developing countries because there is of course potentially negative consequences from donor countries and multi- and bi-lateral aid organisations for destabilising their dependency on advanced economies for aid and uneven trade, biased towards financialisation. Under such circumstances developing aid recipient countries could create their own economic traction instead being dependent entirely on the demands of neo-liberal multi-lateral and bi-lateral aid agencies.

The ideology of financialisation seems to confuse positive outcomes which may be achieved through introverted aid projects in education, governance, infrastructure, manufacturing, primary produce etc. and leading to macro-economic consequences with the extraversion of financialisation.

To conclude, financialisation of ODA, as expected by its proponents, has thus far not benefitted developing countries. Quite the contrary is the case. It has produced significant costs

to developing economies. International economic and financial institutions and developed countries should reflect on the net result of the process and cease to support (and impose) its indiscriminate, generalized and dysfunctional application in the developing world (and also, quite likely, in the developed world).

Financialisation is taking over the development agenda, and there are potentially severe implications for other sectors which are more traditional foci of development. Sectors where development can assist (primary secondary and tertiary sectors for example industry, agriculture), are becoming marginalised. The limitations of financialisation in OECD countries are clear – and problematic. Therefore the leaching of the financialisation agenda into development aid, is exceedingly problematic, and unlikely to produce positive impact in terms of alleviating poverty, increasing equality, and sustainability. Although there are significant global capital flows moving to developing countries, Global financial flows are still predominantly from poor to rich, but development aid has a significant focus on making the investment climate in developing economies more attractive – to enhance investment opportunities for global enterprises. If this is to happen at the expense of investments that are likely to lead to better social outcomes – in particular poverty alleviation and sustainable development, then the whole base of development aid goes around again – to being a political tool of hegemony and control.

REFERENCES

- Adler, N., Yazhensky, E., Tarverdyan, R., (2010) "A framework to measure the relative socio-economic performance of developing countries", in *Socio-Economic Planning Sciences*, Vol. 44, Issue 3, pp. 73-88
- Auty, R., (2010) "Aid and rent-driven growth: Mauritania, Kenya, and Mozambique compared", in Mavrotas, G., (ed.) *Foreign Aid for Development Issues, Challenges, and the New Agenda*, Oxford: Oxford University Press
- Balassa, B. (1981) *The Newly Industrializing Countries in the World Economy*, Oxford: Pergamon.
- Bonefeld, W. (2012) "Freedom and the Strong State: On German Ordoliberalism" *New Political Economy*, Vol. 17, Iss. 5, 2012
- Burnside, C. and Dollar, D., (2000) "Aid, Policies and Growth", *American Economic Review* 90: 847-868.
- Casey, T. (2012) 'Is Financialisation the Achilles heel of the Anglo American Capitalism?' Paper prepared for the Sheffield Political Economy Research Institute (SPERI) conference on "The British Growth Crisis: The Search For a New Model" 16-18 July 2012
- Cypher, J.M., (2014), *The Process of Economic Development*, Milton Park/New York: Routledge
- Collier, P. and Dollar, D. (2001) "Aid Allocation and Poverty Reduction", *European Economic Review* 46: 1475-1500
- Crotty, J. (2005). "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era", in Epstein, G. (ed.), *Financialization and the World Economy*, Northampton,
- Demir, F., (2007) "The rise of rentier capitalism and the financialisation of real sectors in developing countries" in *Review of Radical Political Economics*, 39(3), pp. 351-359

- Dumenil, G. and Levy, D., (2004) *Capital Resurgent. Roots of the Neoliberal Revolution*, Cambridge, MA: Harvard University Press
- Deacon, B., and Stubbs, P., (2013) "Global social policy studies: Conceptual and analytical reflections", in *Global Social Policy*, Vol. 13, No.5, pp. 5-23
- De Lombaerde, P., and Puri, I., (2009) "Aid for Trade: Global and Regional Perspectives", *UN University Series on Regionalism 2*, New York: Springer Science+Business Media
- Easterly, W. (2002), *The Elusive Quest for Growth*, Cambridge: MIT Press
- Easterly, W. (2006), *The White Man's Burden*, New York: Penguin Books
- Epstein, G.A. (2005) "Introduction: Financialization and the World Economy", in Gerald A. Epstein, ed. *Financialization and the World Economy*. Northampton, MA: Edward Elgar, pp. 3-16
- Essers, D., (2013), "Developing country vulnerability in light of the global financial crisis: Shock therapy", in *Review of Development Finance*, Vol. 3, Issue 2, pp. 61-83
- EunMee Kim and Jinhwan Oh (2012) "Determinants of Foreign Aid: The Case of South Korea". *Journal of East Asian Studies*: May-August 2012, Vol. 12, No. 2, pp. 251-273
- Fine, B. (2009) "Development as Zombieconomics in the Age of Neo-Liberalism", in *Third World Quarterly*, vol 30, no 5, pp. 885-904
- Fine, B. (2010) "Locating Financialization," in *Historical Materialism*, 18, pp. 97-116
- Fine, B. (2011) "The State and Developmentalism in the Twenty-First Century. "In: *The Role of Governments for Economic Development in the 21st Century*, February 16th, 2011, Tokyo. (Unpublished)
- Fine, Ben and Hall, David (2012) 'Terrains of Neoliberalism: Constraints and Opportunities for Alternative Models of Service Delivery.' In: McDonald, David and Ruiters, Greg, (eds.), *Alternatives to Privatization: Public Options for Essential Services in the Global South*. London: Routledge; Pretoria: HSRC, pp. 45-70.
- Friedrich Ebert Stiftung (2012) *Social Growth: A Model for Progressive Economic Policy*, Berlin: Friedrich Ebert Stiftung
- Froud, J., Johal, S., Leaver, A. and Williams K. (2006) *Financialisation and Strategy: Narrative and Numbers*, London: Routledge
- Glyn, A. (2006) *Capitalism unleashed: Finance, Globalisation and Welfare*, Oxford: Oxford University Press.
- Gurtner, B., (2010) "The Financial and Economic Crisis and Developing Countries", in *International Development Policy*, Vol. 1/2010, pp. 189-213
- Greig, A., D. Hulme and M. Turner (2007). *Challenging Global Inequality. Development Theory and Practice in the 21st century*. Palgrave Macmillan, New York.
- Hansen, H., Tarp, F., (2000). 'Aid effectiveness Disputed', *Journal of Development Economics*, 12: 375-398.
- Harvey, D., (2005) *A Short History of Neoliberalism*, Oxford: Oxford University Press
- Hunt, J (2012) "Aid and development", in D. Kingsbury, J. McKay, J. Hunt, M. McGillivray and M. Clarke (ed.), *International Development: Issues and Challenges* (2nd ed), Palgrave Macmillan Ltd, Basingstoke, pp. 79-111.
- Jessop, B., (2014) "Narratives of crisis and crisis response: perspectives from North and South", in Utting, P., Razavi, S., and Buchholz, R.V. (eds), *The Global Crisis and Transformative Change*, Basingstoke: Palgrave Macmillan, 23-42
- Kotz, D. M. (2011) "Financialisation and Neoliberalism", in *Relations of Global Power: Neoliberal Order and Disorder*, by Gary Teeple and Stephen McBride (eds), Toronto: University of Toronto Press, pp. 1-18.
- Krippner, G., (2004), "What is Financialization?", *mimeo*, Department of Sociology, UCLA

- Kripner, G. R., (2005). "The Financialization of the American Economy", in *Socio-Economic Review*, vol. 3, no. 2, pp. 173-208
- Killick, T. (2001) "Aid Conditionality", in Desai and Potter (eds) *Companion to Development Studies*, London, Arnold, pp.466-470.
- Lal, D. (1983) *The Poverty of Development Economics*, London: Institute of Economic Affairs
- Lapavistas, C. (2009) "Financialisation embroils developing countries", *Papeles de Europa*, 19(2009);108-139.
- Lapavistas, C., (2011) "Theorizing financialization", in *Work, Employment and Society*, 25(4) pp. 611-626
- Lucas, R. E. Jr., "Why doesn't capital flow from rich to poor countries", *American Economic Review*, 1990, 80: 92-96
- Macekura, S., (2013) "The Point Four Program and U.S. International Development Policy", in *Political Science Quarterly*, Vol. 128, Issue 1, pp. 127–160,
- MacKenzie, D., and Millo, Y. (2003) "Constructing a market, performing theory: the historical sociology of a financial derivatives exchange", in *American Journal of Sociology*, 109 (1). pp. 107-145
- Mawdsley, E., (2012) "The changing geographies of foreign aid and development cooperation: Contributions from gift theory", in *Transactions of the British Geographers*, Vol. 115, pp. 73-92
- Montgomerie, J., 2008, 'Bridging the critical divide: global finance, financialisation and contemporary capitalism', in *Contemporary Politics*, 14:3, pp. 233 — 252
- Montgomerie, J., and Williams, K. (2009) "Financialized Capitalism: After the Crisis and Beyond Neoliberalism." In *Competition and Change*, 13:2, pp. 99-107
- Noya, A. and Clarence, E., (eds.) (2007) *The Social Economy: Building Inclusive Economies, Local Economic and Employment Development* (LEED), OECD Publishing. DOI: 10.1787/9789264039889-en
- OECD (2011) *DAC Report on Multilateral Aid*, Paris: OECD
- OECD/UNDP (2014), "Making Development Co-operation More Effective: 2014 Progress Report, OECD Publishing. DOI: 10.1787/9789264209305-en
- OECD/WTO (2014) *Aid for trade: is it working?* Paris: OECD
- Palley, T., (2007), "Financialisation: What it is and why it matters," Annandale-on-Hudson, NY: *The Levy Economics Institute of Bard College, Working Paper No. 525*
- Passell, P. (2012) "Why Capital Flows Uphill," *Foreign Policy*, 23rd February, 2102, (accessed 29th Jan 2015) available online: http://foreignpolicy.com/articles/2012/02/23/why_capital_flows_uphill
- Peet, R. and Hartwick, E. (2009) *Theories of Development*, New York, The Guildford Press.
- Perry, G., (2009), *Beyond Lending: How Multilateral Banks can Help Developing Countries Manage Volatility*, Washington, DC: Center for Global Development
- Phillips, K. (1994) *Arrogant Capital*, New York, Little, Brown, and Co.
- Prasad, Eswar, Raghuram Rajan, and Arvind Subramanian, "Foreign Capital and Economic Growth," *Brookings Papers on Economic Activity*, Spring 2007, pp. 153–230.
- Reid-Henry, S. (2012), "Neoliberalism's 'trade not aid' approach to development ignored past lessons", *The Guardian online*, Tuesday 30th October, 2012 (accessed January 29th 2015) ; Available:<http://www.theguardian.com/global-development/2012/oct/30/neoliberalism-approach-development-ignored-past-lessons>
- Riddell, R. (2007) *Does Foreign Aid Really Work?* Oxford University Press.
- Sachs, W., (1992) *The Development Dictionary: A Guide to Knowledge as Power* London: Zed Books
- Sawyer, M. (2013) "What is Financialization?" *International Journal of Political Economy*, vol 42, no. 4, Winter 2013-14, pp 5-18.

- Shiller, R., (2012) *Finance and the Good Society*, Princeton, NJ: Princeton University Press.
- Stiglitz J., (2002) "Participation and development: Perspectives from the comprehensive development paradigm", in *Review of Development Economics*, Vol. 6, No. 2, pp. 163-182
- Stiglitz, J., (2003) *Globalisation and its Discontents*, New York: W.W. Norton and Company
- Stockhammer, E., (2004) "Financialisation and the slowdown of accumulation", in *Cambridge Journal of Economics*, 28(5), pp. 719-741
- UNCTAD, (2010) *The Least Development Report 2010: Towards a New International Development Architecture for LDCs*, Geneva and New York: United Nations
- UNCTAD, (2011) *Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001-2010 and the Way Forward*, Geneva and New York: United Nations.
- Whitfield, L. (2012) "How Countries Become Rich and Reduce Poverty: A Review of Heterodox Explanations of Economic Development", in *Development Policy Review*, Vol. 30, No. 3, pp. 239-260
- Whitman, J. (2002) "The Role of United Nations in Developing Countries", in Desai and Potter (eds) *Companion to Development Studies*, London, Arnold, pp.466-470.
- Williamson, J. (1999) *What Should the Bank Think about the Washington Consensus?* Washington, DC: International Institute of Economics
- Wolfsen, M.H. and Epstein, G. (2013) *The Political Economy of Financial Crises*, Oxford University Press
- World Bank (2002) "Building Institutions for Markets": *World Development Report*, Washington DC: World Bank
- World Bank (2010), *Global Economic Prospects 2010: Crisis, Finance and Growth*, Washington, DC: World Bank
- World Bank (2014) "Financial Sector", <http://data.worldbank.org/about/world-development-indicators-data/financial-sector> (Accessed 1 October 2014)
- Yanguas, P. (2014). "Leader, Protester, Enabler, Spoiler: Aid Strategies and Donor Politics in Institutional Assistance." *Development Policy Review*, 32(3), 299-312. doi:10.1111/dpr.12056