Theoretical Dimensions of Development Cooperation
A Southern Perspective
*India’s Mission Approach and Development Compact*

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Context

- Development aid flowing from both developed and developing countries – declining resource flows
- ‘Traditional donor’ vrs ‘development partners’ or ‘emerging partners’
- Development assistance becoming critical for donors and recipients – Moral commitments
- Growth with macroeconomic stability
- DAC countries – strong theoretical basis – ‘Washington Consensus’
- Developing countries are criticised – lack of theoretical basis for funding
- Experiment in different countries – both schools
Structure of Presentation

- Debate on various dimensions of development cooperation
- Monetarist Versus Structuralist - Their models and policies
- Experiment of these policies in developing countries
- Policy indicators to foster growth in Developing countries - Views of two schools
- Theory of DC: What is India’s ‘Mission Approach’?
- Strategy for implementation of DC policies – ‘Development Compact’
- Towards a harmonised approach for development cooperation
Emerging Issues

- **Debate** for the last 75 years – Growth and development
- Linkages between **growth** and macroeconomic **stability**
- **Monetarist Approach**: DAC and BWIs, ‘Paris Declaration, WC, MABoP’
- **Structuralist Approach**: Structural factors, Supply constraints, ‘Under employment equilibrium’, income policies
- Different policy stance – **orthodox and heterodox** programmes
- Balancing **growth** with macroeconomic **stability** – How?
- Towards a **reconciliation approach**
Monetarist Approach

- Macroeconomic *stability necessary* for sustained growth
- **Inflation** is the key to macroeconomic stability
- Inflation is a *monetary phenomenon* – strict monetary discipline
- Knife-edge *growth path* - Restrictions or *conditions*
- According to this *framework*, inflation, money supply, foreign exchange problems, rational inflationary expectation etc. are the *monetary issues*
- **MABoP**: BoP disequilibrium, domestic credit, exch rate
- **Models**: Harberger (1963) and Barro(1978)
- Expansion of *money supply* should be under control
- **Targeting**: inflation, domestic credit, etc.
- **Growth possibility**: Only with macroeconomic *stability*
Structuralist Approach

- Growth with macroeconomic instability
- Inflation is structural - built-in these economies
- Developing countries and ‘underemployment equilibrium’
- Shortage in sectors - supply bottleneck
- Low productivity in agriculture – economy cannot import much food
- Labour market imperfection
- Supply constraints: Price rise a natural phenomenon
- Development dimension of inflation
- Convergence – inflation and eco dev – long-run
- Growth possibility without macroeconomic stability
Monetarist Policies

- Demand Management Policies
- **Inflation**: A monetary phenomenon
- **Targeting** major macroeconomic variables - inflation, rate of credit expansion, money supply
- **Conditionality** - to arrest exploding tendencies of macroeconomic variables under various policy interventions
- **Two/Three Gap Models** – External imbalance an outcome of domestic imbalance – Macro closer
- **Objective** to maintain macroeconomic stability for growth
- **Easy to implement** - politically not sustainable
Structuralist Policies

• Growth with macroeconomic instability
• Inflation is a structural phenomenon
• Focus on supply-side – Terms of Trade and external sector
• Balanced sectoral growth – arrest supply-demand mismatch and inflation
• Employment oriented approach
• External sector – Balancing domestic supply situation
• Agricultural and industrial development – income distribution and migration
• Growth a gradual process – oppose to conditionality
Monetarist Stabilisation
(Orthodox Programme)

- Programmes are closely associated with their explanation for inflation
- Objectives of stabilisation: reduction of inflation, correction of BoP, output reactivation, etc.
- IMF is associated with orthodox stabilisation programme-budget deficit and fast money growth cause inflation
- None of them obtained success without high cost in the 50s and 70s
- They are Chile, Argentina, Brazil, Bolivia, Peru, Mexico and Venezuela
- Policies: Reduction of budget deficit, devaluation, freeing prices, liberalisation of import and exchange controls, higher interest rate and real wages to fall
- Implications: Unpopular, lower standard of living
Structuralist Stabilisation (Heterodox Programme)

• **Policies:** Combination of income policies, fiscal correction and monetary reforms; wage and price control to stop inertia in inflation; reduction in fiscal deficit, and monetary reforms.

• **Failed programmes:** Brazil, Argentina, Peru, etc.

• **Other countries having successful programme outcome:** Nicaragua, Chile and Mexico.

• The Pacto Plan in Mexico was a combination of orthodox austerity followed by heterodox income policy. It was a success.

• **Many successful cases** are those having orthodox policies blended with heterodox policies, i.e. Mexico and Israel

• Important observation for finding a new mid-way approach to development cooperation
India’s Mission Approach

- India’s mission - campaign against colonialism and empowerment of developing countries
- Development assistance: Before independence
- Demand driven approach in diversified sectors
- Engaged in trade, investment, DC, capacity building, LoC. etc, import demand and ToT – commodity prices
- Engaged in supporting budgetary process without conditionality
- Support capacity building in production and export - Sugar in ETH
- Project base approach - Agri, Manufacturing & services
- Projects in locality - stop migration, income generation
- High aid efficacy with no conditionality
- Mission Approach: Close to Structuralist
- Evolving strategy for DC and linking to growth theory
Direction of India’s Development Assistance

- Size of Dev. Coop. Asst. growing
- 21 times rise between 1990-2015 and 7 times 2003-2015
- India’s overall assistance in 2015 - $4.5 billion and budgetary support $2.0
- Slow progress 1990-2003
  - Dev. Asst. grew by 8.8% (CAGR)
- Over a period: substantial rise in the size -Dev. Asst. CAGR
  - 1990-2003: 12.9 %
  - 2003-2015: 17.6%
Engagement with the Neighbours

- Strong ties with neighbours
- Focused areas: South Asia, Africa and capacity building programme
- Initial growth slow: 17.9% 91990-2003)
- 7½ fold rise (2003-15)
- India to grow with its neighbours
## ITEC Support for Industrial Capacity

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
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<tbody>
<tr>
<td>Afghanistan</td>
<td>Small Scale Industries estate</td>
</tr>
<tr>
<td>Iran</td>
<td>• Railways and small scale industries</td>
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<tr>
<td></td>
<td>• Feasibility of transit traffic to Europe via Persian Gulf ports and the overland route</td>
</tr>
<tr>
<td>Iraq</td>
<td>Preliminary cost and feasibility study for Baghdad-Hsaibah railway project</td>
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<tr>
<td>Mauritius</td>
<td>Identification of projects in animal husbandry, fisheries, forestry, mining and miscellaneous industries</td>
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<tr>
<td>Yemen Arab Republic</td>
<td>Techno-economic survey for industrial planning</td>
</tr>
<tr>
<td>Trinidad and Tobago, Surinam, and Guyana</td>
<td>Survey of small scale industries</td>
</tr>
</tbody>
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*Source: Chaturvedi (2014) from various MEA Annual Reports*
On the Path of Capacity Building

- **Focused area in India’s in Dev. Coop.**
- **Persistently growing even during recession**
- **7½ fold rise (2003-2015) and 13 ½ times (1990-2015)**
- **India’s assistance in 2015 - $1 billion**
- **Over a period: substantial rise in the size - Dev. Asst. CAGR**
  - **1990-2003: 7.2 %**
  - **2003-2015: 15.2%**
What is Development Compact?

Source: Sachin Chaturvedi (2015)
Development Compact

- **Capacity Building**
  - Training in the host country
  - Scholarship
  - Conducting feasibility studies
  - Proto-type production and training centres

- **Trade and Investment**
  - Duty Free and Quota Free Market Access
  - Infrastructure for promoting trade and investment
  - Assistance for developing regulatory capacity

- **Development Finance**
  - Concessional loan

- **Grants**
  - Debt forgiveness
  - Grant in aid

- **Technology**
  - Technical cooperation
  - Turnkey projects
Towards a Middle Path Approach

• **Neither** monetarist approach or structuralist approach could be appropriate to a comprehensive global development cooperation approach.

• Harberger (1963) and Barro (1978) developed monetarist model, but **recognised relevance of structuralist** variables in explaining the reality.

• For stabilization, **orthodox programmes are no better than heterodox programmes**.

• **Blending** of orthodox and heterodox policies are better than any single approach.

• Need for **discarding conditionality** provision in SAP & DC.

• **Conditionality free development financing approach**.
Thank you