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**Development and the post-2015
challenges: making the Sustainable
Development Goals work**

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Development and the post-2015 challenges: making the Sustainable Development Goals work*

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A note for the reader

Too long for a paper, too short for a book. This work may be read as a single text, the different sections do support each other and the whole argument, however if only some sections are of your interest you can read them separately and this note might help you.

If you are interested in a brief history of the notion of development from the fifties to today then concentrate on Part I. If you are interested in two major economic events since 1980 then focus on Part II. If financing for development is what attracts you then stay on sections 5 and 6. Section 7 deals with the new Sustainable Development Goals, SDGs, and in particular with SDG 17 on global partnership. In this section I address the issue of how to make the SDGs work in the post-2015 period.

Dear reader notice that though quite long this paper has two simple major contentions. First, development is characterized by the interaction between people and the existing social and economic structures around them. Second, the re-balancing of the negotiating powers of the different stakeholders is a necessary condition for an effective post-2015 development process. This point becomes much clearer towards the end of the work, but it also appears in the different sections.

Part I briefly summarizes the major changes in the conception of development and of international cooperation during the last forty years.

Section 1 sketches the process which starting from economic growth has led to a holistic description of development. Health, education, environment and gender are important components of the notion of human development. These aspects together with income poverty and hunger are at the core of the 2000 Millenium Development Goals, MDGs. Following the 2012 Rio+20 Conference widespread debates have led to the Sustainable Development Goals (SDGs).

In section 2 we see how international cooperation has moved from the donors-beneficiaries relationship and from the Washington Consensus conditionalities to a broader view of partnership for development. Empowerment and ownership are two concepts which highlight the changing views on development cooperation.

Section 3 presents the process which has taken us to SDGs.

Part II focuses on the two major changes which have characterized the international economic landscape since the late seventies: the economic growth of Asia and the increasing role of international finance. Both changes have a structural nature: they are here to stay and they describe the type of economic environment in which the new goals will be pursued. They represent important features of the capitalistic system in the twenty first century and are part of the structures and of the environment in which development policies will have to unfold. The question is: given the above conditions, which policies and which means will have to be implemented in order to achieve the SDGs according to the empowerment and ownership view?

Section 4 presents some implications of Asian growth for the post-2015 development challenges, both on the positive and on the negative side. It is shown that the international economy presents many neo-mercantilist features and there are huge structural imbalances, which do not automatically adjust. Moreover the last thirty years have seen a process of wealth and of power concentration.

Section 5 shows that during the last forty years the abundance of savings and financial liberalization has not prevented financial crises. International financial markets are dominated by the short-term search for high yields and for capital gains and there is a growing power of a small number of large investment banks. We have entered a period of Financial Mercantilism.

In Part III, Section 6 shows that developing countries need more policy space in both trade and finance. Special and Differential Treatment is instrumental to try to re-balance not only the different economic conditions, but also the negotiating capacities of the different countries and stakeholders. This view applies to Financing for Development, where more

than the overall amount of funds the central issue is the type of financing, which should help to avoid the boom and bust cycles of the eighties and nineties. Developing countries, Low and Lower Middle Income ones in particular, should move quite slowly into international financial markets. These countries should be careful on sovereign bonds issuance; GDP indexed bonds could be used in order and to reduce default risk. Specialized financial tools and dedicated markets for development financing with really long-term commitments would be a very helpful condition. I am not terribly optimistic about the possibility to achieve these conditions.

Section 7 pinpoints three steps which could support a credible global partnership for development, the topic of SDG 17. First, country ownership implies that each country should identify its priority goals and targets. Second, the trilateral dialogue between the old and the ‘new donors’ and developing countries must be based on the re-balancing of the negotiating power in favour of developing countries. Examples are provided. Third, an effective development dialogue with more balanced powers will require major improvements in the institutional and administrative capacity of developing countries. Perhaps not a very attractive matter, but I suspect a very realistic one.

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Prologue

On July 2014 a ‘vulture’ fund Themis Capital and Des Moines won a case against the Democratic Republic of Congo which should now repay 18 million dollars of an original debt plus 70 million as interest(*The Financial Times*, 27th November, 2014). The debt originated in the early 1980s when Mobutu Sese Seko was in power and the country was called Zaire. Themis Capital was not among the original creditors, it bought Congo’s debt years later at a huge discount on the face value. Now the debt should be repaid at full nominal value. Congo has an income per capita of 430 dollars, 71.3 per cent of the population is below the national poverty line and most of her people were not born when the money was borrowed.

Part I

1. The evolution of the concept of development

1.1. In the beginning it was economic growth

Once upon a time there was economic growth, development was mainly defined in terms of increases in income per capita and it was by and large regarded as a one dimensional magnitude. This was the case from the fifties up to the eighties.

There was and still is a theory explaining how low income, poor, countries will converge to the income per capita of the high income ones. Since Harrod's paper of 1939 physical capital has been regarded as the main element in the explanation of economic growth and since Solow's contribution in 1956 we have a model that predicts that capital will flow to low income economies where it is scarce and hence it yields higher returns. Technical progress too will move freely across countries and provided that the markets are competitive and given enough time all countries will tend to have either the same income per capita or at least similar growth rates.

If this view were correct there would be no need for specific development theories and policies, nor for cooperation activities. Cooperation should confine itself to the mitigation of the unwelcome and harsh phenomena which might arise in the short-run during this long-run process of economic growth. Cooperation should provide the safety nets, take care of the basic needs and foster human development. This role of international cooperation goes hand in hand with the idea that market failures do exist, but they have an impact only in the short-term and only because of non-competitive markets.

It is worth noticing that already in the sixties and seventies different views of development emerged. Some authors were very much critical of the capitalistic economy and of the international division of labour. Under-development in the "south" was regarded as the necessary consequence of capitalistic economic growth in the "north". These authors underline the different ways in which developing countries are constrained by and depend upon the rich economies: from the specialization in primary commodities, to unequal exchange. We can group these contributions under the label of dependency theories (see for instance Amin 1976). As for mainstream economic growth theories these views too

focused on the role of structures and on the way in which economic forces dominate individual choices and possibilities

Other approaches were less critical of the capitalistic economy but they tried to offer a more articulated view of the living conditions of people. In 1976 the ILO put forwards the idea of basic needs, which include the fundamental necessities of life, like food, shelter, clothing (see ILO 1976 and Jolly 1976). The notion of human basic needs has evolved to include other aspects of the life of human beings, such as aspiration and opportunities **xx** (see Gough 2015, pp.).

1.2. Towards a broader definition of development

With the exception of some East Asian countries in the eighties and the nineties we have not seen much convergence of most low income countries towards the living standards of high income economies. Several experiences have shown that economic growth alone does not guarantee participatory and sustainable development. There are rapidly growing economies where social hardship increases and new forms of poverty arise. In other countries considerable improvements have been made in terms human development and in the quality of life despite slow growth. The Indian state of Kerala is well-known case where human development and quality of life indicators are much higher than those of countries with higher income per head.

Nowadays development is no longer defined in terms of income per capita only; development is regarded as a multi-faced phenomenon and a continuously evolving process. Let us briefly point out some of the major contributions to this new idea of development. It all started with some debates in the sixties and seventies, but it was only towards the end of the eighties which a general consensus began to emerge on a broader definition of development (see Vaggi 2010, pp.1-3).

Three major contributions can be identified.

First, the 1987 Bruntland Report by the United Nations provides a first definition of sustainable development: a process which can satisfy the needs of present generation without compromising the possibilities of future generations (see United Nations 1987). Since this report both the

environmental dimension and the idea of sustainability have become essential aspects of the notion of development, in particular following the 1992 Rio Conference on sustainable development.

Second, in 1990 we have the first Human Development Report by UNDP with the Human Development Index, which includes not only income, but also education and health.

Third, in September 2000 the United Nations General Assembly approves the Millenium Declaration which includes the Millenium Development Goals, eight goals which provide the most widely accepted view of development, including health, education, environment and gender.

It is worth mentioning that always in 2000 the Human Development Report is dedicated to human rights, thus strengthening the so called *Human Rights based approach to development* (see UNDP 2000).

This evolution in the idea of development has been strengthened in recent years thanks to the fact that many authors question the usefulness of the notion of Gross Domestic Product as an appropriate indicator of the standard of living of people. The research work focuses on the definition of well-being, the most famous report is the Stiglitz, Sen and Fitoussi Report of 2008 (see Stiglitz *et al.* 2008). In 2008 there is also the First European Report on Development, ERD, mainly dedicated to fragile states and other ERD issues appear every year.

The issue of environmental sustainability receives a lot of attention also in academic work, see for instance Dasgupta and Duraiappah, 2012. Always in 2012 we have also the first *World Happiness Report* which owes a lot to the work of a team led by Jeffrey Sachs at Columbia University (see Helliwell *et al.* 2013)¹.

Poverty is often considered to be the opposite of development. Most of the poor people according to the so called absolute poverty line of 1.25 dollar a day now leave in middle income countries (see Sumner 2013) and all the more so if we take the 2 dollars a day threshold (see Sumner and Lawo 2013).

¹ In 2013 in Italy there has been the first report on the *Benessere Equo e Sostenibile*, BES, Equitable and Sustainable Well-Being.

However the concept of poverty has evolved in parallel with that of development. Poverty is no longer defined only in terms of income, but more in general as *deprivation* and *exclusion*, the lack of capabilities, in the sense of the lack of the possibility to decide and to choose about one's life. Since 2010 we have the *Multidimensional Poverty Index* by OPHI, the Oxford Poverty and Human Development Initiative (see Alkire *et al.* 2013).

These are all quite recent approaches and even if they show some relevant differences, nevertheless there are major similarities in respect to the view of development they support. Let us single out just two of these similarities.

First, development implies the enlargement of people's opportunities and it gives women and men a wider set of choices about their own life.

Second, development is a process which is valued and regarded in a positive way by the people who are involved in it.

The evolution of the view of development and the emergence of the notion of 'human development' owe a lot to the work of Amartya Sen (see Sen 1985 and Sen 1999).

Development is a way to remove some of the constraints which determine the deprivation and the exclusion of a person. Therefore notions of development and of poverty acquire precise meanings inside a specific social and historical context.

I cannot resist mentioning the fact that in 1776 Adam Smith provided a very interesting definition of *necessaries*, what we could call basic good. Necessaries of life include "not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for credible people, even of the lowest order, to be without". Necessaries are the goods for which "the poorest creditable person of either sex would be *ashamed to appear in publick* without them."(Smith 1776, V.ii.k.3, italics added). A similar sentence can be found few lines before.

Smith defines necessities, but he also offers a criterion of poverty: *shame*, the humiliation and the embarrassment for not being able to share the type of life which is regarded as decent according to the customs of the country. Exclusion.

In 2012 the idea of the Sustainable Development Goals, SDGs, emerged at the Rio+20 conference and the sustainability dimension has received a broader definition which is not limited to the environmental aspect².

2. The evolution of international cooperation

Different views of development have been accompanied by different ideas about how to promote it.

2.1. The Washington Consensus

The eighties and the nineties have been the period of the *Washington Consensus*, a term coined by John Williamson to indicate ten major points of the *Structural Adjustment Programs* of the IMF and the World Bank (see Williamson 1990). The ten points recommended a set of economic reforms which were meant to speed up economic growth and which were based on two main ideas.

First, the reduction of the role of the state and the opening up of the economy will boost economic growth.

Second, economic benefits will ‘trickle down’ to the entire society.

The suggested policies included and still include: privatizations, liberalizations and macroeconomic stability; that is to say low inflation and a small state budget. These policies were regarded to be necessary and even sufficient to trigger economic growth in very different countries; it was a typical case of ‘one recipe fits all’.

2.2. The post-Washington Consensus, 1998

The structural adjustment policies received strong criticisms, both because they were not effective in restoring growth, but also because of the human sufferings they had caused. In the second half of the eighties many research works condemned the policies based on the Washington Consensus and the

² On the different aspect of the notion of sustainability see Sachs 1999, pp. 31-2.

structural adjustment programs, a notable example was *Adjustment with a human face* published by UNICEF in 1987(see Cornia *et al.* 1987); this work supported the transition towards the notion of human development.

The idea of a *post-Washington Consensus* derives from a famous paper by Joseph Stiglitz (see Stiglitz 1998a), when he was Senior Vice-president of the World Bank. In the paper Stiglitz advocates the need for more articulated and less economic focused policies, but he also highlights the fact that development has to be interpreted in terms of broader goals, not just as in increase in income. This was not the reason why he received the Nobel Prize, but it helped to open the way to the so called ‘second generation reforms’, the first one being the purely economical ones typical of the Structural Adjustment Programs. The new reforms give much more attention to the institutional and social conditions of the country. These reforms can be quickly synthesized with the term *good governance*. In any case economic reforms are no longer considered to lead automatically to economic growth.

2.3. The Comprehensive Development Framework, 1999

Thanks to the collaboration between Stiglitz and James Wolfenshon, then President of the World Bank, a further step in the modification of the views about development policies is launched in January 1999: the *Comprehensive Development Framework*, CDF(see Wolfenshon 1999 and Stiglitz 1998b). This very ambitious, but by now rather forgotten, approach proposes a new methodology to deal with development policies. Development is defined in terms of many aspects and the analysis highlights the role of many different actors: nation states, international organizations, civil society, the private sector. With the help of a double entry table the CDF tries to identify the actors which are likely to be more efficient in pursuing each development goal.

The CDF is a holistic approach in which complexity is regarded as being the major feature of development. The document offers a rich taxonomy which covers many aspects of the development process, from the strictly economic ones to those more related to the human, political and social dimensions. Efficient policies can only be achieved by taking into account the interrelations of the

different aspects of development. No goal or target can really progress in isolation from the others and there is no longer the view that there is only one development model good for every country.

The CDF is no longer very well-known but it anticipates many of the most relevant indications for the appropriate development and cooperation policies which will emerge from the various high level forums of the 2000s(see next section): ownership, inclusive partnership, coordination, harmonization³.

2.4. From Monterrey to Mexico City

Aid is an essential component of development policies and since 1960 inside the OECD operates the Development Assistance Committee -DAC- which is in charge of coordinating aid policies among the OECD countries, the “old donors”. Following the presentation of the MDGs many G7/G8 meetings have produced a vast amount of initiatives and documents on the role of aid and on aid effectiveness in particular.

A conference on *Finance for development* was held in Monterrey Mexico in March 2002, the so called *Monterrey Consensus* emerged from this conference. If developing countries had to meet the MDGs by 2015 they had to implement the appropriate policies and reforms, above all good governance. The rich countries should have committed more resources and in more predictable and stable manner⁴. Since the seventies the recommend aid target is at least *0.7 percent of GDP* for each DAC country. In Monterrey all the donor countries promised to increase their contribution to international cooperation in order either to achieve or at least to approach that target, but in 2014 only five of countries met this goal, Norway, Sweden Denmark, United Kingdom and Luxembourg. For several years the Netherlands have been above 0.7% and they are now just below it.

³ More on the CDF at the World Bank website http://web.worldbank.org/archive/website01013/WEB/0__CO-87.HTM

⁴ In Monterrey emphasis was also laid on the theme of global public goods which include also knowledge and research(see Sumner and Lawo 2013, p. 35).

From November 29 to December 2 2008 a second conference on *Finance for development* conference was held in Doha in order to review the implementation of the Monterrey consensus, but not much progress has been made⁵.

The first *High Level Forum* on aid and international cooperation took place in Rome in 2003. Since then a series of *High Level Fora* have been held in order to define some best practices in international cooperation. The central topic of all these conferences has been aid effectiveness. The 2005 *Paris Declaration* recommended the donor to have more accountable programs, to adopt coherent aid policies and to coordinate among themselves. In 2008 in Accra the so called *Accra Agenda for Action* underlined the idea of *country ownership*. In 2011 the Busan fourth High Level Forum on Aid Effectiveness produced a document called the *Busan Partnership for Effective Development Co-operation*, which focused on development effectiveness and not just aid effectiveness.

Busan represents an important step in the evolution of the view of cooperation from aid effectiveness to global partnership. The final document emphasizes the importance that the tools and the instruments used for the evaluation of the programs and projects should be shared among all partners: Moreover the procedures to implement these projects must be as close as possible to the systems and methods adopted by the countries of the ‘South. The involvement of the civil society is another important issue and more attention is dedicated to the development outcomes of projects and policies, rather than just to input indicators, such as the money invested in a specific program.

The *First High-Level meeting of the Global Partnership for Effective Development Co-operation* which took place in Mexico City in April 2014 reinforced the view of cooperation as partnership(see UN-FHLM (2014). This view of international cooperation is an essential component of the new SDGs.

2.5 *Summing up*

⁵ A document by the European Commission describes all the delays and the shortcomings of the Doha meeting(see European Commission 2009).

The debates of the last thirty years provide a very rich view of **what** development is and of **how** it should be achieved. We could say that by now we know the main aspects of the idea of development and we are aware of the procedures and the policies which all the partners should adopt in order to pursue it.

We know that *development* it is not just about economic growth; it is a multi-faced phenomenon in which different aspects are interlinked one with the other. Moreover it is a process of transformation in which economic, social, demographic and political structures do change. Poverty is deprivation and exclusion. We know **what to do**.

In a similar way the debates of the last twenty years have shown what *international cooperation* should be. Policies should be coordinated, they should also be coherent and of course aid should be effective and results-oriented. Cooperation should build a real partnership, aim at sustainability and above all lead to country and people ownership. We know **how to do it**.

Empowerment and **ownership** describe very well the recent outcomes in the debates about development and cooperation:

“Empowerment is the process of enhancing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes”(Alsop *et al.* 2006, p.10)

Thus empowerment is the possibility to enlarge one’s opportunities and her set of choices.

Ownership is often indicated as country ownership. Country ownership was not prominent in the original Comprehensive Development Framework document, but country ownership and country-led partnership are two of the main elements of the CDF in the World Bank website⁶.

Country ownership means that there is sufficient political support within a country to implement its developmental strategy, including the projects, programs, and policies for which external partners provide assistance. (see http://web.worldbank.org/archive/website01013/WEB/0_CON-5.HTM)

⁶ Country ownership appears in the *Paris Declaration* and in the *Accra Agenda for Action*. The term has also been used to indicate the alignment of the countries to the conditionalities of the Structural Adjustment Programs and Poverty Reduction Strategy Papers of the nineties(see Buiter 2007). For the point of view of civil society organizations on country ownership(see for instance InterAction 2011).

Ownership is the ability of a developing country and of her people to take the development process into their own hands, each country has to be in the driving seat. Of course ownership requires the involvement of all the national stakeholders, which means local governments, Civil Society Organizations, communities etc.

3. From the MDGs to the SDGs-Sustainable Development Goals

3.1. The road towards the SDGs

Thanks to all the debates and contributions of the last three decades we are now in a very convenient position to think about the ways in which development cooperation should be approached.

The MDGs have played a very important and useful role in highlighting the major challenges confronting developing countries and the entire world. Since 2000 extreme poverty, has been at the forefront with the one dollar a day story, which derives from Martin Ravallion's work and which was first exemplified in the *1990 World Development Report*(see World Bank 1990, pp. 27-9). The one dollar a day has now become 1.25 dollars at 2005 prices measured in terms Purchasing Power Parities and we also have a threshold at 2.00 dollars a day.

It might look strange that at a time in which the definitions of development and of poverty were being enlarged and enriched, the first MDG referred to income poverty. This apparent paradox can be explained by the fact that from 1980 to 2000 three main macro-regions of the world, Latin America and the Caribbean, Middle East and North Africa and above all Sub-Saharan Africa had no increase at all in income per capita, with many countries experiencing a significant drop. It was the *lost decades* period, mainly due to the debt crisis which blew up in Mexico in 1982 and protracted its impact to the end of the century and even longer⁷. It is no surprise that in the year 2000 income poverty was regarded as a priority.

Debates on the post-2015 goals have been going on for a few years. Let me recall some official documents which have led to the final text approved during the seventieth session of the UN

⁷ Both the World Development Report of 1990 and that of 2000/2001 focused on Poverty.

General Assembly in September 25-27, 2015(see UN 2015). On May 2013 the United Nations published *The report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda*, for short HLP, which represents an important step in order to set the new goals; here we find 12 goals, 54 targets and a new time horizon: 2030(see UN-HLP 2013). This report has been superseded by another one; on July 2014 the *Open Working Group for Sustainable Development Goals*, for short OWG, presented the outcome of its work and produced a report with 17 goals and 169 targets(see UN-OWG 2014). This report derives from the conclusions of the 2012 Rio+20 Conference on sustainable development, and it is the basis of the September 2015 document. On 11 August 2015 a new document has been published with the text which has then been adopted in September 2015⁸.

The 2013 HLP report stresses the fact that all goals should be examined and all future policies should be organized around *five transformative shifts*:

leave no one behind, sustainability, jobs and inclusive growth, peace and institutions, global partnership(see UN-HLP 2013).

These five shifts do not appear as such in the final text, the Resolution of September 2015(see UN 2015), this is a pity because they provide a good description of the relevant dimensions which should inform all the future policies and actions designed to achieve each goal. Let me give some quick example.

Leave no one behind implies that in each goal attention should be dedicated to the most disadvantaged groups and people, this has very important policy implications in any type of goal and area: health, education, environment, food, energy, water, megacities etc .

Jobs and inclusive growth asks for a reconsideration of the production and consumption models and it acknowledges a very simple and important fact; in a capitalistic economy the majority of people can achieve more opportunities and become more independent mainly through the access to decent jobs. This *shift* is also a warning about the fact that not any type of growth may be inclusive.

Sustainability is a cross-cutting issue for all goals.

⁸ This is the *Draft outcome document of the United Nations summit for the adoption of the post-2015 development agenda*, see <https://sustainabledevelopment.un.org/> , where it is possible to find all the documents related to the SDGs process.

Building *peace* and accountable *institutions* reflects a broader view of institutions and a kind of Super Post-Washington Consensus. Of course we should have effective and open institutions, but in the post 2015 era peace is a further challenge in itself and cannot be reduced to good governance, transparency, security etc.

Global partnership is the specific topic of Section 7 of this paper.

Going back to the OWG report and to the seventeen SDGs many commentators have said that they are definitely too many. Many goals do overlap and some goals are extremely ambitious: zero poverty by 2030⁹? There is also a confusion between ends and means, some targets are clearly final desired outcomes: end hunger, gender equality; other goals are indeed instrumental to achieve the final outcomes: energy for all, safe cities. The HLP report is less confused and probably would have represented a more useful benchmark for the final resolution.

In a Synthesis Report of December 4th 2014 and entitled *The road to dignity by 2030* the UN Secretary-General is in favour of “maintaining the 17 goals and rearranging them in a focused and concise manner”(UN-SG 2014, p. 15). The 17 goals are clustered into *six essential elements*:

dignity, people, prosperity, planet, justice, partnership(see *ibid.* pp.16-19).

This report brings together the goals and the targets into six elements which are in fact sort of areas. There are still some overlapping and confusions: for instance ending poverty is part of dignity and inclusive economic growth is part of prosperity, but it is obvious that the two goals are very much connected. Given all these goals and targets overlapping is unavoidable.

The emphasis on human dignity is extremely important and the six elements provide some sort guidance to the implementation of the SDGs.

The August 11 2015 text is the basis for the UN General Assembly Resolution adopted on 25-27 September 2015. With very minor changes in the phrasing the document presents the same 17 goals and 169 targets of the 2014 Open Working Group text. In the September Resolution the seventeen goals are preceded by a declaration consisting of 59 points and are followed by 32 points dealing

⁹ Among the several comments see Maxwell 2014 and Knoll and Engel 2014.

with Means of implementation, global partnership and follow up(see see UN 2015 pp. 24-29)¹⁰.The document insist in pointing out “the three dimensions of sustainable development: the economic, social and environmental”(ibid, p. 2).

The six elements of the UN Secretary General Report of December 2014 have been reduced to five “*areas of critical importance to humanity and the planet*”(ibid. p. 2):

people, planet, prosperity, peace, partnership.

The element called *justice* in the December 2014 Secretary General Report has become *peace* and other four elements have the same name. However the first of the six elements *dignity* is missing, but the word dignity appears in several paragraphs at the beginning of the declaration(see *ibid*, pp. 2-3). It is a pity that the December 2014 title *The road to dignity* has also disappeared, it would have been a powerful indication of the general view guiding the SDGs, in the same way as poverty and human development have been the key elements of the 2000 MDGs.

3.2. Last but not least: or when means are more important than ends

From the Millennium Declaration of 2000 to the HLP to the OWG report and to the September 2015 resolution the last goal always refers to *partnership*. In the MDGs goal number 8 says: *Develop a global partnership for development*. There are 6 targets and 16 indicators which asks for commitments such as: to increase aid, to expand market access, to encourage debt sustainability. MDG 8 has been often criticized because many of its targets and indicators are very difficult to measure, moreover this MDG provides vague and generic commitments.

The story of MDG number 8 is rather interesting. As late as June 2000 there was no goal number 8. In a publication called *A better world for all*, by OECD, World Bank, IMF and UN the goals were still seven(see OECD 2000). MDG 8 was introduced later because developing countries wanted a clear sign that the goals were also the responsibility of rich countries and of international institutions.

¹⁰ A list of SDGs indicators should be prepared by March 2016(see UN 2015, point 75, p. 33).

Notice that Target 8A of MDG 8 makes reference to the need to have a *trading and financial system which is predictable, rule-based and non-discriminatory*. This sentence seems to imply that stable and predictable rules should be designed to favour long-run growth; an interpretation very much in line with the requests of developing countries. However the sentence could be interpreted in a less favourable way: in the sense of excluding the possibility that developing countries could benefit of some sort special and differential treatment, for instance in trade negotiations.

In the High Level Panel Report Goal number 12 has 6 targets and reads: *Create a Global term* which re-appears from time to time in official documents; we already find it in the Structural Adjustment Programs of the eighties. The reference to need of having long-term financial means appropriate to the goals is extremely important. HLP Goal 12 clearly refers to a specific *qualitative element* of the financial means: they have to be committed in a *long-term* way.

In the OWG report and in UN (2015) text SDG number 17 says: *Strengthen the means of implementation and revitalize the global partnership for sustainable development*, and it has 19 targets(see UN 2015, pp. 26-28). The first five targets are dedicated to finance, including debt sustainability and FDIs, but there is no mention of the financial system(more in Sections 6 and 7 below). SDG number 17 seems to refer more to the quantitative aspects of financial support.

The *Synthesis Report* of 2014 has a slightly different phrasing and asks for “better regulation and more stability in the international financial and monetary system”(see UN-SG 2014, p. 22, n. 95); the document also suggests the possibility of a financial transaction tax(see *ibid*, p. 25, n. 112). Moreover the report asks for the implementation of “comprehensive and adequate financial regulations in all countries, as the risk of another global financial crisis has not been sufficiently reduced”(*ibid*. p. 25, n. 114).

The last goal, whether it is number 8 or number 17, always confronts itself with two major issues:

- how to give concrete contents to the term ‘partnership’;
- how to find the resources necessary to implement all the other goals.

Financing for Development, FfD, is a major international topic at least since the 2002 Monterrey Conference; the Addis Ababa Conference of July 13-16 2015 has reinvigorated the major commitments by all donor countries and stakeholder¹¹.

Both issues, *partnership* and *finance*, bring us to another theme of this paper: the type of economic scenario in which international cooperation will have to operate in the coming decades.

3.3 *People and planet*

Before moving on to more economic matters let me conclude this part with three points which help to clarify the vision of development; the main topic of Part I.

First, moving from the MDGs to the SDGs could give the impression that development is just about adding new goals. The overabundance of the new targets might easily generate this belief. The SDGs incorporate many environmental issues which either were targets or even did not appear in the MDGs; at least six goals refer directly to environmental topics (more in section 7). However, it is important to restate that development is a *process of empowerment* and *ownership* and not just some new dimensions to be added to the term development itself (see 2.5. above). The new dimensions are important in themselves but they also improve the perspective on the way in which the goals should be achieved. For instance environmental sustainability is important because it indicates *how to proceed* in the attempt to achieve goals such as for instance *ending hunger*, SDG number 2.

Development as empowerment underlines the fact that neither the input-approach, how much funds are employed, nor the outcome-approach who focuses on the end-results give a satisfactory description of development; the way in which goals are pursued and the movement towards them is an essential component of development.

The pathway too is important and not just the final outcome.

¹¹ On Financing for Development see Kharas *et al* 2014; more on the Addis conference in section 6 and 7.

The *second* point concerns the mixing up of goals and means. The separation between the two spheres was much clearer in the MDGs than it is in the SDGs. This is somehow the inevitable outcome of so many targets and of so many consultations and we have to accept it. For sure some means are extremely important and may be as important as the goals. In practice between now and 2030 some countries might rightly concentrate their efforts on some tools, such as infrastructures, energy, agricultural productivity.

A clear separation between the goals and the means helps to keep the focus of cooperation on the final aims of development. By concentrating on the end-goals we can more easily identify what we consider the essential components of development. The separation between end-goals and means could greatly help in difficult policy choices; a large dam displacing a lot of people poses difficult decisions. The final goals of development should not be prevaricated by any policy, by any procedure and by any type of intervention. The means have to come to a stop if and when they risk to come into conflicts with some of the end-goals.

The distinction between ends and means it is necessary not in order to downgrade the means, but to avoid that some ends could be treated as if they were means.

The road to dignity encompasses what is by now a largely shared view of what development ought to be and it would have been a good title for the final UN resolution on the SDGs.

Third, following the 2012 Rio+20 Conference and thanks to the work of the Open Working Group the environmental dimension has powerfully entered the new goals, while the MDGs were much more focused on the components of human development. Going back to the *six elements* and the *five areas* we can say that both *people* and *planet* should represent the final end-goals of any development policy. The remaining three areas, *prosperity*, *peace and partnership*, are of extreme importance, but in a way they too are instrumental to the well-being of the human beings and to the preservation of nature.

I cannot refrain from thinking of the well-known description of the production process offered by most economic textbooks, where output is described as the outcome of three factors of production:

labour, land and capital. In the light of the SDGs we can say that *labour/people* and *land/nature/planet* are goals while *capital/technology* is a tool.

It is curious to see that more than three centuries ago Sir William Petty wrote: “that Labour is the father and active principle of Wealth, as Lands are the Mother”(Petty 1662, p. 68). At the dawn of the capitalist system labor and land were regarded as the two original elements from which all wealth derived, and it is interesting to notice that these two inputs are clearly separated from capital and from technology.

Let us come back to our times and let us read Pope Francis’ Encyclical Letter *Laudato si*; notice that this is not an ecological document. Here too both *people* and *nature* are the end-goals of the entire Letter. Pope Francis speaks of an *integral ecology*, which includes the human and social dimensions and he wants to examine “the relationship between living organisms and the environment in which they develop”(Pope Francis 2015, point 138).

People and *Planet* are the first two of the five “areas of critical importance for humanity and the planet”(see UN 2015, p. 2) *People* and *nature, or planet* are at the core of the vision of development. However, *people* and *nature* are interrelated through social and economic structures which depends on the historical conditions and which constrain the ways in which *people* and *nature* come into relationship. Development might involve the overcoming of the existing historical structures, but cannot allow to ignore them.

It is now time to move on to some major economic facts which greatly shape today’s capitalist economy.

Part II

During the last thirty years the economic component in the notion of development has become less and less relevant. However, some major changes have taken place in the world economy, and they cannot be ignored because they describe the economic environment in which the new goals will have to be pursued. These facts are part of the social and economic structures which constrain the

process of empowerment. Sections 4 and 5 examine the two major economic events of recent decades:

- the economic growth in *Asia*;
- the rising role of *international finance*.

Both facts have huge implications for the new goals, for their financial support and for international cooperation in general. It is only by taking into account these implications that we can try to set international cooperation in a realistic context.

4. The economy strikes back: rising Asia

4.1. Rising Asia

The twenty first century will be the century of Asia. Since the late nineteen-seventies many countries in Asia have experienced sustained economic growth. This phenomenon has involved countries which thirty years ago were still regarded as being ‘developing’ and even ‘low income’ ones. Economic growth is still spreading across East Asia, though with different speed and modalities. There are several explanations of this phenomenon; from Robert Wade 1990 *Governing the Market* to the World Bank 1993 *The East Asian miracle* and to UNCTAD *Trade and Development Report* of 1996. Wade emphasizes the developmental role of the state; the World Bank underlines the importance of trade openness and UNCTAD adopts the beautiful metaphor of the “flying geese” model, borrowed from the Japanese economist Akamatsu¹².

By now many Asian economies are either in the High Income club or in the emerging markets group. They are increasingly important players in the world economy and in international cooperation where they also constitute the main block of the so called *new donors*. China is part of this story, but because of her size and history she is also a phenomenon in itself.

The notion of emerging markets did not exist twenty years ago, nor we had the BRICS and the Asian Miracle had not yet unfolded its full strength with so many countries in the continent upgrading from the Low Income group. East Asia and Pacific has been the only region in the developing world to have experienced strong economic growth between 1980 and 2000; East Asia

¹² For a history of the Flying Geese model see Kasahara 2013.

has been the only optimistic story among the gloomy experiences of other world regions during the two ‘lost decades’.

Let us single out some implications of Asian growth.

4.2. The bright side of economic growth¹³

4.2.1. At the world level MDG 1 -halving the number of those living in extreme poverty- has been achieved largely thanks to economic growth in Asia and in China in particular. The very good economic performances of China and India entail that by now most of the poor people live in middle income countries(see Sumner 2013, p. 1); all the more so if we take the 2 dollars a day threshold(see *ibid.*, p. 6).

4.2.2. Since the year 2000 even Sub-Saharan Africa has been doing much better than before growing on average around 5 per cent a year. It will be interesting to see if these growth rates will be sustained over the coming years, but at least the mood has changed with respect to the year 2000. Something similar has taken place in Latin America, where some successful policies have contributed to a decrease in inequality(see Cornia 2014)¹⁴.

4.2.3. The so called ‘South’ has some global powers, China and perhaps India and some regional powers, Brazil, South Africa and Russia. The five BRICS have quite different economic characteristics, but the old divisions into rich and poor countries, into *north* and *south* and the tri-partition into first, second and third world need to be replaced by a more articulated geography. The world has moved from the G7 and G8 to G20. There are more players in the economic arena, a fact which might create important opportunities for the poorest countries.

Economic relations between China and Africa have both positive and negative aspects(see for instance Kaplinsky 2007). However the emergence of new economic powers, or ‘new donors’, not members of the OECD-DAC club, implies that for the first time after independence many countries

¹³ In subsections 4.2. and 5.2. the bright achievements will be indicated with a final number such as 4.2.1. In subsections 4.3. and 5.3. the negative aspects will be designed with a final letter, such as 4.3.a.

¹⁴ On the trends on global income inequality among countries see also Milanovic 2012.

in Sub-Saharan Africa have the possibility to overcome the economic relations of the post-colonial period. In the post-colonial years most African countries still had major economic links with the former colonial power and with a limited number of other High Income Countries.

Now there are more players on the ground and with all difficulties and complications there are real possibilities for south-south cooperation¹⁵.

The world economy is now much more interconnected than it was forty years ago, but it is also going through a period of profound changes in the international division of labour.

The huge expansion of world trade has greatly helped the economic successes of many Asian countries. For many years we have used the catchphrase *trade not aid*; it is not all gold what glitters, but for some countries trade has contributed to reduce economic gaps.

4.3. However....on the dark side.

4.3.a. Since the eighties *income distribution* has worsened in all High Income economies reversing a pattern of increasing equality which had taken place between 1950 and 1980. According to Piketty the worsening of income distribution depends on the concentration of wealth into the hands of few people and to the fact that during the last thirty years in many countries the rate of return on wealth has been higher than the growth rate of the economy(see Piketty 2013).

This is a worrying trend because in many High Income countries the social achievements of the last sixty years might be in danger and the welfare system is under threat: This system still guarantees decent minimal conditions and less unequal opportunities in education and health to a large section of the population. Health and education are the two pillars of the notion of human development and they are at the forefront also in the new SDGs¹⁶.

4.3.b. In many developing countries growth rates are higher than before, but young people do not find *appropriate employment*. The situation is particularly severe in the MENA region, from Morocco to Lebanon, which should generate almost 3 million of new jobs every year in order to

¹⁵ Between 1995 and 2012 South-South exchanges have doubled their share in world trade.

¹⁶The Secretary General report uses the term social protection floor(see UN-SG 2014, p. 22) More on the welfare system in section 7.2.2. below.

absorb all the people entering the labour market. There is a mismatch between the number of qualified people holding university degrees and looking for a job and the ability of the economies to absorb them; quite often the result is migration. Economic growth does not necessarily mean lower unemployment rates. Moreover if developing countries invest in education they have a high probability to lose many skilled people. Education is a fundamental component of human development and it is a value in itself, but it is also an important way to achieve better economic performances. A weak demand for labour forces skilled people to migrate and inhibit the opportunities of innovation and growth. This is a case in which the development process is constrained and hindered by the existing economic conditions.

4.3.c. There are *huge imbalances* in the world economy; the different growth rates among countries and above all the diverse deficits/surpluses in the trade and current accounts. There imbalances among the world regions; there is a surplus in East Asia and a deficit in the US, but there are also huge imbalances inside regional groups, the Eurozone being an obvious example. In August 2015 the Eurozone as a whole had a hefty 2.5 per cent surplus of the GDP in the current account, CA, and a small deficit in the budget balance. However, there are huge differences within the zone. In Germany and in the Netherlands the current account surplus is higher than 7 and 9 per cent respectively, while other countries have much smaller surpluses and others, including France, show a deficit¹⁷. Similar differences exist for public budgets.

According to the efficient market hypothesis in a competitive economy in the long-run these imbalances should be eliminated, all the more so in a system of free capital movements and flexible exchange rates. The old money-specie flow mechanism of Humean memory should operate. Capitals should flow from deficit to surplus countries thus lowering the value of the currency in deficit countries, US and UK, and increasing it in the surplus countries, the Eurozone. Exchange rate movements should help to reduce the imbalances in the trade and in the current account.

¹⁷ Germany CA surplus has been the largest one in the world for many years, also when the Euro was stronger than today(May 2015).

Paradox 1: as a matter of fact the opposite is now happening; between May 2014 and October 2015 the euro has depreciated by more than 20% against the dollar.

The prevailing economic view inside the euro area claims that in order to improve economic growth countries must deregulate labour markets and foster exports. The depreciation of the Euro is supposed to lead to higher growth rates and to take the Euro area out of stagnation. However the Euro area already has a huge current account surplus of more than 300 billion dollars. The above view has a very neo-mercantilist flavor(more in section 4.5.)

4.4 Secular stagnation and overcapacity

The more worrying aspect of the world economy is the difficulty of High Income countries to recover from the 2007-2008 crisis. Economic growth is quite weak in many High Income Economies even if interest rates are very low. This has led to a debate on the so called *secular stagnation* hypothesis, following Larry Summers' reappraisal of this term¹⁸. Many explanations of this phenomenon focus on the relationship between savings and investment and on the fact that due to an excess of savings, the savings glut, the real interest rate needed to equate investments and savings at full employment level might be negative. In this situation monetary policy becomes ineffective because due to low inflation there is a floor for nominal rates, the so called Zero Bound Level, ZBL(see Baldwin and Teulings 2014, p. 2.), which makes it impossible to reach negative rates. To put it in Keynesian terms it is as if the liquidity trap had become a permanent feature of the economy(see Krugman 2014, p. 15). Major explanations for the increase in savings are related to the evolution of demography and to the “the required stock of savings to smooth lifetime consumption”(see Baldwin and Teulings 2014, p. 11, and pp.12, 14). The ageing of the baby-boomers generation, and the increase in life expectancy combined with the lower population growth rate have led to the so called “ageing society”¹⁹.

¹⁸ On the various explanations for secular stagnation see Baldwin and Teulings, 2014.

¹⁹ These phenomena lead to an increase in the dependency ratio because of the raising share of pensioners in the overall population. An older population requires more savings and investing in financial markets is a way of saving in view of future consumption(see Baldwin and Teulings 2014, p. 14).

Paradox 2, the 1939 Harrod's growth model says that a higher saving ratio, $s = S/Y$, leads to a higher warranted growth rate. In Solow's version, and with $S=I$, a higher s implies a higher income per capita in the steady state²⁰. Savings are good for growth, but now it seems that high savings are the cause of the growth slowdown.

Paradox 3, the three countries/areas which are saving more are China, continental Europe and Japan, the country which saves less are the US, (see Blanchard O.J., Furceri D. And Pescatori A. 2014 p. 104), however the economy is now growing faster in the US than in Europe and in Japan.

The *savings glut* and demography are not sufficient elements to explain secular stagnation. In order to understand the slowdown of growth rates in high income economies it would be much better to look for both supply and the demand side causes. With exception of East Asia in many countries we have $S > I$ because of the lack of investments. In many High Income economies finance seems to depress investments and increase savings (more in section 6). There is a need for huge investments in particular in infrastructures in both high income economies (see Caballero R.J. and Farhi E. 2014, pp. 118-119) and in developing countries (see Wolff 2014, p. 146).

Also the BRICS and the emerging economies are now experiencing a decrease of the growth rates; Brazil, Russia and South Africa have very low rates since 2012 and Brazil and Russia will probably have a decrease in the GDP in 2015.

Growth is slowing down in Indonesia, Turkey and in other emerging countries in East Asia, Thailand, Malaysia, Korea; they are negatively affected by the lower Chinese growth and by the partial bursting of the financial bubble of the Chinese stock markets in summer 2015.

The present crisis has many features of a *crisis of overproduction*. For many years China has been investing 35-40 per cent of GDP, reaching 45 per cent in 2010, while other countries in Asia have followed similar path even if not with such exceptionally high investment ratios. This has led to a

²⁰ According to Solow's model capital should flow to low and middle income economies because of their higher profit rates, as measured by the marginal productivity of physical capital.

situation of *overcapacity* at the world level. The overall productive capacity installed could produce more goods than those which can profitably be sold on international markets. Some sectors appear to be saturated; the car industry being a case in point, but this is also the case for many consumer durables and also for some high-tech sectors.

Many countries try to overcome these difficulties with a combination of deflationary policies:

- a budgetary surplus,
- the compression of domestic demand,
- the fostering of exports,
- devaluation.

These policies lead to increasing competition among countries and to protectionist attitudes. This does not mean that there will either one hundred years of zero growth or that the capitalist system is coming to an end. There will be upswings and downswings but the overall growth rate will probably remain relatively low for several years and this could create problems to developing countries and in particular to the Least Developed ones.

International cooperation and the new SDGs agenda will be affected by these conditions.

4.5. Neo-Mercantilism and its features

Sections 4.3 and 4.4 suggest that it is not just the ‘economy striking back’, but something more; we could call it: *the revenge of Thomas Mun*. Thomas Mun was one of the directors of the East India Company and the ‘father’ of the mature phase of Mercantilism. In the seventeenth century, Mercantilism was characterized by the so called *balance of trade system*, according to which a surplus in foreign trade is the main cause of national wealth. It is thanks to this surplus that precious metals flow into the country coffers²¹. Each country relies on the external markets in order to sell its products and hence on the demand coming from foreign countries a ‘beggar thy neighbour’ type of policy. However not all countries can run a trade surplus at the same time; Mercantilism is a zero-sum game.

²¹ “...we must observe this rule; to sell more to strangers yearly than we consume of theirs in value.”(Mun 1623?, p. 5). Mun goes on defending the role of trade with the East-Indies (see *ibid.* p. 7).

Mercantilism has been a fundamental phase in the modern history of Europe and from the seventeenth to the nineteenth century mercantilist policies have been very effective in determining the economic successes of countries such as England and the Netherlands. In Europe Mercantilist thought has contributed to the process of formation of the nation-states and it has been a fundamental phase in the building of economics as a science.

Let us come back to the present days.

Economic stagnation and structural imbalances stimulate neo-mercantilist and protectionist policies; nations fiercely compete on international markets(see also UNCTAD 2014, pp. 17-19). The East Asian countries and China in particular are often regarded as the culprits, mainly because of their undervalued exchange rates, which have helped to sustain growth and to build current account surpluses and huge reserves(see for instance Arvind Subramanian *Il Sole 24 ore* April 23, 2015, p. 25)²².

The management of the exchange rate is only one among the possible policies which can generate a current account surplus. Export subsidies and import duties are the traditional tools, but there are also: selective credit systems, tax exemption on reinvested profits, VAT rebates on exports, domestic wages/incomes compression, subsidies to Research and Development, free infrastructures inside special economic zones, etc²³.

A first feature of Mercantilism: in today's world, where all economies are so much interconnected, neo-mercantilist policies rely on exports and restrain domestic demand, a widespread version of an export-led strategy.

The distinctive quality of this first feature of Mercantilism is the demise of the role of domestic demand in the process of economic growth and the idea that provided that the economy is

²² Subramanian points out that the huge savings which are at the core of the major explanations of the 'secular stagnation' hypothesis are the outcome of the external surpluses in emerging markets.

²³ The hostility to the free movement of people quite often complements neo-protectionist policies.

competitive there will always be enough foreign demand to sell all domestic products with a profit margin. This is very much in line with the supply side approach to economic theory and policy²⁴.

In some High Income countries FDI are regarded as a fundamental engine of development and countries compete in the attempt to attract them, mainly with special tax advantages. This attitude indicates the same type of mercantilist approach which underrate the role of domestic demand and puts all the burden of growth on international markets and on the ability to bring in foreign firms. The situation is different in the case of a developing country in the early stages of its structural transformation. The country tries to attract FDIs in order to foster industrialization and to diversify its output and it might be difficult to sell all the products at home. However even in this case the compression of domestic demand could generate an export dependent type of economy

We must not confuse today Mercantilism with the lack of competition on international markets. During the last thirty years there have been many newcomers in international markets: the so called emerging economies, in particular in East Asia. However, this has very little to do with the textbooks idea of competition, which is characterized by a multitude of rather similar independent producers and by the possibility of any new producer to enter the market. Today there is competition, but it is a *competition among giants*. In many sectors: from automotive, to capital equipment, to infrastructure procurement, to international finance there is a strong concentration of productive capacity, also through mergers and acquisition. At the world level these sectors are characterized by *oligopolistic competition*²⁵.

*A second feature of Mercantilism is the alliance between big corporations and the state. Big international companies may twist the functions and powers of the states to their advantage*²⁶.

²⁴ In chapter 3 Book 1 of the Wealth of Nations Smith writes “That the Division of Labour is limited by the Extent of the Market”(Smith 1776, I.iii).

²⁵ Do not confuse Mercantilist policies with state intervention. In many cases mercantilist authors asked the sovereign to refrain from regulating trade, for instance in the case of an old law prohibiting the export of money(see Mun 1623?, pp. 34-36). This does not make them supporters of free trade. In general national merchants were able to influence the governments in order to make them to adopt those policies and strategies which were more favourable the merchant companies. Mercantilist literature has a lot of nuances and it is more articulated than its traditional representations.

²⁶ Here the term ‘state’ indicates also the international bodies and organizations where individual nation-states have different decisional powers.

This type of alliance characterized the Mercantilist era and this is what worried Adam Smith most; he thought that the predominant interests of the mercantilist companies could lead to lower growth rates and could also modify the nature of society. In *The Wealth of Nations* Smith attacks the alliance between large merchant companies and the state(see for instance Smith 1776, IV.iii.c.9-10).

This alliance could perpetuate and even enlarge the differences between the different market players, thus increasing imbalances instead of reducing them.

On one point recent economic events seem to contradict *Mun's rule* according to which the direction of capital flows depends on the sign of the current account. As we have seen on point 4.3.c. above, the evolution of the Euro-dollar exchange rate during the last six years does not seem to support this rule. Of course the sign of the current account does generate opposite movements in the financial (a better name than capital) account. However, these movements are only a minor part of the overall financial flows; most capital flows are linked to Foreign Direct and portfolio investments(see section 5 below).

Paradox 4. This consideration leads to the role of international finance and somehow paradoxically brings us back to an earlier phase of Mercantilism: the so called *monetary balance system* prevailing in sixteenth century Europe(see Rubin 1929, pp. 26 and 43-46). According to this view financial flows depend mainly on the interest rates offered and on the reputation of the national currency: higher interest rates and a strong currency favour net inflows. Today the search for high yields brings the funds towards the emerging economies, while during periods of crisis there is the so called 'flight to quality' and capitals flow towards countries whose currencies are considered to be a good store of value. These movements take place through the financial account not through the current one and they signal the growing role of international finance, our second main event

5. International Financial Markets; new giants at sea

5.1. International finance

In 1985 the overall value of financial derivatives was slightly more than 1 trillion dollar, in 2007 the value overtook 600 trillion dollars and in 2014 it was still an amount nine times higher than the world GDP. The causes of the enormous increase in International Financial products date back to the end of the Bretton Woods system based on the dollar-exchange standard and to the financial liberalization process which has taken place since the early eighties.

Let us see the positive and negative aspects of the growing role of finance.

5.2. *The bright side of international finance*²⁷

The last two decades have seen major changes in north-south financial flows

5.2.4. Since 1998 *private flows to developing countries* have become more and more important; Foreign Direct Investment and remittances are the largest financial flows to developing countries, with around 600 and 450 billion dollars respectively, in 2012. Remittances include only the officially registered ones, hundreds of billions are assumed to enter developing countries in an unofficial way. International aid is around 140 billion. Private benefactors and philanthropy funds have also increased enormously in the first ten years of the new millennium.

In general a lot of money is now available and at very cheap rates if compared to the nineties when very large financial flows headed towards Latin America.

5.2.5. The traditional regional *development banks* have been joined by new types of banks, the most noticeable being the New Development Bank of the BRICS and the Asian Infrastructure Investment Bank, AIIB, both initiatives were launched in 2014 with the backing of China. These institutions will probably provide additional funds not only at the regional level, but also to other developing countries.

The two new development banks derive from the Asian crisis and the Chang Mai Initiative, which originally was an agreement designed for the compensation balance of payments deficits and surpluses among countries in East Asia, but it has then evolved into the pooling of international

²⁷ As in section 4 final numbers are used for the positive outcomes and final letters for the negative ones; both numbers and letters follow the sequence of section 4, thus numbers begin with 5.2.4 and letters with 5.3.f.

reserves²⁸. During the Asian crisis of 1997-98 Japan, which was the single largest creditor to five Asian countries, offered to intervene with 100 billion dollars, but it was stopped and the usual IMF coordinated procedures were adopted(see Vaggi 2002). What was not possible for Japan in 1998 it has now become possible for China and even if the new Bank is not yet operational it is a clear sign of the role of emerging Asia and of the impact that this could have on the international financial architecture²⁹.

5.2.6. New development banks and philanthropy funds are just two of the many different possibilities to support the new SDGs. *Many foreign sources of funds* are available: sovereign wealth funds, dedicated funds, the so called blended finance, a mixture of aid and of market finance(see UN-ICESDF 2014 and Kharas et al. 2014).

There is also a lot of emphasis on the possibility of increasing financial *sources* internal to developing countries. These possibilities imply either an improvement in domestic financial and credit markets, or the increase in tax collection, which is the most important part of domestic sources mobilization(see Mackie and Williams 2015, p. 7). Even in Sub-Saharan Africa there are now many possible ways to increase domestic finance including sovereign wealth funds, domestic stock markets, the curtailing of illicit outflows³⁰.

The fight against illicit flows and capital flights can only succeed if there is a strong and committed collaboration between all the stakeholders involved, that is to say the High Income countries, but also the main financial centers; this should be an important component of the global partnership advocated in SDG 17.

It seems that we are going through a period of abundant financial means and a variety of different financial instruments. In addition there are low nominal and real interest rates. There are many opportunities for developing countries, in particular for Middle Income countries where the recourse

²⁸ See Griffith-Jones 2014, pp. 2-3. The new institutions are not yet operational but they represent a change in the international financial architecture traditionally focused on the IMF and the World Bank system. The Addis Ababa Action Agenda emphasizes the role of national and regional development banks(see UN-AAAA 2015, p. 22).

²⁹ On July 15, 2014 in Fortaleza Brasil the BRICS also announced the Contingent Reserve Arrangement, CRA, a series of bilateral agreements aimed at the pooling of part of the reserves in case of partner' difficulties.

³⁰ For a comprehensive view of different types of domestic resources see Touray 2014 chapter 4.

to domestic sources of financing is much more realistic than in Low Income and Least Developed Countries.

5.3. However....on the dark side.

Now the worrying signals.

5.3.f. Finance is characterized by *systemic risk* ; the best description of this situation is in the work of Hyman Minsky, the author who foresaw the potential damages of an uncontrolled financial system. His contributions date back to the mid-seventies when the overall market for derivatives was still puny and the consequences of the abandonment of the Bretton Woods system were not yet clear(see Minsky 1974 and 1975).

Since the eighties developing countries have experienced repeated major *financial crises*; to recall just the major ones: the debt crisis of 1982 with Mexico default, Mexico (again) in December 1994, the Asian Crisis of June 1997, Argentina in December 2001³¹.

Another crisis worth recalling is the tearing apart of the European Monetary System, EMS, in September 1992, when the British pound, the Italian Lira and the Spanish peseta were forced to abandon the peg to the German mark. This currency crisis was certainly due to some misalignments inside the EMS, in particular in time of diverging inflation rates, but two things should have been noted.

First, the crisis took place in high income countries, not in crises-prone Latin America.

Second, the crisis provided a clear sign that international financial markets were already more powerful than three important central banks in Europe, including the Bank of England, established in 1694, the second oldest central bank in the world.

The three central banks got short of ‘ammunitions’, reserves, to defend their currencies; the markets were now capable of putting together a demand of German marks much larger than the reserves available in the coffers of each of the three banks. Between 1977 and 1992 the financial derivative

³¹ Between July 1998 and December 2000 Russia, Brasil, Turkey and South Africa have been hit by various types of crisis.

markets had increased from a minimal value to already ten trillion dollars and the ratio of global official reserves to the daily turnover in the foreign exchange markets had decreased from almost 15 to less than 2³². This was the outcome of the abandonment of the dollar-exchange standard which had been designed at Bretton Woods and of the liberalization of capital flows which has taken place since the mid-seventies. The 1992 EMS crisis showed the growing dimension and power of the international financial markets; in 2007 the notional value of derivatives was almost 10 times the size of the world GDP. Today 80% of derivatives are Over The Counter, OTC, therefore these are largely unregulated financial products and quite often they are also unknown.

In most crises currency depreciation has led to remarkable improvements in the external account and has restarted economic growth. The most successful case has probably been South Korea in 1997-98. A 45 per cent depreciation of the won between November 1997 and April 1998 and a minus 8 per cent of the GDP in 1998, were followed by a growth rate in the range of 5 per cent in 1999 only slightly lower than before the crisis. By the end of 1999 Korea was already paying back the funds received by the IMF³³. It was a typical *V crisis*, a deep but a short one³⁴.

The debt crises of the eighties was completely different; in many Middle and Low Income countries in Sub-Saharan Africa, Middle East and North Africa and Latin America and the Caribbean income per capita stagnated for almost twenty years(see section 3.1. above). A sensible solution to the crisis emerged only with the Heavily Indebted Poor Countries Initiative, HIPC, of 1996-99 and with the Multilateral Debt Relief Initiative, MDRI, of 2005; both initiatives implied debt cancellation.

Most of these crises were related either to defaults on commercial loans and on sovereign bonds or to financial bubbles. *All* crises were characterized by previous huge capital inflows mainly because of the high interest rates of local bonds and the high expected returns on equity investments. However, these flows reversed their direction either because of changes in external conditions, such as the increase in real interest rates and the fall commodity prices in international markets in 1982, or because of the change of mood in financial markets, as in East Asia in 1997.

³² The story of the 1992 EMS collapse is more complicated than this, I only highlight some elements.

³³ However the share of investments in the GDP decreased from 35 to 25 per cent.

³⁴ Thanks to large devaluations most countries recovered rather fast; Malaysia, Thailand and the Philippines followed patterns similar to the Korean one, the crisis was much deeper and longer in Indonesia(see Vaggi 2002).

Following the crises of the nineties many authors have advised developing countries to beware of easy borrowing, to differentiate among the different types of funds and to focus on means and policies to lock-in capital flows. A high share of short-term loans, the main component of ‘hot money’, in the overall foreign inflows and a current account deficit indicate a very dangerous situation which could easily lead to liquidity problems. Foreign Direct Investments and concessional loans with a large grant element and long maturities are a much safer type of financing.

5.3.g. Since 2012 interest rates have been decreasing in High Income Countries and they have reached very low levels; the search for *higher yields* has led capital flows towards emerging markets and developing countries³⁵. This type of *carry trade*³⁶ has already played an important role in explaining large capital inflows into emerging markets, namely in the second part of nineties in Latin America. In many cases these portfolio flows have gone into the bond markets of developing countries.

Bond prices are very sensitive to changes in interest rates. *Will interest rates stay low?* Will there be more financial crises, as in the eighties and in the nineties? Quantitative Easing, QE, in Europe with might help keeping interest rates low but in 2014 we have already seen financial outflows from emerging markets due to the gradual abandonment of QE by the Federal Reserve, the so called “tapering”, and to expectations about interest rates rises. Blanchard *et al.* expect no major changes in nominal rates in the coming years, but they also stress the fact that forecasts of future global rates are very tricky(see Blanchard et al. 2014, p. 106)

World interest rates depend upon the supply of savings and the demand for investments. In the case of nominal interest rates on developing countries debt there are two main components:

- the nominal rates on the benchmark type of assets, for example US bonds,
- the spread element which largely reflects the country risk.

Low rates on safe assets are a good thing, but the nominal rates on developing country debts are strongly influenced by the spread element. Low rates favour foreign borrowing, but any unexpected

³⁵ Most contributors to the secular stagnation e-book by Baldwin and Teulings remark that low interests rates in the financial centers and in highly rated type of assets can easily lead to financial bubbles because of the search for high yields.

³⁶ The expression *carrying trade* can be found in Mercantilist literature, where it refers to the physical transportation of commodities (see Rubin 1929, pp. 50-51).

event might cause a run on domestic deposits and the materialization of capital flights, which will trigger higher spreads, even in an overall situation of savings glut at the world level.

In summer 2015 the limited devaluation of the yuan and the financial turbulences in China have led to a movement of capital towards safer assets, a ‘flight to quality’ type of phenomenon. This situation augments the spread component on the liabilities of emerging and developing countries and above all it increases their competition for funds. Martin and Rey think that the financial integration of economies with very asymmetric and unbalanced financial systems could lead to more financial crises in emerging markets (see Martin and Rey 2006).

Since 2000 the world overall debt, both private and public, has grown and after the 2008 crisis not much deleveraging has taken place. This is a further reason which could create tensions on bonds markets. The debts of the banking sector have improved, but just because banks have been saved thanks to public money, thus transferring the burden to national budgets; the debt to GDP ratios have increased in many countries. In the coming years a lot of countries will need to refinance their debts and will compete for funds on international markets; tensions could easily generate higher interest rates.

Notice that low interest rates do not necessarily imply low returns on financial investments, on the contrary there seem to be a decoupling/separation between the level of interest rates in the bond markets and the ability of financial institutions to generate high returns. First of all, low rates and abundant money favour the stock exchange and the return on equities; secondly with low rates large scale financial operators intensify their buying and selling of financial products³⁷.

This leads up to the next section.

5.4. Financial Mercantilism

The behavior of many transnational corporations is quite similar to that of the old mercantilist companies, international financial investors too are like modern mercantilists, who basically gain on

³⁷This fact is coherent with Piketty’s analysis of the concentration in the distribution of wealth since the ninteeneighties; large capitals have many more opportunities for investment and many portfolio choices.

the difference between the buying and the selling price of their products. In the old days the merchant's gain derived from his ability in *buying cheap and selling dear* and the difference was his *profit upon alienation*. In order to achieve his gain the merchant had to move the goods in space and in time; in seventeenth century England spices were shipped from the Indies to London; in eighteenth century France corn was transported from the countryside to the cities.

Thanks to their value chains transnational corporations do something similar and they also generate new types of goods.

In today international finance there is no need either to go through production processes or to move goods in space and time.

Space is relevant only either because different financial markets have specialized in different types of products, such as the City of London in foreign exchange transactions, or because there are different regulations and laws applying to similar products: to issue a bond in London implies a different legislation than issuing it in Frankfurt.

Time is much more relevant. In the mercantilists' days the profit upon alienation depended on the quality and on the location of the product; today profit depends upon the *time* of buying and on that of selling any type of financial product. Financial activity is quite fast and it is characterized by *short-termism*.

Bond markets can no longer be regarded as a place of long-term commitments. The fact that some contracts refer to ten years bonds and are long-term does not imply that they are not sold and bought in a continuous way.

The flow of capitals towards emerging markets in search for high yields does not imply that these capital inflows will stay there for the entire maturity of the bond. The capital-gain motive is more powerful than the interest rate component. Portfolio differentiation is an important investment strategy, but the decisions of buying and selling a financial asset are decisively influenced by expectations about possible gains/losses on its value. Again a very Mercantilist attitude.

In financial markets '*products*' are basically *forward contracts*; they are commitments either to buy or to sell at some future time and at certain conditions. These are immaterial products, but of course they do shift wealth, they affect incomes and can make people either richer or poorer. As for Mun's balance of trade doctrine (see above 4.5) financial markets are characterized by a zero-sum game. The changes in the distribution of income and wealth take place without going through the production system and not even through trade, there is no need for transportation and for storing, as in the old Mercantilist's practices³⁸.

Using a Marxian terminology we could say that in financial markets the *appropriation of surplus value* no longer needs to go through the commodity-production phase, but moves directly from money to more money: $M - M'$, with $M' > M$.

The next section briefly highlights some impacts of modern international finance on economic growth.

5.5. Asian growth and the paradox of finance

At the *micro* level financial liberalization means that *thanks to the inter-temporal allocation of savings each individual has a much wider range of possibilities to distribute consumption over her/his lifetime*. In the fifties and sixties my father was buying long-term Italian bonds in order to have an additional income during his retirement period. It was a *de facto* pension scheme with a long-term contract between an individual and the state. Today pension funds have the same scope; the aim of the contract is indeed long-term: more savings now against higher consumption in the future. However, in order to guarantee the future incomes of their costumers the pension funds *must* continuously shift the savings among different types of investments.

But what is the role of international finance? International financial markets should favour a better *allocation of resources* at the world level. The easier to move capitals across borders the better, a larger set of financial investment opportunities should help to allocate capital in the most efficient

³⁸ The insurance and the credit sectors provide specific services to households and to firms, but many types of banking activities are geared to hedge the risk of different products.

way. At the *macro* level international financial markets should bring savings where they are lacking and most needed and were they could generate higher returns, recall Solow's model. This movement should *increase the world average growth rate and to speed up the closing of the gap between low and high income economies*. However there are serious doubts that more finance implies more growth(see for instance Arcand *et al* 2012)³⁹.

East-Asian economic growth is largely explained by a combination of export-led growth, industrial policies and accumulation of physical capital. Capital accumulation has largely relied on domestic savings with investment ratios in the order of 25-30 per cent since the sixties; China has reached 45 per cent in 2009-2010. Not only these investments are obviously long-term, but they are largely based on self-financing by firms through reinvested profits. In the Japanese and Korean experience one could speak of a profit-investment nexus(see UNCTAD 1996) which *has largely by passed international financial markets*.

In an interview to *Finance and Development* Hélène Rey, a leading researcher on international finance, says that “it is hard to ascertain or measure the real gains from financial openness and freely moving capital....trillions of dollars have crossed borders, and yet despite our best efforts and hundreds of studies, it has been extraordinarily difficult for economists to identify any benefits from these flows”(Rey 2015, p. 6).

Financial Mercantilism has two particularly disturbing characteristics, let us go back to Adam Smith again.

A **first problem** concerns *the focus of finance on capital gains rather than directly addressing the issues of productive capacity and of productivity increases*. In chapter V of Book II of the *Wealth of Nations* Smith discusses the *natural order of investments* which should first secure an agricultural surplus and then should move on to the manufacturing sector which thanks to the division of labour could generate productivity increases. Investments should then move towards domestic trade and finally to foreign trade(see Smith 1776, II.v). The Mercantilist writers were underlying the

³⁹ Solow thinks that it is “time to rethink the way the credit mechanism mediates between savers and investors and puts credit to productive use” (Solow 2011, p. 51).

importance of focusing on foreign trade, but to Smith this was like starting from the tail rather than from the head and it would damaged the economy.

That part of capital which is employed in the carrying trade, is altogether withdrawn from supporting the productive labour of that particular country(Smith 1776, II.v.30).

Here ‘carrying trade’ refers to the physical transfer of goods across borders and not to financial carry trade, but there are striking similarities between the two cases, because both activities dislodge funds from the most productive types of investment. In Book IV Smith directly tackles mercantilist policies, he writes that an invisible hand leads the individuals to employ their capital in domestic industry rather than in the foreign one(see Smith 1776, IV.ii.9). This is the only passage in the *Wealth of Nations* in which the invisible hand metaphor appears.

Let us recall the so called *quantitative easing* policies of the Federal Reserve System and of the European Central Bank. How much of these money has ended up into the real economy, either into productive investments or into households’ consumption? How much money either has gone into financial markets, or it stagnates into the bank’s coffers? With interest rates close to zero the monetary policy cannot stimulate the real economy. Nothing new under the sun, at least since Keynes’ ‘liquidity trap’, but the possibility of using these additional liquidity into the financial sector further reduces the stimulus to channel it into the real economy and it increases the volatility of financial markets⁴⁰. A higher volatility amplifies the opportunities of speculating on the difference between the buying and the selling price of any financial product, which is at the core of financial mercantilism⁴¹.

⁴⁰ The capital requirements imposed on banks contribute to keep the money away from consumption and investments. However these requirements are necessary because the volatility of international financial markets affects the prices of public bonds, a fact which weakens the structure of banks’ accounts and requires higher capital ratios.

⁴¹ Gavin Jackson underlines the relationship between quantitative easing and in the intensity of volatility, “investors...must sell when prices fall and buy when prices rise, which adds to any market movement”(Financial Times, 15, October 2015).

As a matter of fact *short-termism* is not just a feature of financial operators, but it seems to become a rather pervasive behavior by corporate people and some people speak of *short-term capitalism*(see Mallaby 2015). This is a very important issue, but there is not time to deal with it here.

The ***second problem*** of *Financial Mercantilism* is much more worrying because it has to do with the second feature of Mercantilism (see section 4.4.): ***the concentration of market power into the hands of few big players***. This was the case of the British East India Company at the time of Smith, in our days it is the overwhelming power of big international investment banks. As in the case of transnational corporations this situation violates free competition and it generates ***huge power imbalances among the different market players***. Thanks to their greater power that the ‘merchants’ can twist the markets to their own interests.

There are at least three ways in which the largest investment banks can influence the markets:

- asymmetric access to information,
- lack of transparency in many financial products and contracts,
- the fact that some investment opportunities, usually the more remunerative ones, are available only to investors with large amount of funds.

Part III

That is easier for a nation....to raise itself from a moderate degree of wealth to the highest opulence, than to acquire this moderate degree of wealth(Smith 1763, p. 579, point 44).

Part II has shown the circumstances in which the new SDGs will have to be pursued; the international economy is characterized by large imbalances which increase the volatility of financial markets. The SDGs face two major challenges:

- how to ***re-balance*** the power relationships between the different actors. These actors are the old and the new donor countries and developing countries, but also the international financial institutions and the private sector, the large international firms and the big investment banks;

- how to find appropriate frameworks and places to support the *dialogue* and the *negotiations* which are needed in order to implement the goals.

Section 6 deals with the first challenge in the specific case of *financing for development*, FdD; section 7 examines both challenges and discusses SDG 17, that is to say “the global partnership for sustainable development”.

6. Financing for development: oil on troubled waters

The *2014 Trade and Development Report* by UNCTAD is entirely dedicated to the problem of *policy space* for developing countries. Policy space means that these countries can adopt policies and take actions which help to reduce the distance with both the high income countries and the new emerging economies. These policies and actions may be at variance with the standard recommendations of international organizations and with international agreements, such as the WTO rules. In a nutshell, developing countries, Low and Lower Middle Income countries in particular, are allowed a *Special and Differential Treatment*, SDT, in consideration of the difficult original conditions. The different initial conditions refer not only to differences in income per capita and in human development indicators, but also to the large gaps in negotiating capacities.

The reduction of various imbalances, including the economic ones, between High Income and Developing Countries will play a decisive role in the post 2015 agenda.

6.1. The real economy and trade

6.1.a. The *fiscal system* is an important dimension of the policy space (see UNCTAD 2014 pp. 161-2)⁴². Developing countries still derive a lot of their public revenues from taxes on foreign trade and from indirect taxation in general. Tax revenues are already the largest domestic source of finance in Africa with a tax to GDP ratio of 17%, but in OECD countries it is 35% or more (see Mackie and

⁴² Eurodad 2014 focuses on the policy space for developing countries.

Williams 2015, p. 7). The tax composition needs to be improved. Developing countries need to widen their tax collection systems by including more progressive income taxes, not to mention wealth taxes, but the tax base is limited and the informal sector is huge. Major improvements in good governance and in administrative capacities are needed in order to increase the resources deriving from income taxes. This move towards a more efficient and more equitable tax systems takes time, may be more than one generation, and it requires a lot of support from abroad, particularly in the case of Low Income and Least Developed countries. Nevertheless it is clear that major improvements in tax collection and in the fiscal system in general are the only way to have a more equitable society and to reduce the dependence from foreign funds.

6.1.b. *Trade relations* are another area where developing countries need policy space. This is a typical case in which applying the same rules to players with huge differences in their economic structures would be unfair and it might lead to inefficient deals.

Following the Uruguay Round Agreement and the establishment of the World Trade Organization in 1995 developing countries have less possibilities to intervene in foreign trade, even if they have structural deficits. In general trade negotiations have to be based on the principle of *reciprocity* among all partners, a principle which has already led to some paradoxical situations⁴³.

One example are the endless discussions between the European Union and the ACP -African, Caribbean, Pacific- countries about the *Economic Partnership Agreements*, EPAs, which are the economic component of the 2000 Cotonou agreement. Negotiations were supposed to be completed by 2007, but they have been going on until 2014. EPAs had to try to accomplish with the WTO reciprocity principle, which is much less favourable to the ACP countries than other trade arrangements with Europe, such as the EBA, *Everything but Arms*, initiative of 2001⁴⁴. The major problems do not concern trade in goods and services, but international agreements on property rights, investments, dispute settlements, credit and financial services in general.

⁴³ The UN experts on financing for development ask for trade and investment rules to be geared towards the sustainable development of poorer countries(see UN-ICESDF 2014, pp. 41-42).

⁴⁴ EBA provided for duty and quota-free access to EU markets for the products - except arms and ammunitions - of the Least Developed Countries (LDCs), most of which are in Sub-Saharan Africa(see Vaggi and Evans 2007). This is an example of Special and Differential Treatment.

UNCTAD 2014 (see pp.82-ff.) points out that in many trade agreements developing countries benefit of some flexibility and of some exceptions to general obligations. From being an exception *Special and Differential Treatment* should become the rule, because it would help to re-balance the exceedingly different productive capacities of the High Income and emerging economies on one side and of the Low and Lower Middle Income countries on the other. SDT in trade is mentioned in target 10.a. of the SDGs.

Industrial policies at sectors level are among the most important policy tools to be used to reduce the productive capacity gap(see UNCTAD 2014, p. 92). Industrial policies have been widely adopted in East Asia, but also in all OECD countries in the past in order to favour technological innovations and to promote exports(see Chang 2002). Export promotion does not only imply direct subsidies, but also tax exemptions and favourable credit conditions. Special Economic Zones, SEZs, are an example of active industrial policies, mainly designed to attract Foreign Direct Investments, FDIs, and to support exports; SEZs are now extremely popular in the developing world⁴⁵.

The overall development strategy should be based on moving out from labour and resource intensive manufactures and from low technology products into medium technology sectors. Industrial policies should also give special attention to agricultural productivity and in particular to food crops.

Two other recommendations could give developing countries more policy space in international trade.

The first one has to do with *the way in which the economy should integrate into international markets*. In the nineties many authors asked for the proper *sequencing* of liberalizations by former Soviet Union countries, in most cases the advice was not followed. The idea was to have first the gradual opening of the current account and only at a later stage the opening of the capital account. Moreover the latter should have opened in a selective way: FDIs first, portfolio flows later. As we shall see in the next section this sequencing might be very helpful for developing countries.

⁴⁵ Unfortunately in the experiences of many countries inside SEZs labour relations and labour standards hardly adhere to those prescribed by *decent work*, which is part of SDG 8.

A second important tool to strengthen the domestic economy is *the management of the exchange rate*, which has been widely used in East Asia. The management of both the capital account and the exchange rate can greatly help a LIC to enter the international economy in a gradual way, in order to reduce the possible imbalances and the shocks arising because of her weak productive structure.

More policy space for LICs and LMICs implies granting them the possibility to adopt policies which could be classified as neo-mercantilist ones. However, let us recall the second feature of mercantilism (see section 4.4. above). There is a major difference between the *developmental role of the state* and *neo-mercantilism*:

- the former aims at reducing the distances between Low and High Income countries;
- the latter retain and even enlarge these difference.

The protection of the domestic economy by the weakest countries is both a realistic and an appropriate policy and it should be accepted in view of the aim of reducing the imbalances among different countries.

Thanks to decades of high growth rates some Upper Middle Income Countries have reached decent income per capita levels and the developmental role of the state should give more attention to domestic demand.

The *developmental state* has a much wider scope than just fostering exports and growth(see Schmidt 2015), but because of their very weak productive and export structures most LICs and LMICs have major difficulties to compete with High Income and Emerging Economies. All the more so when LICs and LMICs have structural trade deficits. This is also true for the developing countries which export natural resources. As Mazzucato points out here are long-run public policies which can be much more effective than fiscal and trade regulations; these policies relate to education, infrastructures, research and investment, all factors which will support long-run growth(see Mazzucato 2013). However, because of their frail productive structure many developing countries have difficulties to put into action these type of policies.

As Adam Smith reminds us in the opening of Part III the first step is always the most difficult one.

6.2. Finance

With so many goals and targets to be implemented financial means are extremely important. The 2015 *European Report on Development* suggests tens of trillion of dollars needed on infrastructures and energy(see ERD 2015 pp. 73-ff.). In the so called *Copenhagen post 2015 Consensus* Lomborg criticizes the fact that there are too many SDGs and he suggests that 2.5 trillion dollars should be expected in international development assistance between 2016 and 2030.

The overall resources available might be short of what is needed, but there will probably be a lot of funds potentially flowing towards developing countries, thanks in particular to the huge increase in private funds since the year 2000.

6.3. Different types of financing for development, FfD

ERD 2015 underlines the fact that way in which finance will be mobilised and directed to the different SDGs is more important than the overall availability of funds(see ERD 2015, pp. 27, 323). The real issue will be the composition of different financial means with respect to both the type of needs, the goals, and above all the type of countries.

Different types of financial instruments are needed for **different goals/targets**; Kharas et al. provide a classification of the different types of finance for the different development goals(see Kharas et al. 2014, p. 7). See also the report of the experts on sustainable development financing (see UN-ICESDF 2014, pp. 8, 18). ERD 2015 suggests different types of financing according to the different enablers of sustainable development (see ERD 2015, chapter 6 and pp. 298-299)⁴⁶.

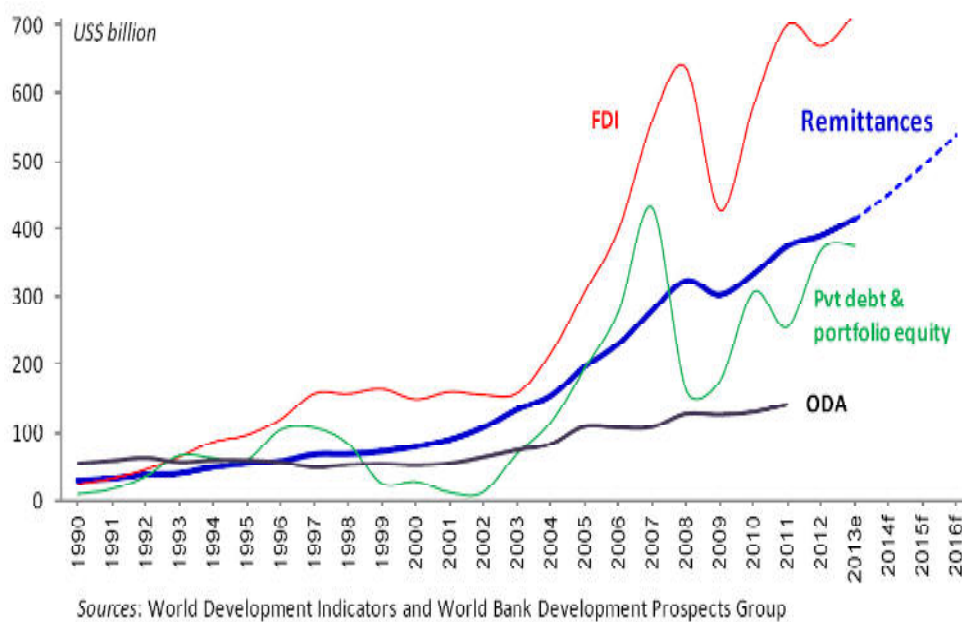
ERD 2015 proposes a fourfold classification of the different types of possible financial resources(see ERD 2015, pp. 31-2):

- domestic public resources
- domestic private resources

⁴⁶ ERD 2015 stresses new possible types of international financing for development(see ERD 2015, pp. 123-125).

- international public resources
- international private resources

**Figure 1. Total net resource flows to developing countries, by type of flow, 1990-2016f
(Billion of Dollars)**



Different financial opportunities depend also on the **different income levels** of the various countries (see ERD 2015, pp.299-300, 315 and Kharas et al. 2014, p. 27). Private flows are more important for MICs, while international public flows are still extremely relevant in LICs and LDCs. Developing countries should try to rely more and more on domestic private and public resources, namely taxes (see also Touray 2014). As we have already seen in developing countries the tax base and the tax revenue can only increase in a slow way, while ODA and Other Official Flows might decrease more rapidly. There is a possible time-mismatch between the ability to raise enough domestic resources and the way in which donors reduce concessional flows. This fact creates the problem of the so called *missing middle* (see Kharas et al. 2014, pp. 26-7).

The **degree of concessionality** is another obvious way to classify the different types of FfD. This is a very important criterion for countries with different income levels. The group of experts on finance for development underlines the importance to have an appropriate combination of types of need, of income levels and of degrees of concessionality (see UN-ICESDF 2014, p. 31). ODA and grants are the preferred type of resources for LDCs and LICs, and for human and social type of needs, such health and WASH, Water Sanitation and Hygiene.

Most LDCs and LICs have structurally negative trade and current accounts, thus they are still building foreign debt. Moreover, resource poor countries receive very little FDIs, but many LDCs and LICs receive a lot of *remittances* in proportion to GDP, which help to compensate for the negative current accounts(see Vaggi and Capelli 2013)⁴⁷. This is also the case in some LMICs.

We must also remember that many LMICs and also UMICs have not yet fully recovered from the debt crisis of the eighties (see UN-ICESDF 2014, p. 7). Interest payments on foreign debts are no longer as large as they were in the late nineties, but they negatively affect the current account.

FfD needs a **country specific financial approach** and must be tailor made(see Kharas et al. 2014, p. 17). This is the only realistic possibility not only because of the large number of goals and targets, but also because countries are characterized by different incomes per capita, by different levels of human development, fragilities and above all by different economic structures. The UN group of experts on development finance mentions the need of securing country ownership in the design and implementation of policies and in the financing strategies(see UN-ICESDF 2014, pp. 8, 18).

There is a large consensus that LDCs and LICs should go through *a process of graduation* from a situation in which they benefit only from concessional flows to full access to international financial markets. This implies moving from grants and fully concessional loans to blended finance and to borrowing in international markets. This process should be a very gradual one and LICs and LDCs should make maximum use of *not-fully market instruments for development finance*. Moreover this implies a careful utilization of the classifications of countries which are based on income thresholds(see Kharas et al. 2014, p. 25), for example in order to access the World Bank IDA

⁴⁷ In many MICs and resource-rich countries FDI generate the problem of profit repatriation which has a negative impact on the current account (see Vaggi and Capelli 2013). Portfolio flows too might have negative effect of on growth, also because of possible financial shocks (see ERD 2015 p.154).

financial window. In practice it might be very difficult to strictly follow an ideal graduation path and this will require a continuous dialogue between countries, donors and International Financial Institutions.

Multilateral Development Banks and regional banks, such as the African Development Bank, the Inter American Development Bank and the Asian Development Bank, could play a very important role in this process of graduation. The new BRICS Development Bank(see Griffith Jones 2014)⁴⁸ and the Asian Infrastructure Investment Bank (AIIB) could also help this process of graduation, in particular taking care of infrastructural projects in LDCs and LICs.

Public Private Partnership, PPP, is very much in fashion and is seen as a very powerful new tool of FfD, in particular when public funds, ODA, are used to ‘leverage’ private funds. This is a very important mean of financing, but PPP should be used in the case of funds dedicated to special goals and purposes; a typical case is the so called Global Fund to combat HIV, malaria and other diseases. But PPP could also be used for other human development goals. PPP could work well when the goals and the objectives of the financing are clearly indicated and the timing of the commitment is well specified and it is coherent with the time span of the challenges.

The use of public funds to raise private funds could also expose the receiving country to more financial volatility.

LDCs and LMICs should move slowly out of concessional finance and they should gradually enter into international markets in order to avoid financial crises.

Two further considerations could help to achieve the above aim.

⁴⁸ Innovative ways to mobilize resources could also help countries in the phase of transition towards international financial markets; for instance there could be *dedicated funds* which focus on specific issues such as climate change and health. The OECD 2014 Development Cooperation Report puts forward the idea of peace bonds to be used to finance peace initiatives, this is the topic of SDG 16.

The first consideration concerns *the appropriate types of finance*; apart from the traditional ways to measure the degree of concessionality, it would be useful to classify the different financial resources also according to two other criteria:

- whether the resources are either *short* or *long-term*;
- which are the real possibilities of developing countries of *locking-in* these flows.

The latter criteria refers to the leeway of the receiving country to have some control on the destination of the financial flows and on the fact that they will stay long enough to achieve the goal. Of course both criteria are coherent with a view of development as a long-term process and are particularly important for the different types of private flows. A joint venture which is aimed at the opening of a new factory is both more localized and more stable than a portfolio investment.

In some cases the two principles partially overlap, but they do not necessarily coincide. Section 6.4 examines a special type of financial resource: sovereign bonds.

The second consideration regards *the classification of countries*. The traditional taxonomies are based either on income levels or on human development indicators; two more criteria could be very useful:

the **productive structure** of a country;
its **export composition**.

Both criteria partly overlap with the classification according to income levels; in general the productive capacity of MICs is stronger and more diversified than that of LDCs.

Research is now going on countries classifications which are different from income levels. Tezanos Vázquez and Sumner group developing countries according to four dimensions of development which lead to five clusters (see Tezanos Vazquez and Sumner 2013, pp. 1733, 1737-8), and there are significant differences with respect to income based classifications. The first development dimension they identify is: “development as structural transformation” which includes GDP and export composition. The two above criteria underpin the capacity of a country to adjust to international markets⁴⁹.

⁴⁹ Nielsen classifies countries in a different way (see Nielsen 2013, pp. 1093-96).

In the past many MICs had serious problems with foreign debts, recently some emerging economies and even some BRICS have difficulties in international market. Argentina, South Africa, Brazil, Turkey, Russia might easily slip into current account problems. The Congo case in the prologue is not a unique one; there is the well-known conflict between the Argentinian government and the Elliot Management fund following a sentence by Judge Griesa in a New York court⁵⁰.

One of the lessons from the various *financial crises* of the eighties and nineties is that the ability of a country to react to a crisis depends on its productive structure. Large capital outflows are difficult to resist and can easily lead to exchange rate depreciation. In 1997-98 the depreciation of the South Korean won worked well because the country export composition was fit to take advantage of her new competitiveness; as a matter of fact Korea produces goods which are in high demand on international markets(see section 5.3.f.).

If Greece should leave the Euro the depreciation of the new currency would not lead to any major improvement in her current account; there are very few tradable goods and services in Greece's exports.

Even the developing countries which export high valued commodities, such as fuel and minerals, are exposed to the risk of insolvency, if they do not undergo a major transformation in their productive structure.

The ability of an economy to graduate from concessional funds and to finance its goals through private international markets depends on its capability to avoid major current account crises.

We could regard this as a criterion of **economic** and **financial resilience** to external macroeconomic and financial shocks.

6.4. *Sovereign Bonds*

⁵⁰ See IMF 2014 Box 1 pp. 8-9 for the description of the various phases of the litigation between Argentina and this Fund.

Among the different types of foreign financing I will focus on *sovereign bonds*. Bonds are typically long-term and should fit well into financing long-term development goals. However bond markets can be highly volatile and generate a lot of economic instability.

6.4.1. In LDCs and LICs this type of financing is still quite small *vis à vis* other types of resources, but it has perhaps the largest potentiality to increase.

Thanks to high savings (see OECD 2015) on international financial markets there is abundant liquidity. As we have seen in sections 4.4 and 5.3.g interest rates in High Income economies are very low. These conditions favour *carry trade*, with private capitals flowing towards corporate, emerging and developing countries bonds in search of higher yields. This looks like a favourable situation for bond issuances by developing countries.

Bonds represent by far the largest share in derivative markets, with more than 500 trillion dollars and there is a growing interest in bonds issued by LICs and LMICs.

Many countries in Sub Saharan Africa, have been issuing sovereign bonds, more than 6 billion in 2014 bringing the overall value to more than 18 billion. Fourteen countries, both commodity exporters and not, have issued bonds which are mainly denominated in US dollars (see Tyson 2015 I, pp. 3-5 and p. 19 for the countries involved)⁵¹. All these types of bonds are below “investment grade” and most of these issuances are managed by a lead underwriter which usually is a global investment bank (see Tyson 2015 I, p. 6).

The debt to GDP ratios of these countries are still in the range of 40% (see Tyson 2015 II, p. 6), they are much lower than those of the eighties and nineties before the HIPC and MDRI debt restructuring initiatives.

In Sub-Saharan Africa there is a growing domestic bond market in local currencies which has reached 400 billion USD in 2014, of course interest rates on local currency bonds are higher with respect to those on international bonds (see Tyson 2015 I, p. 12). These interest rates are still relatively low *vis à vis* those experienced in the eighties and in the nineties and the interest rates on Greek bonds since 2010. A 6-7 per cent real growth could help to satisfy the simple financial

⁵¹ Tyson 2015 I and II provide an exhaustive analysis of the different types of issuances and of the related problems, many points are derived from these two papers.

sustainability condition according to which the debt to GDP ratio does not increase if the interest rate is not higher than the nominal growth rate(see Vaggi and Prizzon 2014). However all these countries have negative primary fiscal balances and this contributes to the increase in the public debt to GDP ratio(see Tyson 2015 II, p. 6-7); by and large they also have negative current accounts, which increases foreign indebtedness.

6.4.2. *Another debt crisis cannot be ruled out*, in particular in LDCs(see Eurodad 2014 p. 16). Griffith Jones and Tyson 2012 see many similarities with the situation of Latin America and of Asia in the eighties and in the nineties respectively. Sub-Saharan African countries do also experience capital flights (see Tyson 2015 II, p. 8).

As a matter of fact these countries are exposed to all three major types of risk in the case of foreign debt:

- interest rate,
- currency,
- liquidity.

I would add:

- country instability,
- price volatility, which is very important in the case of commodity exporters.

Bond financing is apparently long-term, but in the time of *Financial Mercantilism* these funds can easily leave the country. Even in the case of very long-term bonds international markets are dominated by the search for capital gains and not only by the search of higher yields(see Moore in *Financial Times* 19, march 2015, p. 22).

In early 2014 when the Federal Reserve announced the so called “tapering” Ghana, Kenya, Tanzania and Ethiopia had either to delay or to cancel some issuances because of expectations about interest rates increase⁵².

In a rather cautious UN preparatory document of the Addis July Conference on FfD and issued on the 21st of January 2015 it is indicated that “debtors and creditors must share the responsibility for

⁵² A simulations in ERD 2015 suggests a 0.8% negative impact of “tapering” on GDP growth in SSA(see ERD 2015, p. 139).

preventing and resolving unsustainable debt situations”(see UNDES-FfD 2015 p. 9). Unfortunately nothing of that kind is available today. Debt sustainability analyses have progressed a lot since the debt crisis of the eighties⁵³, however the tools and policies to deal with debt distressed countries are very much the same today as they were thirty years ago.

1. There is no **orderly work out mechanism for debt restructuring**; the project of a Sovereign Debt Restructuring Mechanism SDRM proposed in 2003 by Anne Krueger, then Deputy Managing Director of IMF, has not progressed (see UN-ICESDF 2014, pp. 44-45). In 2014 the UN General Assembly passed a resolution asking for a framework for sovereign debt restructuring (see UN Resolution 68/304, 2014).
2. There are **no ex-ante provisions** such as those of the *chapter 11* of the US banking regulations, which allow for a temporary freeze of interests, thus avoiding the vicious mechanism according to which debt grows because of unpaid arrears.
3. **Flexible exchange rates** are no shield against sudden deterioration of the country risk perception by financial markets (see also point 6.4.3. below).
4. Following the Asian crisis of the nineties there has been a big **accumulation of reserves** for precautionary financial reason⁵⁴, but Low and Lower Middle Income countries have very limited reserves. Given the dimension of today international financial markets and their volatility the size of reserves should be much higher than a few months of import coverage. The Latin American debt crisis of 1982 and the Asian crisis of the nineties have taught that short-term foreign borrowing, the ‘hot money’, is very dangerous. The sum of the short-term foreign debt and of the current account deficit *vis à vis* the amount of reserves is regarded as a good indicator of financial fragility. However nowadays the adequacy of reserves should be evaluated not only with respect to short-term liabilities, but with respect to the stock of *all types* of private and non-concessional public inflows, irrespective of the different maturities. This criteria includes long-term bonds among the type of liabilities which could create a

⁵³ See for instance the models of the IMF, of the World Bank and of UNCTAD.

⁵⁴ The UN Preparatory document for the Addis Financing for Development conference of July 2015 mentions systemic risks and financial volatility as the major reasons for the accumulation of reserves by developing countries (see UNDESA-FfD 2015, p. 10).

dangerous situation of financial fragility. Of course FDI and of remittances do not generate foreign liabilities⁵⁵.

6.4.3. At some point LDCs and LICs will be part of international financial system, but the real issue is when and how. *Opening up to international finance* will contribute to the financial development of these countries, but there is the problem of finding an appropriate sequencing in order to reduce the possibility of severe crises. te Velde 2014 asks for a prudent opening to international capital market⁵⁶. Countries should make use of all available tools and policies to slowly and smoothly merge the domestic credit and financial markets with the international one.

At the end of section 6.3. we have seen that LICs and LDCs must improve their productive structure and achieve a minimal export diversification before entering international financial markets. Of course this type of structural transformation needs time and it is during this period of time that LDCs and LMICs should be allowed to adopt policies and tools to control capital flows.

The ideal path should be as follows.

First, LDCs and LMICs should develop a ***domestic credit and financial system***, in order to foster domestic savings and to support lending to local enterprises. In Sub-Saharan Africa Small and Medium Size Enterprises, SMSEs, have great difficulties to achieve credit and the interest rates are very high, reaching 30%.

International public resources and also philanthropy funds could play a big role in supporting small and medium size business. The reinforcement of the domestic banking sector could help the development of local financial markets. Regional financial markets could represent a further step: Johannesburg, Nairobi and Lagos are obvious candidates.

Second, LDCs and LMICs should be granted the possibility of a prudent ***management of capital inflows and of the capital account***, in order to favour the really long-term flows and to penalize

⁵⁵ Contrary to the views of the Mercantilist period today no one would think of reserves as a measure of national wealth, but it is intriguing to observe that in the age of financial liberalization reserves to GDP ratios have reached very high levels.

⁵⁶ te Velde notices that there is a considerable body of literature which shows that the impact of FDI and portfolio flows on growth is dubious (see te Velde 2014, p. 4).

short-term ones (see IMF 2011b)⁵⁷. Chile and Malaysia have successfully adopted these types of policies in the past. Recent research work by Rey has showed that in the *global financial cycle* flexible exchange rates cannot insulate emerging economies from financial crises(see Rey 2013). Direct control on capital flows is needed in order to avoid major crises.

The above strategies require *Special and Differential Treatment, SDT*, for LDCs and LMICs; SDT should allow developing countries to manage credit and financial systems. The gradual opening to international financial markets requires the reduction of the distance between the powerful financial operators who have countless of opportunities of investments and the much weaker new comers, even if they are nation states.

This is part of the **general view of re-balancing** the different economic and financial powers.

I am not very optimistic about the possibility of these gradual inclusion of the weakest countries into the present international financial system; the fact that the money is there and that sometime developing countries' bonds are oversubscribed should not diminish the awareness about the risks of a hasty approach to sovereign bond issuing⁵⁸.

6.5. GDP Indexed bonds

Index linked bonds are a type of financial tool which could make life much easier for the developing countries which try to enter the international bond markets. For LDCs and LICs the best situation would be that of being able to issue bonds with three types of characteristics:

1. they are long-term;
2. they support sectors and investments which generate capacity and productivity increases;
3. they have an element of risk sharing.

⁵⁷ Eurodad 2014, p.10 asks for provisions for capital account regulations; see also Tyson 2015 II p. 11. The Addis Ababa Action Agenda too emphasizes the need for Special Differential Treatment (see UN-AAAA 2015, pp. 25-27, 33).

⁵⁸ Rashid and Stiglitz 2013 warn us about the risk of excessive borrowing by African countries. In an interview to *Finance and Development* Stiglitz notices that “cross-borders flows can be very destabilizing” and that lacking a global regulatory system countries should protect themselves(see IMF 2011a, p. 51).

The first two features are self-explaining. The third one has to do with the fact that during the transition towards a stronger economic and financial structure it is necessary to limit the risks that a financial crisis could derail the economy from its long term-growth path.

Bonds' interest rates could be linked to some *macro* magnitudes: GDP growth, export performances and in the case of resource rich countries the prices of primary commodities⁵⁹. The indexation could also refer to the redemption value of the bonds, as in the case of inflation-linked bonds. For a developing economy it would be better to have an index which affects interest payments; in case of an external shock or because of the slowing down of growth a reduction of interests would help to avoid payment arrears⁶⁰.

These type of bonds could also be used at the *meso* level and the interest rates could be linked to the performances of specific investments programs and projects.

The specific sectors to be supported would depend on the existing productive structures and on the country development strategy.

Indexed bonds could also be used to finance *infrastructures*; projects could be related to energy, transportation, ports. In these cases it could be difficult to identify a specific program/project indicator to which link the bonds and it could be better to use a macro indicator such as GDP growth. Financing infrastructures with index linked bonds could also be used for regional infrastructural programs.

The fact that the sectors and areas which benefit from these funds are part of a long-term growth strategy of the country should help to moderate interest rates. The bond subscribers know that their funds are invested into an activity which represents a long-term commitment of the country, therefore the government itself has an interest in securing the success and the profitability of the sectors and areas which benefit from this type of funds.

Index linked bonds imply an element of *risk sharing* and they could strengthen the sense of a common endeavor between lenders and borrowers, a very important feature in foreign financing.

⁵⁹ The 2015 European Report on Development does not discuss indexed bonds; more attention is dedicated to Diaspora bonds (see ERD 2015, p. 123).

⁶⁰ During the debt crises of the eighties and nineties most of the increase in the debt stock originated because of the inability of countries to orderly service their debts and in particular to pay interests.

There are some advantages with this type of bonds.

First, they transfer part of the risk to the creditors and in general interests payments become pro cyclical: interests are higher when the country performs better and *vice versa*, therefore indexed bonds are particularly useful in case of an economic slowdown.

Second, this mechanism puts less pressure on government finances and allows for more fiscal space, because less precautionary finance is needed and they help to stabilize fiscal policy. A study by the Bank of England shows that indexed bonds can also produce significantly positive welfare effects, mainly by reducing default risks(see Barr *et al* 2014)⁶¹.

The disadvantage with indexed bonds is that usually they have higher borrowing costs than the equivalent conventional bonds, the so called “plain vanilla” type, with no special rules attached. Therefore when interest rates are relatively low and funds are abundant the borrowing countries show little interest in using this type of financing and prefer traditional bonds⁶². However market conditions could change and GDP indexed bonds contribute to smooth the business cycle, therefore they fit well in a long-term development strategy.

There are some technical issues to face, for instance one has to decide if interest rates are linked to the variations of either the nominal or the real GDP. In the case of domestic debt linking the rate of interest to the changes in nominal GDP covers the investors from inflation; there are already bonds whose capital value is linked to inflation. In the case of foreign debt the GDP and the stock value of debt are denominated in different currencies; it could be useful to link the interest rate to a combination of two elements: the inflation rate on the foreign currency in which debts are denominated and the real growth rate of the domestic economy.

Another important issue concerns the authority which should certify the growth rate, the risk being that the national government could underestimate growth in order to pay lower interests on foreign

⁶¹ The work by Barr *et al* deals with advanced economies only. The author find that GDP-linked bonds can facilitate more borrowing because they increase the threshold limits of the debt to GDP ratio.

⁶² Griffith Jones and Sharma highlight a number of reasons why investors might not like to buy indexed bonds(see Griffith Jones and Sharma 2006).

debt. The collaboration of international institutions and statistical organizations, such as Eurostat for Europe, could help to overcome this difficulty.

In the past index-linked bonds have been adopted in the debt restructuring processes of Mexico and Argentina. In a well known paper Borensztein and Mauro maintain that these bonds could help to stabilize the debt ratio⁶³. GDP bonds have come back in fashion in connection with the Greek crisis of 2015 and they have been indicated as a possible tool to restructure the Greek debt (see Goodhart 2015). On August 8, 2015 the Italian financial newspaper *Il Sole 24 Ore* has launched a proposal for a generalized utilization of GDP bonds; in the following days several comments have been added(see <http://www.ilssole24ore.com/art/commenti-e-idee/2015-08-08/btp-legati-pil-puntare-crescita-100011.shtml?uuid=ACYyYxe>).

An essential component of this proposal is that of having very long maturities, up to forty years; this fact will reduce the pressure of foreign debt service on indebted countries. In order to service her foreign debt a country must generate a surplus in the non-interest current account, NICA, and quite often also in the primary budget. The improvement of the NICA entails an increase of exports, not quite an easy task for a LIC, and a decrease of imports; a primary surplus usually requires a contraction of public expenditure and an increase in taxes. Both strategies can be quite painful for economic growth.

6.6. Special treatment for LDCs and LMICs bonds.

The tools and policies we have seen in the previous section might help to reduce the chances of a situation like the one described in the prologue of this work, but for sure they cannot prevent the possibility that LICs bonds could become the object of speculative activities.

The group of Experts on Sustainable Development Financing asks for an enabling international environment that could “remove the sources of international financial volatility” and “reduce global financial fragility”(UN-ICESDF 2014, p. 40). The report demands financial markets regulations(see *ibid.*, pp. 27, 34). Target 10.5 of the SDGs refers to the “regulation and monitoring

⁶³ For a brief literature review of these bonds since the debt crisis of the eighties see Barr *et al.* pp. 4-5.

of global financial markets and institutions” and debt sustainability is mentioned in target 17.4⁶⁴. This is more or less everything we find on the regulation of financial markets in the new SDGs⁶⁵.

Regulations are certainly useful, but what about the content of these rules? These regulations should try either to prevent or at least to discourage short-term speculative investments. However for many LICs and MICs foreign financing would be much easier if in international finance there were a separation between commercial and speculative activities. If bonds geared towards Development Finance could enjoy *ad hoc* markets, procedures and laws both the volatility and the risk of default would be highly reduced.

This is an extremely necessary conditions, but very difficult to achieve, because it questions the common held view about the efficiency of private markets and it challenges powerful interests.

Let us imagine that developing countries could issue bonds with three characteristics:

- at the time of the issuance special legal clauses clarify the long-run nature of the bonds and indentify the forum which should be used in case of disagreement;
- the issuance is supervised by an international body, either a UN agency with experience in debt sustainability such as UNCTAD or the World Bank;
- there is a strict control the type of investment funds which are allowed to operate on the secondary markets, in particular when these funds intervene as buyers.

These rules will restrict the potential subscribers of the bonds and they would probably imply higher interest rates⁶⁶. This effects could be mitigated by a **fund** which should be activated when the regular servicing of the bonds is at risk because of reasons which are outside the control of the country. These reasons could be: a fall in commodity prices in case of commodity exporters, an international financial turbulence, a slowing down of the major trading economies, natural and manmade disasters.

⁶⁴ Target 8.D of the Millenium Goals was much more articulated on the issue of debt sustainability.

⁶⁵ “The proper functioning of food and commodity markets and their derivatives “ is in target 2c.

⁶⁶ One could also have a non-interest bearing deposit for some months and a penalty in case the money is disinvested before a certain number of years.

As long as only LICs and some LMICs could access this fund its size might not be very large. The fund could be located at some international institution, see the second point above, and its role would be similar to that of the World Bank IDA financial window, because only a limited number of developing countries could use it.

The fund would come into operation in cases which are similar to those requiring the IMF's intervention, when there are liquidity and balance of payments crises, but with two big differences.

- First, the fund specifically supports long-term borrowing by developing countries.
- Second, the indexation makes interests and re-payments contingent on the evolution of the external conditions responsible for the crisis, an aspect which resembles chapter 11 of the US banking law⁶⁷.

A special financial track to facilitate bond issuing by LDCs and LMICs would be one more way to give them enough time to strengthen their economies before entering private international financial markets. The enhancement of productive capacity and the diversification exports need time.

6.7. Separate markets for development investments

Most of these special and differential tools for development finance are necessary because financial markets have become:

- very speculative,
- very much oriented to capital gains,
- very much guided by a short-term horizon.

These are three distinctive features of today international finance, but they are at the opposite of long-term development.

The idea of having separate markets for LDCs and LMICs bonds resembles the separation between the activities of commercial banks and those of investment banks which was introduced in 1933 with the *Glass-Steagall Act* and it has been repealed in 1999 by the American Congress with the approval of a new banking law. Following the financial crisis of 2007-2008 the *Dodd-Frank Wall*

⁶⁷ A major issue is that of identifying the institution which will take the decisions about the impact of the crises.

Street Reform and Consumer Protection Act of July 2010 has introduced many controls and regulations, but it has not separated commercial and investment banking activities. The closer that we come to this separation is with the so called *Volcker rule*, which is trying to prevent United States banks from making speculative investments with the deposits of their customers. The rule has been mollified and has come into effect on July the 21st 2015.

LICs and LMICs have great difficulties with risk management because their small domestic financial markets are not liquid enough and offer few financial products to “hedge” against different types of risk. Therefore investors are limited to buy and hold long-term type of financial products because of lack of derivatives⁶⁸. This limitation has also a positive aspect because it gives domestic credit and financial markets time to become more robust, before they will have to deal with more complicated financial products.

John Kay thinks that there are already too many regulations in the booming financial sector and that the real issue is that the sector needs profound structural reforms. A more limited financial sector should provide services more effectively directed to the real economy, that is to say a financial sector which is oriented to sustain the real needs of households and firms(see Kay 2015). All the more so in the case of long-term development finance.

A final remark. There is another reason why issuing bonds and entering international financial markets is quite risky for developing countries: they have very *limited financial expertise and debt management capabilities*. Sovereign bonds management will help these countries to build these capabilities(see Tyson 2015 II pp. 10-11) and to foster their domestic financial markets. Dealing with international finance will enhance institutional and human capabilities and will contribute to capacity and institutional building in credit and finance.

This is true, but are these the priorities of countries with limited capacities? Should LICs and LMICs dedicate efforts and human capacities to deal with issues and technicalities such as the RUFO clause (Rights Upon Future Offers)? What about the *pari passu* clause which guarantees equal treatment between old and new creditors and which has created so many problems to Argentina?

⁶⁸ In the *Financial Times* of April 25, 2015 Alberto Gallo reminds us that “the general rule in markets, however, is that you can never hedge everything”(p. 20).

This followed from a decision of the US Supreme Court in June 2014 not to hear the Argentina's appeal against a decision by New York Court in favour of the claim by NML Capital, Ltd., a hedge fund based in the Cayman Islands about being repaid 100 per cent of the original value⁶⁹. The IMF has suggested modifications of the *pari passu* clause in order to strengthen the Collective Action Clause (CAC) mechanism and to prevent the possibility that the so called 'holdout creditors' could block the proper restructuring of sovereign debts(see IMF 2014, pp. 4-5).

Are these the most urgent matters to which the best civil servants of LICs and LMICs should dedicate their efforts? Why not to improve administrative capacities in the most needed areas, such as people registration, health and education?

7. On global partnership: dialogue and negotiations

7.1. The SDGs and their interactions

We started our brief history of development with just one objective, economic growth, now we have plenty of goals and targets, probably too many; it could be a mess and there is the risk of missing the chance to finalize the work which started with the notion of Human Development and with the MDGs. With all these goals it is clear that more negotiations are needed and decisions will have to be taken on the priority goals and on the means of implementation. The success of the SDGs will largely depend on the way in which priorities will be chosen and implemented.

International cooperation will not cease to be largely donor-driven, but the role of traditional donors will become less relevant and more voices from the 'global south' will make themselves heard. This complicated process is already under way and it is being reinforced by the growing economic power of Asia and of emerging economies. All major documents leading to the SDGs emphasize the role of global partnership(see UN-HLP 2013, UN-SG 2014, UN 2015). We all agree that we must move *from working for to working with*, but how? To put it into another way: how to have a concrete

⁶⁹ In 2013 a similar problems arose with the restructuring of Greek debt, in this case most of the bond issuances were under English law.

development policy dialogue? How to implement the global partnership, which is at the core of SDG 17, the last one?

Let me briefly summarize the SDGs and the targets as they emerge from these preparatory documents, this will help to address the issue of partnership.

A New Global Partnership is the title of the High Level Panel Report of 2013 and partnership is the focus of the whole document. This report has 12 goals but above all it highlights the need to approach the post-2015 agenda with the guidance of *five transformative shifts*(see UN-HLP 2013, pp. 7-10). There is a clear message for major changes and **transformation** in the present social and economic organization. These shifts no longer appear with the same emphasis in the august 2015 UN document which is the basis of the September Resolution.

The December 2014 Secretary General Report has a beautiful title *The road to dignity* and it regroups the 17 goals into *six essential elements: dignity, people, planet, prosperity, justice, partnership*(see UN-SG 2014, pp. 16-18).

The September Resolution bears the title *Transforming our world* and indicates *five areas of critical importance: people, planet, prosperity, peace, partnership* (see UN 2015, p. 2). In this document two of the five transformative shifts of the UN-HLP 2013 document receive less emphasis.

The first of these two shifts is **leave no one behind**, an approach with wide ranging implications for international cooperation because it implies that in the implementation of each goal and each target the focus must be on the poorest, weakest and excluded ones. In the September document UN-HLP 2013 we find similar statements inside the text, on points 4 and 26 and there are implicit reference to this view in several parts of the document, but *leave no one behind* is definitely less prominent.

The second shift which is no longer at the forefront is **jobs and inclusive growth**. The September Resolution has plenty of references to inclusive growth and to decent work, but the above shift had the advantage to clearly indicate that jobs are an essential component of the well being and of the social status of people. This shift is stressing the fact that we must take care of the poor not just by satisfying their basic needs, may be through charities and donations, but through changes which

should lead to decent job opportunities, a view which directly involves the social and economic structures of society.

The new *five areas* of the September Resolution do not include one of the *six essential elements* of the Secretary General Report of December 2014: *dignity*. This term is mentioned in the first pages (see UN 2015 points 4 and 8, pp.3-4), but it is a pity that dignity has become less prominent. The precise content of the term dignity might be controversial, but it because it clearly links up to the human development view, to the capability approach and to the idea of development as freedom. The road to dignity would have been a very nice title for the 2015 declaration.

The September text underlines the *three dimensions of sustainability: economic, social and environmental* (see UN 2015, p. 3).

Let me summarize the content of the three documents: in the 2013 HLP Report we have 12 goals, 54 targets and *five transformative shifts*; the 2014 Open Working Group text has 17 goals and 169 targets and it is the basis of all the following documents; the December 2014 Secretary General Synthesis Report has *six essential elements*; the September Resolution has *five areas* and *three dimensions* of sustainability.

This quick history of the process leading to the new goals shows that the two areas/elements *people* and *planet* are at the forefront of the SDGs. Both the people and the environment are the true end-goals of international cooperation. The message is clear and it derives from the 2012 Rio + 20 conference. The environmental dimension was one of the MDGs, which were focused on human development. Now both human development and the environment describe the new goals and are part of the definition of sustainability.

In Table 1 I have organized the 17 goals into *four clusters*; some associations between the five areas/six elements/three dimensions and the four clusters are rather straightforward.

- The **Environment** cluster largely includes the items in the area/element called **Planet** and it describes the environmental dimension of sustainability.

- The area **People** and the element **Dignity** largely overlap with the cluster **Human development**. I have chosen this term because it makes clear which type of goals are included in it, moreover this cluster comprises most of the 2000 MDGs, which were very much influenced by the human development approach.
- The cluster **Economics/Financing** includes both economic issues and financial means of implementation. This cluster underlines the economic dimension of sustainability and it incorporates many targets of the area/element **Prosperity**. In this cluster we find matters which refer to social and economic structures.
- **Global Partnership** is the same in both the areas/elements and in my clusters.

The cluster classification requires some comments.

First, the first cluster includes some elements which are part of the social dimension of sustainability, but the goals and targets of this cluster really belong to the human needs/human capacities view of development. The social dimension has much broader implication on the organization of society and implies an exam of the structures of society, which appear in the third cluster.

Second, the targets in grey could easily fit into a cluster which is different from the one to which their goal belongs.

Third, SDG 10 **Reduce Inequality** appears for the first time in the 2014 Open Working Group document; this is a very important step forward with respect to MDGs. However most of the targets appear either in the first or in the fourth cluster. The reason is quite simple. Targets 10.2, 10.3, 10.4, 10.7 are elements of an equitable and inclusive society in which people are different, but these differences do not determine a divergence in human rights and in human development. I will come back to this point in section 7.2.2. where I will discuss social welfare. The targets in cluster four are about policies and procedures which require international dialogue.

Fourth, it is not easy to separate **goals** and **means**. We could regard the goals and targets inside the first two clusters as the true end-goals, while the targets of clusters three and four refer to the ways, the procedures and the means to achieve the final goals. However three goals of the second cluster: **energy, cities, sustainable consumption and production systems** are instrumental to achieve a better human development and quality of life. Even SDG 6 **water and sanitation** could fit either in the Human Development or in the Environment cluster. I leave these four goals into the Environment cluster because they relate to an area, planet, which is very much at the core of the new SDGs. The goals relating to **oceans, territorial ecosystems** and **climate change** are end-goals because basically they refer to the rights of future generations to receive natural resources which have not been depleted(see above section 1.2. and UN 1987).

Fifth, according to its title goal number 12, **Ensure sustainable consumption and production systems**, should go into cluster number three which includes the social and economic structural elements. This goal seems to advocate major transformations in the consumption and productive systems. However the thirteen targets do not underline this aspect, on the contrary they are very much focused on environmental issues and policies, such as reduce food losses(target 12.3), promote public procurement strategies(12.7), rationalize inefficient fossil fuel subsidies(12.c). For this reason I leave it in the environment cluster.

Fifth, I have called SDG 16 **peace and justice**, but this is really a wide ranging goal because it also comprises inclusive societies, accountability, institutions. In view of the many complicated challenges that it poses SDG 16 could be in a cluster by itself; SDG 16 could also be part of the partnership cluster, because of it has huge implications in terms of global partnership. I leave it under Human Development in order to underline the human rights aspect and the social dimension of peace: peace and justice are rights and are end-goals in themselves.

Table 1. The SDGs and their targets in four clusters

Human Development People	Environment Planet	Economics/Financing Social and economic structures	Global Partnership
1. Poverty			1.a
2. Hunger	2.4, 2.5	2.3, 2.4, 2.a, 2.b, 2.c	
3. Health	3.9	3.b, 3c	
4. Education		4.b	
5. Gender		5.4, 5.a	
6. Water and sanitation	6. Water and sanitation	6.5	6.a
7.1	7. Energy	7.b	7.a
8.3, 8.5, 8.7, 8.8	8.4, 8.9	8. Promote growth	8.a, 8.b, 9.5
	9.4	9. Infrastructures	9.a
10.2, 10.3, 10.4, 10.7		10. Reduce inequality	10.6, 10.7, 10.a, 10.b, 10.c
11.1, 11.5, 11.7	11. Cities		11.4, 11.c
	12. Sustain. Consumpt./ Product.	12.1	12.6, 12.7, 12.a, 12.c
	13. Climate change	13.1, 13.a	
	14. Oceans	14.b	14.4, 14.6, 14.7, 14.a, 14.c
	15. Territorial ecosystems	15.a, 15.b	15.6, 15.7,
16. Peace and justice		16.4,	16.3, 16.8
	17.7	17.1-17.5, 17.11, 17.12	17. Global partnership

Table 1 needs a few comments.

First, it is clear that most goals and targets are heavily interconnected, a point often repeated in the September text (see for instance UN 2015, point 55, p. 13).

Second, many of the targets included in the first sixteen goals have to do with negotiations and require a dialogue among all the stakeholders, this is why they are inside the ‘global partnership’ cluster.

Third, some targets belonging to goals which appear in the first two clusters are classified in the third cluster because they are related to financing and to the means of implementation.

Whatever the classification of the different goals, without a serious partnership made of a continuous dialogue and thorough negotiations the SDGs will largely stay on paper. This is the only possible and realistic road ahead for the SDGs agenda and this is why SDG 17, the last one, is probably the most important one.

7.2. Making SDG 17 work, in three steps

SDG 17 says: *strengthen the means of implementation and revitalize the global partnership for sustainable development.* SDG 17 has 19 targets divided into 5 groups and 3 systemic issues.

Table 2. SDG 17 and its composition

Groups	5	Targets in the first 4 groups	12	Targets in the 3 systemic issues	7
Finance					
Technology		3			
Capacity building		1			
Trade		3			
Systemic issues				Policy and institutional coherence	3
				Multi-stakeholder partnership	2
				Data monitoring and accountability	2

How to make it work? *Empowerment, ownership and global partnership* require that cooperation should be *a dialogue among less unequal partners*. At the moment partners are very much different in terms of wealth, position in international trade, financial means, knowledge, power, capacities.

The re-balancing of negotiating capacities should be the leading principle to achieve a more effective partnership.

This will be the real test of the SDGs. The need to guarantee LICs and LMICs more policy space and special and differential treatment in trade and in finance(see section 6) is part of the general principle of re-balancing the negotiating powers of the different stakeholders. Below there are some suggestions to make this dialogue work.

Effective global partnership requires at least three steps.

7.2.1. Step 1: country ownership

The September Resolution highlights the global and universal character of the SDGs and of their targets which are integrated and indivisible (see UN 2015, point 55, p. 13). But in the very same point there is also the indication that “Each government will also decide how these aspirational and global targets should be incorporated in national planning processes”(ibid.) Emphasis on country ownership and on national priorities can be found in different points(see *ibid.* point 66, p. 29 and point 74, p. 32). Respect for national policy space is also in point 21(see *ibid.* p. 6).

The fundamental role of national strategies and of country ownership can also be found in several passages of the outcome document of the Addis Ababa Conference of July 2015. Point 58 promises to “align the activities with national priorities” (UN-AAAA, p. 18, see also p. 19). On point 74 there is a commitment “to strengthen national ownership and leadership”, point 76 deals with “effective and durable multi-stakeholder partnerships” and we read that this partnerships must “support country-driven priorities and strategies(see *ibid.* pp. 22-3).

The negotiations which have taken place during 2015 have definitely extended the scope and the role of developing countries in deciding about their development policies. This is a very positive and realistic evolution, for at least two reasons.

First, faced with a lot of goals and targets *each country will have to decide its priorities*. It is difficult to imagine that a Low Income Country could have the means and the capacities to move ahead along all the 169 targets. A country should have a development plan which revisits means and goals at the national level; this does not mean that the government will fully control the society, there are a lot of opportunities to identify the specific role of a developmental state in different countries(see Schmidt 2015).

Second, *the nation-state is still the major political entity* both at the national and at the international level; the *nation-state* is the main institutional and administrative actor. It might be nice to overcome this situation and to have more powerful supra-national institutions, but for the time being we cannot ignore that the national states have the power and the control of the territory. Many developing countries have achieved independence rather recently, some of them have federal institutions, other countries are already undertaking experiments of devolution, but it is hard to imagine how they could skip the nation-state stage. Think of the need to build administrative capacities and to have reliable data, an issue which is in targets 17 and 18 of SDG 17(see UN 2015, p. 23) and reappears again and again in all the preparatory documents (see for instance UN-AAAA 2015, points 125, 126, p. 36-7).

We have stressed the importance of the separation between goals and means, but in a national development plan the means of implementation could receive greater attention than the goals. This may be acceptable provided that there are sound arguments to explain how the means are going to benefit the final goals. On the other hand it is necessary to take into account the constraints and the actual situation of each country; in some cases energy and infrastructures could be regarded as a priorities.

Different stakeholders could have different priorities. The whole process might require procedures, negotiations, a lot of time and of truthfulness by all the sides involved. The old and new conditionalities were designed to orientate the country's policies and to avoid red tape, waste of money etc; for sure those conditionalities which directly imply human rights will have to stay. However,

in the end partners should accept the country's decisions.

Something similar, even if not so clearly stated, is mentioned in target 17.15; no longer donors' driven programs at the country level. This is not so easy as it might appear, because some decisions could not be at harmony with the feelings and the priorities of the 'donors'. Think of a big dam in a country which is chronically short of energy, and of a possible priority given to ports and roads over health and gender issues.

Country ownership refers not only to the specific goals and projects to be implemented, but above all to the process of dialogue and negotiation between the country and the other stakeholders.

7.2.2. Step 2: trilateral dialogue and re-balancing

Once consultations have led each country - but it could be a group of developing countries- to set its priorities the question is how to achieve them. Dialogue and negotiations will have to take place among traditional donors and recipient countries⁷⁰, but more stakeholders have to be involved. The so called *new donors* are mainly countries, such as the BRICS and other emerging economies, but with this term I refer also to all the stakeholders which can potentially provide both resources and technical assistance in order to achieve the SDGs. They could be development banks, philanthropy institutions, sovereign funds, private investors, see Figure 2 below.

For this developmental dialogue to be successful I have two suggestions.

⁷⁰ According to ERD 2015 financing for sustainable development is an ongoing dialogue among all stakeholders(see ERD 2015 p. 310).

First suggestion: speak with different voices but send the same message. Old and New donors should agree on the various aid effectiveness criteria, on coherence between trade and aid policies, on coordination, on alignment and so on. If global partnership must be effective all stakeholders should adopt the recommendations of the various high level fora, from Rome 2003 to Mexico City 2014 (see section 2 above). These type of coherence by old and new donors is not at all easy, think of labour standards and of commercial agreements.

The major stakeholders are nation-states, but there is a growing number of private benefactors, of firms, of international investors and we should also consider developing countries citizens working abroad. In the case of rising Asian economies there are countries and governments with whom it is necessary to have a dialogue, for instance on climate change, human rights, labour conditions, competition etc. However the partners are well identified and there are organizations where debates already take place

In the case of finance it is much less clear how to have a debate. Where are the institutional settings for the negotiations? There are numberless investment funds, a lot of offshore centers. Above all there is the inventiveness of financial operators and the opacity of finance, which might by pass regulations and recommendations. Remember that most of the derivative products are OTC, over the counter, that is to say outside regulated financial markets.

Nevertheless, the big international investment banks are well known and they are in a small number; the same is true for the major financial centers, which are still Wall Street and the City of London. We have seen that discussions are already taking place about a better regulatory system and they have led to some new regulations(see above section 6).

Without the engagement of international financial operators it would be almost impossible to curb illicit flows, which cause such a huge damage to many developing countries (see Touray 2014).

A strong commitment to a clear separation between long-term and short-term financial operation could greatly help to stabilize financial flows for development. I suspect it will be very difficult to achieve this type of commitment.

Second suggestion: consultations and dialogue should allow developing countries more negotiating power. A situation with large asymmetries between the different parties requires the re-balancing of the negotiating powers. Re-balancing does not imply an equilibrium but more modestly the

lessening of the initial differences between the developing countries and the other stakeholders. When parties are very much different in terms of resources and capacities the re-balancing of these powers helps to achieve a fairer game and it might require some restrictions for the most powerful actors and some additional support for the weaker parties.

This suggestion is based on the *existing asymmetries* between high income and developing countries and also on the two principles of *universality* and *differentiation* (see for instance ERD 2015 pp. 310-ff., UN-SG 2014, n. 84). Universality means that the SDGs and their leading principles are shared by and apply to all the stakeholders. Differentiation acknowledges the fact that the contributions to the achievement of the SDGs depend on the different capacities of the countries.

Figure 2. A triangular policy dialogue

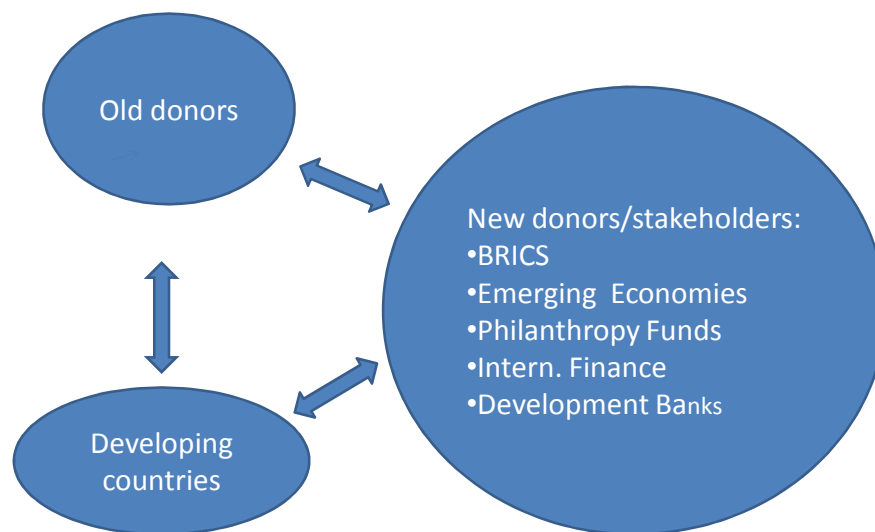


Figure 2 describes the interaction between the three groups.

The above suggestions imply the full use of the policy space by developing countries, see target 17.15. Let us see some of the main areas where policy space is needed, in brackets the reference to the specific targets.

1. Trade, Special and Differential Treatment (10.a).
2. Industrial policies: Export, Taxes, Investments, exchange rate.
3. Decent work, Migrations (8.8, 10.7, 10.c).
4. Public finances and budget: tax system, subsidies.
5. Social protection systems (1.3).

I will examine three areas.

1. Trade. In section 6 we have already seen some special and differential treatment opportunities, here I want to stress the role of *regional trade integration*. Regional Trade Agreements have boomed in recent years. Regional integration and coordination among countries in the “south” is an essential step in the process of re-balancing the negotiating powers on trade matters between LICs and LMICs and High Income and Emerging Economies. In order to have more negotiating power countries in the “south” should behave as a group rather than as a single country. This will help them to achieve stronger negotiating positions and it would also encourage the countries to establish procedures for consultations at the regional level. Infrastructures, energy, logistic are all issues which could greatly benefit from coordination at the supranational level.

In section 6.1. we have seen that the Economic Partnership Agreements, EPAs, the economic component of the Cotonou agreement between the EU and the ACP countries present several problems, nevertheless the EPAs acknowledge the principle that negotiations are between the EU and groups of countries(see Vaggi and Evans 2002). In general the US have bilateral trade agreements with individual countries.

2. *Finance*. Comprehensive agreements at the regional level, in particular in SSA, could be help to avoid the so called ‘race to the bottom’ for FDIs, in particular with tax exemption competition⁷¹. The increase of domestic resources, taxes in particular, is a very important target for all developing countries, but it must be supported by appropriate regional and international arrangements. In the case of FDIs countries should also negotiate similar terms for profit repatriation at the regional level.

Dealing with private portfolio flows could be more difficult, but here too groups of developing countries should try to establish similar rules to favour long-term finance and to lock-in capital flows.

Regional agreements should not discourage foreign investors, because they will know from the very beginning that a group developing countries has adopted similar rules and procedures with respect foreign funds. Having clear rules and a commitment to a close collaboration at the regional level among different countries will add to the perception of a more stable financial situation in the area. Discouraging short-term flows and giving a clear signal in favour of long-term investments is an element of long-term stability.

3. *Social welfare*. Social protection is meant to avoid the worsening of the conditions of the poorest ones, remember that the first transformative shift of the 2013 High Level Panel document is *leave no one behind* (see UN-HLP 2013). Social protection for the people who experience more difficulties is a way to *re-balance* an unfair, may be even dangerous, situation inside a country. This fits well with the general principle of *reducing the differences among people and of providing more opportunities to the weakest social groups*. SDG 10 explicitly mentions reducing inequality.

Welfare is a term with very different meanings in the US and in Europe. Whatever the term adopted the extension of a system aimed at securing a decent quality of life to the people of developing countries is a goal in itself. This is an essential component of the endeavor to enlarge the range of opportunities for the people of the poorest countries and to contribute to their empowerment. An

⁷¹ Tax dodging is a problem inside the euro area, where Ireland, Luxembourg and the Netherlands provide very attractive tax and administrative conditions to foreign firms.

inclusive society must have a system which guarantees decent life, health and education for all; this is a consequence of the view that all human beings have the same dignity and the same rights.

The term *welfare system* does not appear in the various versions of the SDGs, but Target 1.3 explicitly mention the need for a *social protection systems* in each nation (see UN 2015 point 24, p. 7 and Target 1.3 p. 15). Many other targets refer to elements of what in Europe we call welfare system; for instance target 3.8 calls for “universal health coverage”, target 11.1 wants to “ensure access for all to adequate, safe and affordable housing and basic services”(see UN 2015, pp. 16 and 22).

Social protection systems are mentioned in the document by the group of experts on development finance (see UN-ICESDF 2014, p. 22), where we also find the term global *safety nets* (*ibid.* p. 44), an expression which has been largely used during the debt crisis of the eighties to indicate policies aimed at mitigating the negative impact of the Structural Adjustment Programs.

Whether it is a *welfare* or a *social protection system* it is clear that a fair, equitable and inclusive society cannot be established just by providing floors and nets for those who are falling behind. These floors must be part of structures and mechanisms which are embedded in the society and which operate because of the universal nature of human rights and of people’s dignity, not just to mitigate the impact of some disasters. Of course this is an ambitious goal but the final purpose and the direction of the path must be clearly spelled out. A welfare system is not meant to mend the wounds, but to prevent them and it is closely linked to the principle of universality of the SDGs.

In those countries which have managed to adopt it the welfare system has contributed to achieve a more equitable and inclusive society; these countries are a relatively small number and most of them are in Western Europe. In many ways the welfare system is a distinctive social and political experiment in the history of Europe, it is the product of a couple of century of European history, an history made up of struggles, confrontations and laws. However the implementation the welfare system is quite recent; it follows the end World War II and it characterizes the years between 1945 and 1980(see Piketty 2013). Up till now the welfare system is a rather limited historical experiment,

both in time and space. The emergence of the ‘middle class’ is a product of economic growth, but also of an extensive social welfare system.

The welfare system could be improved, but the real challenge is: will it survive? Could it be extended to emerging/developing countries? It is curious to notice that when there is a plea to extend a universal system of social protection to the people developing countries, many voices ask for a reduction of the benefits in the countries which already have it.

The Eurodad-Ibis position paper in preparation of the Addis conference stresses the issue that a comprehensive system of social protection is already part of the commitment of the UN states(see Eurodad-Ibis 2015, p. 6)⁷².

7.2.3. Step 3: institutional and administrative capacities

Steps 1 and 2 will never materialize without good governance, not only in the sense of curbing corruption, but above all in terms of giving a major impulse to *institutional and administrative capacities*. Target 16.a mentions the need to “strengthen relevant national institutions..... for building capacities at all level” .

The 2015 *European Report on Development* highlights the role of some *enablers* which should foster a triple-win sustainable development: economic, social and environmental (see ERD 2015 pp. 37 and section 7.3, pp. 302-ff). Two enablers, local governance and human capital, are explicitly dedicated to human and institutional capacities(see ERD 2015, section 5.2, pp. 167 and 171), but in fact all the enablers require strong institutional and human capacities.

Target 17.18 links capacity building and statistical capacity to the need of having better, wider and more timely data in order to assess sustainable development. The focus on renewed efforts for better sets of data for development is also on point 48 of the resolution(see UN 2015, p. 12), in the Addis Ababa Outcome Document (see UN-AAAA, p. 36-37, points 125, 126; on this issue see also Sachs 2015). Institutional and human capacities are absolutely essential in order to have new sets of indicators and better quality data.

⁷² Zupi 2015, pp. 7, 19 underlines the importance to consider welfare state systems.

One word of caution: with all these targets and many more indicators to come there is the risk of confusing development with the abundance of data. A greater quantity of targets and indicators is not an end in itself and we should also avoid thinking that without figures and measures we cannot debate about development policies. There will always be aspects of the development process which are difficult to express with figures, think of the issues related to SDG 16 on peace and justice.

Wider and better quality data are extremely important tools, in particular they can help the dialogue and the negotiations among the stakeholders; however they must be organized and filtered at the national level and this requires institutional and human capacities.

Without major improvements in administrative and institutional capacities it would be impossible to achieve the new SDGs and *global partnership for sustainable development* will be an empty statement.

Step 3 is the pillar to achieve a more realistic partnership and to build a dialogue based on a less unbalanced condition among all the different stakeholders.

Perhaps this is not a particularly appealing conclusion, for sure it is much less attractive than saving children's lives and providing education to young women; nevertheless it looks to me as *the* essential step in order to try to achieve the SDGs.

8. Conclusions

The evolution of the notion of development has led to a widespread consensus about the content of this term; the MDGs first and the SDGs now provide a summary of the prevailing views, even if in the case of the SDGs it might be easier to think of a list more than of a synthesis. Nevertheless the SDGs capture many well established components of what we think development should be and they underline the special role of sustainability.

Sustainability is not a process which takes place in the vacuum, but it is constrained by the existing historical circumstances and above all by the existing social and economic structures.

Let us consider international migrations, an issue which does not receive due consideration in the SDGs; let us suppose that demographic flows between different regions and continents continue to increase⁷³. This fact will definitely change the conditions in which the SDGs will have to be pursued.

Let us go back to the issues of Part II and to the economic forces which reshape the world. If these forces are so powerful what about all the nice ideas of an holistic view of development? What about the importance of human rights? What about the new SDGs and cooperation as partnership? On one side there are the outcomes we would like to achieve, but on the other side economic forces continuously restructure the economic and social environment around us.

We must not underestimate the strength of economic forces, the opportunities they offer, but also how ruthless they can be. In oligopolistic markets firms try to grow and to bend the market mechanisms towards their own goals. According to Baumol, Litan and Schramm *oligarchic capitalism* and *big-firm capitalism* are two of the four possible types of capitalism they identify and for sure these two types are not the nicest ones. The authors prefer what they call the *entrepreneurial capitalism*, which is characterized by innovators, but they admit that quite often only large firms can produce and sell the new products (see Baumol et al. 2007, section 4)⁷⁴.

This is not the place to discuss whether or not capitalism will be the final social and economic structure in which human beings will organize themselves, however in the today economic setting there is no in-built market mechanism which prevents the emergence of an oligopolistic type of capitalism. On the contrary larger firms have several advantages on smaller ones: from economies of

⁷³ Migrations are mentioned in targets 8.8 and 10.c. The Addis Ababa document refer to remittances on p.13 point 40, and to internal migration on p. 32 point 111. The September resolution mentions migrants and human trafficking (see UN 2015, points 27 and 29, p. 8).

⁷⁴ The first type is *state-guided capitalism*.

scale in production to lower borrowing costs, to the opportunity of larger investments in research and development, to the possibility of influencing the governments.

Economic growth *might* produce checks and balances, but it *might* also increase distances and lead to power concentration. *Re-balancing* and *capacity building* may prevent the widening of the gap between the different partners and may help to smooth the existing differences. Let us go back to mid-eighteenth century; re-balancing is in line with Montesquieu's famous tripartite division of powers: the executive, the legislative and the judicial. Without this separation there will be no freedom (see Montesquieu 1748 vol. 1 p.164). Checks and balances imply the existence of counteracting forces: "In order to avoid that someone abuses of power, it is necessary that, in the state of things, power obstructs power" (*ibid.* pp. 162-3).

Trade is an extremely powerful mechanism and after centuries of wars in Europe Montesquieu could even write that "the natural consequence of trade is to bring peace" (Montesquieu 1748, vol. 2, p. 8). Montesquieu regarded trade as one way to overcome the feudal states which had dominated Europe history for centuries. More than two centuries later and referring to Montesquieu Hirschman will speak of *doux commerce*, sweet trade, as a formidable argument for the triumph of capitalism (see Hirschman 1977, p. 60). Trade could also be sour and the same for finance.

Development is no automatic by-product of economic growth, explicit actions are needed in order to try to breed more equitable and inclusive societies. In order to achieve development the international enabling environment requires a lot of *ad hoc* tools and policies and may be even some major transformations.

Development as empowerment is a dialectical relationship between people, human beings, and the structures in which they live.

We could regard the SDGs and the required means of implementation as a way to mitigate and to contain the bitter aspects of the capitalist economy. I would prefer to consider the goals, the real end-goals, as a lighthouse which shows the direction. The economic social and financial structures and even politics are the ocean in which we have to navigate. I am not terribly optimistic, navigation will be quite rough.

SDG 17 is crucial because global partnership is about the rules on the boat.

The partners on the boat differ not only in terms of wealth; they have different cultures, traditions, social organizations and conditions of life. In many ways they have different values. How to decide the priorities: infrastructures or health? Economic growth or human rights? Traditional village authorities versus equal rights and equal voice for everyone.

Montesquieu was talking of peace, which is the subject matter of *SDG 16*:

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Not an easy task, but this would require further investigation.

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