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FROM FINANCING TO INVESTING FOR DEVELOPMENT: THE END OF ODA AS WE KNOW IT

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The traditional model of Official Development Assistance (ODA) has not only entrenched financial dependence but also served as a tool for geopolitical influence, often prioritizing donor interests over genuine economic self-sufficiency in developing nations. The 2015 Sustainable Development Goals (SDGs) envisioned a shift towards private investment, but this strategy has largely failed. Capital flight, rising debt burdens, and systemic financial asymmetries have ensured that investment flows remain skewed towards middle-income markets, leaving the most vulnerable economies exposed. Initiatives like Billions to Trillions have been more rhetorical than transformative, as private capital remains risk-averse in politically unstable regions.

Meanwhile, donor priorities are shifting under growing geopolitical pressures. In Europe and beyond, aid budgets are increasingly diverted toward defense and security, reflecting the hard power calculations of a more fractured international order. The illusion of a cooperative global financial architecture is giving way to a multipolar reality where economic sovereignty, not concessional aid, will determine long-term development trajectories.

As the Fourth International Conference on Financing for Development (FFD-4) approaches in 2025, the global financial system must abandon the outdated ODA paradigm and embrace an investment-driven model aligned with national interests. This means reforming multilateral institutions to serve recipient nations' strategic autonomy rather than perpetuating dependency, strengthening regional financial frameworks to reduce reliance on Western-controlled mechanisms, and prioritizing economic resilience over donor-imposed conditions. In a world increasingly defined by power politics, development finance must adapt—not as a tool of benevolence, but as an instrument of strategic self-sufficiency.

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A REALIST PERSPECTIVE ON DEVELOPMENT FINANCE

Development finance has long been framed as a mechanism for poverty alleviation and economic growth, yet its underlying function has been geopolitical leverage and structural control. The postwar model of official development assistance (ODA) was not simply a tool for economic development, but an instrument that entrenched the influence of donor states, maintaining financial dependency and reinforcing global hierarchies. This system was built on an implicit contradiction: while aid was ostensibly given to foster economic self-sufficiency, its design ensured that recipient nations remained reliant on donor-driven financial flows.

The 2015 Sustainable Development Goals (SDGs) sought to disrupt this paradigm, promoting a shift from billions to trillions of development finance by leveraging private investment. However, a decade later, this shift has fallen short—not because a lack of commitment, but rather because the global financial system continues to extract more from the developing world than it provides. In 2023 alone, an estimated $68 billion in private capital exited emerging markets, while multilateral institutions withdrew another $40 billion, exacerbating fiscal distress in vulnerable economies (World Bank, 2024). Meanwhile, developing countries faced record-high debt service costs, with external debt payments surpassing $400 billion, dwarfing the ODA they received (IMF, 2024).

This imbalance has deepened the structural financial dependency of many low- and middle-income countries, forcing them to rely on high-interest, short-term borrowing, while wealthier nations benefit from capital inflows and risk-free assets. The fundamental illusion that concessional finance could bridge the development gap has collapsed, as even concessional lending has become increasingly conditional, tied to austerity measures that often hinder long-term development goals.

Against this backdrop, global financial institutions have yet to recalibrate their models to address the widening funding shortfall. Climate finance, a crucial pillar of SDG implementation, remains grossly inadequate, with developing countries requiring an estimated $2.4 trillion annually by 2030 to meet climate and development objectives, yet receiving only a fraction of this sum (UNFCCC, 2024). Private-sector participation, once seen as the linchpin for scaling up investment, has stagnated in the face of rising interest rates, global economic uncertainty, and a reluctance among institutional investors to engage in higher-risk frontier markets. Multilateral development banks (MDBs), despite recent capital increases and reform discussions, continue to prioritize their credit ratings over aggressive lending expansion.

This financial conservatism has left many developing economies in a state of fiscal paralysis, unable to fund critical infrastructure, health, and education initiatives. Without a significant overhaul of international financial governance that moves beyond concessional finance towards structural redistribution and fairer lending terms, the SDGs risk becoming little more than an aspirational framework devoid of tangible progress.

Compounding this crisis is a fundamental shift in the geopolitical priorities of major ODA contributors, particularly in Europe. The post-Cold War consensus that development assistance was a necessary adjunct to Western geopolitical strategy is being reconfigured in response to changing security dynamics. The return of great power competition, coupled with the Trump administration's retrenchment from the defense of Europe, has compelled European states to reassess their fiscal priorities. Historically, ODA budgets have been shielded by the assumption that U.S. security guarantees allowed European governments to sustain

generous foreign-aid commitments. However, with Washington pressing NATO allies to assume greater responsibility for their own defense, European governments are diverting resources toward military modernization, defense procurement, and strategic deterrence, rather than sustaining their previous levels of development assistance.

Germany, for instance, has pledged to meet NATO's 2% defense spending target by 2025, requiring significant budget reallocations that will likely come at the expense of foreign-aid programs. France has announced an unprecedented €413 billion military spending plan for 2024–2030, citing the need to prepare for high-intensity conflicts and to bolster European security autonomy. Even traditionally aid-providing nations, such as the Nordic countries, are reassessing their commitments, balancing humanitarian spending with growing security concerns about Russia's assertiveness in the Baltic and Arctic regions. The United Kingdom, facing economic constraints and a post-Brexit realignment, has already reduced its ODA commitment from 0.7% to 0.5% of GNI, and is cutting even further under pressure to bolster military spending efforts, signaling a broader and decisive shift in priorities.

This reallocation of resources raises a stark question for the future of development finance: if donor nations no longer see ODA as an essential instrument of influence—either because of shifting security concerns or growing domestic economic constraints—what alternative mechanisms will emerge to sustain global development? The traditional Western-led ODA model is already being challenged by alternative financing structures from the Global South, including China's Belt and Road Initiative (BRI), Gulf-led sovereign wealth funds, and South-South financial arrangements. If the West's commitment to development finance continues to erode, it risks ceding influence in key strategic regions to emerging powers that operate outside the traditional Bretton Woods framework.

A Fourth International Conference on Financing for Development (FFD-4) will convene in Seville, Spain, in June 2025. There, the world must confront the new reality: ODA is not merely ineffective—it is actively harmful. The current development-finance model perpetuates cycles of dependency, discourages financial sovereignty, and prioritizes donor interests over recipient autonomy. A shift is necessary, from financing for development (FFD) to investing for development (IFD), emphasizing access to capital markets, strategic investment, and national economic self-sufficiency, rather than cycles of aid and debt accumulation. However, if the West's financial commitment to development wanes while defense expenditures rise, the next stage of global finance will be defined not by concessional assistance but by a new, more transactional approach to economic influence—one that will reshape the geopolitical balance of the twenty-first century.

THE EVOLUTION OF FINANCING FOR DEVELOPMENT: A STRUCTURAL CRITIQUE

Monterrey 2002: The Illusion of Global Cooperation

The 2002 Monterrey Consensus was heralded as a transformative moment in development finance, aiming to reduce aid dependency through domestic resource mobilization, foreign direct investment (FDI), and trade liberalization. It sought to reframe the conversation around development, moving away from a donor-recipient model toward a more balanced partnership that emphasized national ownership, sustainable financing, and the integration of developing countries into global markets. The optimism surrounding Monterrey was based on the assumption that, with the right policy frameworks, developing economies could finance their own growth, attract investment, and ultimately reduce their reliance on concessional assistance.

However, in practice, Monterrey failed to challenge the structural inequities embedded in the global financial system. The lofty promises of the conference masked a deeper reality: the economic mechanisms that were supposed to empower developing countries—market access, FDI, and financial liberalization—were still fundamentally shaped by the interests of advanced economies. The post-Monterrey era has not ushered in an era of financial sovereignty for the Global South. Rather, existing dependencies have been reinforced by deepening financial integration on terms dictated by wealthier nations.

While the rhetoric of partnership and mutual responsibility has been emphasized, power has remained concentrated in the hands of advanced economies. The global financial architecture—governed by capital markets, trade regimes, and regulatory frameworks designed in the Old North—continues to constrain developing nations, ensuring their economic dependence. The principles that Monterrey promoted—such as reliance on private capital flows and the integration of developing economies into global markets—exposed developing nations to external shocks, financial volatility, and structural disadvantages. As Stiglitz (2003) and Chang (2007) argued, the Washington Consensus-style policies that underpinned Monterrey placed developing economies at a disadvantage, forcing them to open their markets while denying them the tools—including strategic industrial policy, capital controls, and protectionist measures—used by Western nations historically for their own development.

The promise of FDI as a sustainable financing mechanism for development has proven particularly illusory. Rather than facilitating long-term economic transformation, foreign investment in developing countries has largely flowed toward resource extraction, real estate, and speculative financial markets, rather than productive industries that create high-value jobs and foster technological transfer. Moreover, private capital remains highly pro-cyclical, surging in times of global liquidity and exiting rapidly during crises. This was evident during the 2008 financial crisis and again in 2023 when an estimated $68 billion in private capital exited emerging markets, exacerbating fiscal distress in vulnerable economies (World Bank, 2024).

Trade liberalization, another pillar of Monterrey, was similarly presented as a pathway to prosperity. Developing countries were encouraged to dismantle trade barriers and integrate into global value chains on the basis that access to international markets would spur economic growth. Yet, the structural asymmetries in global trade have remained intact. The post-Monterrey years have seen advanced economies continue to protect their own agricultural and industrial sectors through subsidies, non-tariff barriers, and trade agreements that favor their competitive advantages. Meanwhile, developing countries have been pressured to forgo similar protections, leaving their domestic industries vulnerable to unfair competition from more advanced economies. As will be outlined below, the Doha Development Agenda, which was meant to complement Monterrey by ensuring fairer trade rules for the Global South, collapsed under these contradictions, further exposing the failure of the so-called partnership model.

The reliance on domestic resource mobilization as a central tenet of development finance has also proven insufficient. While Monterrey rightly emphasized the need for developing countries to strengthen their tax systems and reduce capital flight, the reality is that structural constraints, including weak financial institutions, tax evasion by multinational corporations, and the illicit flow of wealth to offshore financial centers, have severely undermined revenue collection. According to UNCTAD (2024), developing countries lose an estimated $88.6 billion annually in illicit financial flows, a figure that dwarfs the total ODA they receive. Meanwhile, tax competition and the pressure to attract investment have forced many low-income countries into a race to the bottom, offering generous tax incentives that further erode their revenue bases.

At its core, Monterrey was an attempt to rebrand the existing development-finance framework

without addressing its fundamental flaws. By placing the burden of development financing on recipient countries while maintaining a global financial system that disproportionately benefits wealthier nations, it has ensured the persistence of financial subjugation. The systemic inequalities entrenched by Monterrey have only worsened in the decades since, as evidenced by the growing debt burden of developing economies. In 2024, external debt payments surpassed $400 billion, a figure that dwarfs the ODA flows into the Global South (IMF, 2024). The countries that Monterrey promised to empower are now caught in an unsustainable cycle of borrowing, austerity, and dependency on short-term capital inflows.

We argue further below that as the world approaches the Fourth International Conference on Financing for Development (FFD-4) in June 2025, the failure of Monterrey must serve as a cautionary tale. Lofty declarations of partnership and self-sufficiency cannot mask the reality of a global financial system designed to move wealth from the periphery to the core. If FFD-4 merely repackages old ideas—relying once again on private capital, market access, and financial liberalization—it will suffer the same fate as Monterrey, leaving developing nations no closer to economic sovereignty than they were in 2002.

Instead, a fundamental restructuring of the international financial order is required. It should prioritize equitable lending terms, financial autonomy, and mechanisms that redistribute rather than extract wealth. Without this, the so-called global partnership for development will remain a mirage, promising much but delivering little.

Doha 2008: The Crisis That Exposed the Fragility Of ODA

The 2008 Doha Financing for Development (FFD-2) Conference was a critical moment for reassessing the global development finance system. Held amid the unfolding Global Financial Crisis (GFC), the conference was expected to address the growing vulnerabilities in ODA and propose meaningful reforms to insulate developing countries from the economic turmoil that was gripping the world. Instead, Doha became a testament to the structural weaknesses of the ODA model, revealing its discretionary nature, its subordination to the fiscal priorities of donor countries, and its failure to serve as a reliable mechanism for economic resilience in the Global South.

Despite the evident failures of the existing development finance architecture—exposed by the GFC—the conference failed to secure binding commitments to safeguard ODA flows during economic downturns. Rather than proposing concrete mechanisms to protect aid allocations from fiscal retrenchment in advanced economies, donor countries simply reaffirmed the decades-old, largely unfulfilled commitment to allocate 0.7% of their gross national incomes (GNI) to ODA. By the time of the Doha conference, only five countries—Denmark, Luxembourg, the Netherlands, Norway, and Sweden—had met this target (OECD, 2008). Major donors such as the United States, Japan, and most EU countries continued to fall short, citing economic constraints even before the full effects of the GFC were felt.

This failure to institutionalize enforceable ODA commitments reinforced a harsh reality: ODA remains entirely a discretionary tool, shaped more by the shifting priorities of donor states than by the structural needs of recipient countries. Without accountability mechanisms or penalties for non-compliance, development aid became one of the first casualties of the GFC. From 2009, many donor governments reduced or froze aid budgets, redirecting resources toward domestic financial-stabilization measures. Between 2010 and 2012, global ODA fell by 6% in real terms—the first sustained decline since the end of the Cold War (OECD, 2013). For recipient countries already grappling with capital outflows, trade contraction, and declining remittances, this aid volatility further exacerbated their economic vulnerabilities.

Doha's Failure to Challenge the IFI Power Structure

Beyond the fragility of ODA, Doha also failed to address the systemic inequalities in international financial institutions (IFIs), particularly the Bretton Woods institutions. For decades, the International Monetary Fund and World Bank had imposed strict fiscal discipline on developing countries, enforcing austerity-driven structural adjustment programs (SAPs) that prioritized debt servicing and macroeconomic stability over social investment and economic resilience. The GFC exposed the hypocrisy of this approach.

In stark contrast to the rigid fiscal discipline imposed on the Global South, the response to the financial collapse of 2008 saw Western financial institutions receive an unprecedented wave of bailouts and liquidity injections. The U.S. and European governments, backed by central banks and multilateral lenders, mobilized an estimated $29 trillion in liquidity support to stabilize their banking systems (Tooze, 2018). Meanwhile, developing countries received no comparable relief. Instead of a coordinated global response to protect vulnerable economies, the IMF and World Bank continued to push fiscal tightening and warned against countercyclical spending—policies that would have allowed low-income countries to respond to the crisis with stimulus measures, rather than deep cuts to public services.

The double standard was glaring. While advanced economies were rescued by historically unprecedented monetary and fiscal interventions, developing nations were left to fend for themselves under the same punitive rules that had crippled them for decades. Doha failed to introduce any reform that would have given the Global South greater control over the terms of its financial engagements, ensuring that poorer nations remained dependent on fickle donor commitments and unable to implement their own economic recovery strategies.

The Absence of Innovative Financing Mechanisms

Perhaps the most glaring shortcoming of the Doha FFD-2 conference was its lack of innovation in development finance. By 2008, it was already evident that traditional ODA was insufficient to meet the growing needs of the Global South. Calls for alternative financing mechanisms—including financial transaction taxes (FTT), sovereign wealth fund contributions, and fairer trade policies—had gained momentum. Yet Doha offered no meaningful steps toward institutionalizing these solutions. Instead, the conference merely reaffirmed the same ODA-dependent framework that had already proven inadequate, failing to introduce systemic reforms that could have made development finance more resilient and self-sustaining. Several innovative proposals were floated in the lead-up to Doha—including a global tax on speculative financial transactions (often called the 'Tobin tax'), a levy on fossil-fuel consumption, and mechanisms to mobilize South-South cooperation in development finance. However, none of these ideas were seriously pursued in the final outcome document. The lack of political will from advanced economies ensured that the fundamental structure of development finance remained unchanged.

The post-conference years have proved just how unsustainable this reliance on traditional ODA has become. As global financial volatility increased in the wake of the euro-area crisis (2010-2013) and the COVID-19 pandemic (2020-2022), aid flows stagnated or declined in real terms. The failure to institutionalize long-term, resilient financing mechanisms meant that Global South countries have remained at the mercy of the shifting political and economic calculations in donor countries. The problem is not merely one of donor fatigue, but of a system that perpetuates dependency rather than fostering genuine financial autonomy.

Doha: A Lost Opportunity For Structural Reform

In hindsight, Doha was not just a missed opportunity. It was a stark reminder that without systemic reform, development finance will continue to function as a reactive and unreliable tool, rather than as a stable and equitable mechanism for global economic justice. The conference's failure to safeguard ODA against economic downturns, to challenge the dominance of IFIs, or to introduce innovative financing mechanisms meant that when subsequent crises struck, the same weaknesses resurfaced.

By the time the world reaches the Fourth International Conference on Financing for Development (FFD-4) in June 2025, the landscape of development finance will have shifted fundamentally. The failure of Western-led ODA models has accelerated the rise of alternative financial frameworks, including China's Belt and Road Initiative (BRI), Gulf-led sovereign wealth fund diplomacy, and new South-South financing institutions such as the BRICS New Development Bank (NDB). These emerging structures are not necessarily more transparent or equitable, but they reflect a growing reality: the Global South is no longer willing to rely on an ODA system that has proven fragile, unreliable, and ultimately designed to serve the interests of donors rather than recipients.

If Doha exposed the cracks in the traditional development-finance architecture, the next challenge, as we discuss below, is whether FFD-4 will finally move beyond ODA and embrace a radically new model that prioritizes financial sovereignty, fairer lending terms, and structural redistribution, rather than cycles of dependency and aid volatility. The lessons of Doha are clear: without meaningful reform, the development-finance system will continue to fail those it claims to serve.

Addis Ababa 2015: The False Promise of 'Billions to Trillions'

By 2015, it was evident that ODA had failed to drive economic transformation in the Global South. Decades of donor-led development financing had not yielded the self-sustaining growth that ODA was originally meant to catalyze. With the 2030 Sustainable Development Goals (SDGs) looming, policymakers sought to shift away from ODA dependence toward a financing model that leveraged private-sector capital to fill the estimated $2.5 trillion annual financing gap (UNCTAD, 2015).

The Addis Ababa Action Agenda (AAAA) introduced the 'Billions to Trillions' initiative, an ambitious strategy to transition from traditional aid to large-scale private-sector financing. The idea was straightforward: multilateral development banks (MDBs) would de-risk investments in developing countries, thereby attracting substantial private capital into infrastructure, industrialization, and sustainable development projects. By blending public and private funds, MDBs were expected to leverage every dollar of ODA into significantly larger private-sector investments, ultimately unlocking trillions in development finance.

The Failure of 'Billions to Trillions' to Materialize

However, the anticipated influx of private capital did not materialize as planned. Instead of shouldering risk to drive transformative investments, MDBs remained highly risk-averse, prioritizing financial sustainability over development impact. Their reluctance to take on high-risk projects—particularly in low-income countries (LICs) and fragile states—meant that capital remained concentrated in middle-income countries (MICs), where returns are more predictable.

Rather than mobilizing financing for long-term industrialization and employment generation, MDBs funneled funds into commercially viable sectors including telecommunications, urban real estate, and financial services—areas that attract private capital without needing significant de-risking. As

a result, critical development sectors such as agriculture, manufacturing, and clean energy, which require substantial upfront investment with longer payback periods, have received far less funding than anticipated.

This mismatch between development needs and private investment flows exposed a fundamental flaw in the 'Billions to Trillions' model: private capital follows profit, not development objectives. The assumption that the private sector could be incentivized to invest in high-impact sectors through de-risking alone ignored the reality that many of these investments lack short-term profitability, making them unattractive to private investors, even with concessional financing support.

A Net Financial Drain on Developing Countries

Beyond the failure to mobilize new resources, financial flows to developing nations have deteriorated significantly since Addis Ababa. In 2022, net financial transfers to developing countries turned negative for the first time in over a decade, with an estimated $25 billion in net outflows (World Bank, 2023). This means that developing nations are paying more in debt servicing and capital repatriation than they receive in new investments or concessional financing—a stark reversal of the development finance logic that Addis Ababa sought to promote.

This negative flow is part of a broader trend in which developing economies remain trapped in cycles of debt and capital extraction, with foreign investors and creditors extracting more value from these economies than they contribute. Economist and former U.S. Treasury top official Lawrence H. Summers summed up the failure of the Addis model by noting that instead of 'Billions to Trillions,' the reality has been "millions in, billions out"—a striking illustration of the disparity between the ambitious financial commitments made at Addis and the actual resources flowing into the Global South.

Debt, Financial Instability, and the Persistent Dependence on External Capital

One of the fundamental flaws of the AAAA framework was its failure to address systemic issues such as debt sustainability and equitable financial governance. The Addis strategy assumed that developing countries could rely on private capital for long-term financing, without recognizing that these capital flows are volatile, pro-cyclical, and primarily responsive to global interest rates and investor sentiment, rather than development needs.

With rising global interest rates in 2022-2023, many developing nations faced sharp increases in borrowing costs, leading to renewed concerns about sovereign-debt crises. Countries that embraced the Addis model and shifted toward market-based financing found themselves increasingly dependent on high-interest, short-term loans from global capital markets, rather than the stable, long-term financing that ODA was supposed to provide.

Meanwhile, MDBs continued to prioritize their own credit ratings over their development mandates, avoiding large-scale, countercyclical interventions during economic downturns. The World Bank's conservative lending approach and the IMF's insistence on fiscal consolidation left many developing countries without the fiscal space to respond effectively to global shocks. Instead of bridging financing gaps, the post-Addis system reinforced financial dependency, with many Global South economies now more exposed than ever to external financial volatility and debt distress.

The Need for a Post-Addis Model: From Dependency to Financial Sovereignty

The failure of Addis Ababa and the 'Billions to Trillions' initiative should serve as a clear warning that the development finance model must be fundamentally restructured. The expectation that private capital can replace public-sector investment in development has proven misguided, as private financing will always be driven by risk-return calculations rather than social or economic imperatives.

Ahead of the Fourth International Conference on Financing for Development (FFD-4) in June 2025, the challenge is clear:

- Shift away from debt-driven, volatile private finance models toward stable, long-term capital mobilization.
- Prioritize financial sovereignty for developing nations, enabling them to generate and retain their own resources rather than relying on external investment cycles.
- Expand South-South financing mechanisms, reducing reliance on MDBs and Western-led financial institutions.

The AAAA failed because it did not challenge the underlying structures of global finance. Instead, it merely tried to adapt development finance to an economic system that continues to extract wealth from the Global South, rather than invest in its self-sufficiency.

If FFD-4 follows the same trajectory—repackaging old ideas under new slogans without addressing the fundamental power asymmetries in global finance—it will merely extend the failures of Monterrey (2002), Doha (2008), and Addis Ababa (2015). The Global South cannot afford another decade of false promises. The next phase of development finance must move beyond ODA and beyond reliance on private capital, focusing instead on building independent, sovereign financial systems that prioritize sustainable, equitable growth over investor profits.

Seville 2025: A Realist Reckoning with ODA's Failure

As the international community convenes for FFD-4 in Seville, the limitations of the current development finance system have become increasingly apparent, as described above. ODA, intended to promote economic development and welfare in developing countries, has often fallen short of fostering sustained economic growth and financial sovereignty in the Global South. Critics argue that ODA has sometimes functioned as a mechanism of geopolitical influence, with donor nations and international financial institutions (IFIs) prescribing policy measures that may not align with the unique economic contexts and priorities of recipient countries. This dynamic can lead to a dependency on aid, and limit the policy autonomy of developing nations.

To address these challenges, FFD-4 must prioritize a paradigm shift toward investment-driven development, emphasizing financial autonomy, strategic investment, and equitable access to capital. Achieving this transformation necessitates several key structural reforms:

1. Reforming the Global Financial System: Developing countries often face barriers in accessing international capital markets, including credit-rating biases and risk assessments that result in higher borrowing costs. Reforming sovereign credit-rating methodologies and developing financial instruments to mitigate foreign-exchange volatility are essential steps toward creating a more equitable financial landscape. Such reforms would enable developing nations to secure

financing on terms that reflect their economic realities and development needs.

2. Transforming MDBs into Investment Catalysts: MDBs play a crucial role in mobilizing resources for development. However, their traditional focus on concessional loans can contribute to debt accumulation in developing countries. Shifting toward equity-based financing and providing risk guarantees can attract private investment without exacerbating debt vulnerabilities. Governance reforms within MDBs are also necessary to grant developing countries greater decision-making power, ensuring that these institutions are responsive to the development priorities of the Global South.

3. Enhancing Regional Financial Cooperation: Developing countries are increasingly exploring alternative financial mechanisms to reduce reliance on traditional Western-dominated IFIs. This trend is exemplified by initiatives such as the establishment of regional development banks, the expansion of South-South investment agreements, and the creation of financial stability funds. For instance, African leaders have approved the creation of the African Financial Stability Mechanism, a continental fund aimed at preventing potential debt crises by providing concessional loans and stabilizing economies facing financial distress. Such regional cooperation efforts can enhance financial resilience and autonomy in the Global South.

By implementing these structural changes, the international community can move beyond the limitations of traditional aid models, fostering an environment in which developing nations have the autonomy and resources to pursue sustainable and inclusive economic growth.

The Path Forward: Investing for Development (IFD), Not Financing Dependency

A fundamental rethinking of development finance is essential, to shift from the current model of financing for development toward investing for development (IFD). While development financing mechanisms such as ODA and multilateral lending have provided temporary relief, they have often failed to create long-term economic transformation. Instead of relying on external assistance, developing nations must focus on capital market access, infrastructure development, and industrialization. This requires breaking the structural constraints that have kept developing economies trapped in low-value sectors and dependent on commodity exports, debt relief measures, and cyclical aid commitments. Without a robust investment-led approach, developing economies will continue to be subject to external economic shocks and the political priorities of donor nations.

Industrialization and Employment: The Foundations of Economic Sovereignty

A viable development strategy must be anchored in structural transformation, with industrialization and employment generation at its core. The traditional ODA model has focused disproportionately on resource extraction and raw-materials exports, leaving many economies vulnerable to commodity price fluctuations and external market conditions. This approach has stunted the development of manufacturing, technology, and knowledge-based industries—sectors that drive sustainable economic growth and provide high-value employment. Countries in the New South must move beyond the role of raw-materials suppliers and actively develop industries that enhance their participation in global value chains. According to UNCTAD (2023), while global FDI has shown signs of recovery, most flows to developing countries remain concentrated in low-productivity extractive sectors, further deepening economic vulnerability. A shift toward industrial production, technological innovation, and value-added manufacturing is essential to achieving economic sovereignty, and reducing dependency on external aid.

Strengthening Domestic Capital Markets and Human Capital

For investment-driven development to succeed, developing nations must strengthen domestic capital markets to ensure access to affordable financing. Many low-income countries are locked out of global financial markets by unfavorable credit ratings and high borrowing costs imposed by IFIs. Credit-rating biases often inflate the cost of borrowing, forcing countries to accept concessional financing that increases long-term debt burdens. Addressing these structural barriers requires sovereign credit-rating reform, the expansion of regional financial institutions, and mechanisms that mitigate foreign exchange volatility.

Equally crucial is investment in human capital. Without a skilled workforce, industrialization will remain an elusive goal. Developing economies must prioritize education and skills development to align labor markets with future economic demands. This means moving beyond the narrow focus of primary education in development programs to an emphasis on technical training, digital literacy, and STEM fields. A labor force equipped with these skills will be better positioned to transition into high-value sectors and attract sustainable investments.

Regional Trade and Investment: Building Economic Resilience

Beyond national policies, regional cooperation must play a central role in reducing economic vulnerability and reliance on Western markets. While ODA often comes with political conditions that limit policy autonomy, regional trade agreements and South-South investment partnerships can foster economic self-reliance. Expanding intra-regional trade allows developing economies to scale up industries, pool resources, and create markets independent of traditional donor countries.

The African Continental Free Trade Area (AfCFTA), which aims to integrate a $3.4 trillion market, indicates the potential of regional cooperation to drive industrialization and employment. Similarly, initiatives such as BRICS-led financial institutions, the New Development Bank (NDB), and regional development banks offer alternative funding sources that are not subject to the restrictive conditions imposed by Western-dominated institutions. Strengthening these mechanisms will empower developing nations to take charge of their economic destinies, and to move away from the cycle of dependence on external financing toward a model of investment-driven development.

By embracing an investment-centric approach, the New South can transition from aid reliance to financial sovereignty, fostering economic transformation that is sustainable, equitable, and resilient in an increasingly uncertain global landscape.

CONCLUSION: SEVILLE MUST MARK THE END OF ODA AND THE RISE OF INVESTMENT-DRIVEN DEVELOPMENT

The 2025 FFD-4 conference in Seville will be a critical juncture in the evolution of global development finance. The ODA model has outlived its usefulness, proving to be more of a mechanism for geopolitical leverage than a catalyst for genuine economic transformation. For decades, ODA has perpetuated cycles of dependency, reinforcing asymmetric power structures in which donor nations and international financial institutions dictate the policy priorities of recipient countries. Instead of fostering financial sovereignty, it has constrained development by imposing rigid fiscal discipline, discouraging industrialization, and prioritizing short-term relief over long-term resilience. The New South cannot afford to remain shackled to a model that subordinates its economic autonomy to external interests. Seville must mark the definitive shift away from ODA and toward an investment-driven development framework that prioritizes financial independence, strategic capital mobilization, and sustainable growth.

The transition from aid-based dependency to investment-driven development is not just an economic necessity—it is a geopolitical imperative. The global financial landscape is undergoing profound shifts, with the rise of alternative financial institutions, the increasing relevance of South-South cooperation, and the declining credibility of traditional Western-led financial governance. Developing economies must seize this moment to reclaim control over their development trajectories by ensuring equal access to global capital markets, reforming the governance structures of MDBs, and building robust regional financial ecosystems. The failure to act now will reinforce existing vulnerabilities, leaving nations exposed to debt crises, external economic shocks, and the volatile whims of donor-driven policies. The New South must reject outdated financial prescriptions and champion a development model rooted in productive investments, industrialization, and self-sustaining economic structures.

As John Maynard Keynes (1936) argued, economic policy must be driven by the realities of financial power, rather than by abstract commitments to outdated models. ODA, in its current form, is not only ineffective but actively detrimental, limiting the fiscal space of developing countries and forcing them into cycles of concessional borrowing that undermine long-term stability. The promise of development must not be contingent on external benevolence, but must be built on the foundation of financial sovereignty and strategic economic planning. The Seville conference must go beyond symbolic declarations and commit to dismantling the structural barriers that have kept developing economies trapped in aid dependency. This requires bold reforms: credit rating overhauls to eliminate bias against developing countries, a reconfiguration of MDBs to prioritize equity-based financing, and the expansion of South-South financial instruments to counterbalance Western-dominated financial institutions.

Seville must not be another forum for rhetorical commitments; it must be the turning point when the New South asserts its economic autonomy. The path forward lies in a global financial order that enables investment-led growth, one in which developing nations dictate their own development agendas rather than being subjected to externally imposed frameworks. This is the moment to build resilient financial institutions, scale up industrial capacity, and forge economic alliances that prioritize mutual prosperity over asymmetric dependencies. The choice is clear: remain beholden to a defunct aid model or embrace a new era in which development is defined not by financial subjugation but by strategic investment and genuine economic sovereignty.

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Ferid Belhaj took up the position of World Bank Vice President for Middle East and North Africa on July 1, 2018. Prior to this, he served as the Chief of Staff of the President of the World Bank Group for 15 months.From 2012 to 2017, Mr. Belhaj was World Bank Director for the Middle East, in charge of work programs in Lebanon, Syria, Jordan, Iraq and Iran, based in Beirut, Lebanon. In this capacity, he led the Bank's engagement on the Syrian refugee crisis and its impact on the region, including the creation of new financing instruments to help countries hosting forcibly displaced people; the ramping up of the Bank drive towards the reconstruction and recovery of Iraq during and after the ISIS invasion and the scaling up of the Bank's commitments to Lebanon and Jordan.

Before taking up his Mashreq assignment, Mr. Belhaj served as World Bank Director for the Pacific Department (2009-2012), where he developed a regional strategy that scaled up Bank engagement in small and fragile states, and tripled lending operations of the International Development Agency, one of the five institutions under the umbrella of the World Bank Group that provides interest-free loans and grants for Low-Income Countries. From 2007 to 2010, Mr. Belhaj was the World Bank's Special Representative to the United Nations (UN) in New York, where he engaged with various UN agencies on a range of programs, mainly climate change, the Millennium Development Goals, fragile and post-conflict states and the global financial and food crises.

ABOUT THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

All opinions expressed in this publication are those of the authors.

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