



SOUTH-SOUTH IDEAS

**SOUTH-SOUTH COOPERATION:
A THEORETICAL AND INSTITUTIONAL FRAMEWORK**



RIS
Research and Information System
for Developing Countries
विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

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TABLE OF CONTENTS

List of Tables and Charts	4
Acknowledgements	5
Abbreviations and Acronyms	6
Executive Summary	7
1.Introduction	12
2.South-South Cooperation: The evolution and empirical realities	14
3.How does Lewis Model validate the logic of SSC?	22
4.SSC: The guiding principles	26
5.Theorization of development process	27
6.Theoretical Framework for SSC: A Structuralist Foundation	28
7.Development Compact	32
8.Conditionalities or Lack Thereof: An Externalities Perspective	35
9.SSC: A Perspective from Premise Control	38
10.Conclusion	44
References	45
Endnotes	50



LIST OF TABLES AND CHARTS

Tables

Chart 1: Loan disbursements by development banks, 2016	17
Chart 2: Net Capital Flows to Developing Countries 2007-2017	18
Chart 3: Corporate Profits and investment (excl. construction), 1980-2015 (Per cent of GDP)	20
Chart 4: Relative coverage of different modalities in NDCPs	21

Charts

Table 1: Differences between South-South cooperation and North-South cooperation	16
Table 2: Falling Investment to Profit Ratio in Some selected Developing Countries	19
Table 3: Components of Development Compact	33
Table 4: Discrimination of control types in terms of knowledge and measurability	39
Table 5: Three institutions of Development Cooperation	41

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ABBREVIATIONS AND ACRONYMS

AIB	Asian Infrastructure Investment Bank
BAPA	Buenos Aires Plan of Action
CCFL	Central Fund of Free France
DAC	Development Assistance Committee
DAG	Development Assistance Group
DC	Development Cooperation
ECA	Economic Cooperation Administration
FDI	Foreign Direct Investment
G 77	Group of 77
GSI	Global Standardized Institutions
GVC	Global Value Chain
HICs	High Income Countries
ITEC	Indian Technical and Economic Cooperation Programme
LDCs	Less Developed Countries
MABoP	Monetary Approach to Balance of Payments
MDG	Millennium Development Goals
MICs	Middle Income Countries
NDB	New Development Bank
NDCP	National Development Cooperation Policies
NSC	North-South Cooperation
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
PBAs	Programme-Based Approaches
PGBS	Partnership General Budget Support
RCT	Randomised Control Trial
REEIS	Relevance, Effectiveness, Efficiency, Impact and Sustainability
SAP	Structural Adjustment Programme
SDGs	Sustainable Development Goals
SSC	South-South Cooperation
TCDC	Technical Cooperation among Developing Countries
UNCTAD	United Nations Conference on Trade and Development

EXECUTIVE SUMMARY

INTRODUCTION

Even though the Marshall Plan is considered the first attempt at providing development assistance to countries in need, subsequent exercises have yielded two distinct strands in the modes of “development cooperation”. While one of them has been termed as North-South Cooperation (NSC), the other one is called South-South Cooperation (SSC). The objective of both these approaches is to help the developing nations to catch up with their developed peers. However, the approaches differ substantially. SSC is based on a spirit of solidarity and partnership that mostly facilitates exchanges of skills, knowledge, ideas and technology, whereas NSC involved flows of financial resources to the countries in need to help them to tide themselves over resource constraints.

SSC: THE EMPIRICAL REALITIES

To capture the main features of the status of SSC today we may argue that in spite of calls given repeatedly to initiate a process of convergence between SSC and NSC, some structural and systemic differences still exist that remain intractable. Further, SSC is gradually moving beyond the earlier focus on import substitution to providing development finance to partner countries. SSC does not merely involve transfer of public money from one to another partner country. Most of the transfers are, unlike those followed by the Organisation for Economic Co-operation and Development (OECD) countries, non-monetary in nature. Net capital inflows into southern countries show a volatile trend, even though intra-South flow of FDI has been increasing. Premature deindustrialization, resulting in “Dutch disease”, has been a bane for many southern countries. Many developing countries have either graduated into the group of middle-income countries (MICs) or are in the process of doing so. Given the restrictive access to official development assistance (ODA) accorded to them, SSC has the potential to emerge as more prominent source of development assistance for them. SSC has been playing an increasingly important role in contributing to the National Development Cooperation Policies prepared by the Southern nations.

HOW LEWIS MODEL VALIDATES THE LOGIC OF SSC?

W. Arthur Lewis observed that a developing country is characterized by dualism in their domestic economic structures with simultaneous existence of a capitalist sector and a subsistence sector. While the former is capital intensive, the subsistence sector is characterized by the existence of disguised unemployment – a phenomenon that does not allow the wage go beyond a subsistence level and does not hamper the production level significantly if some of them are withdrawn from this sector. He argues that flow of capital can play an important role in releasing such disguisedly unemployed labour and push them to employment in the capitalist sector. The workers would benefit from higher wages, while the capitalist sector would be benefitted with higher surplus due to higher level of production. On an assumption that

such resultant surplus will be reinvested as capital, opportunities for further migration of labour from the subsistence sector to the other will be created. This process will continue until the supply of labour remains unlimited and cease as and when labour starts getting scarce. The structural dualism would disappear simultaneously, bringing about parity in wages across these two sectors.

It is the insight generated from the Lewis model – existence of a domestic dualism in a southern economy – that, one may argue, might have contributed to the increasing confidence in SSC to help their southern partners in capacity building and thereby remove the “bottlenecks” in generating the skilled labour force necessary to combine with the flow of physical capital from the developed world. This was the Southern contribution in reducing dualism, which the “big push” argument could not address.

SSC: THE GUIDING PRINCIPLES

Different approaches and understanding of SSC have led to the evolution of basic principles of SSC. They are as follows

- Demand Driven
- Respect for national sovereignty
- Political and Macroeconomic Non-Conditionality
- Spirit of Sharing (Solidarity)
- Mutual Benefit

In addition to the abovementioned normative principles, framework of operational guidelines on United Nations support to South-South Cooperation (2016) identified following four operational principles –

- Mutual accountability and transparency
- Development effectiveness
- Coordination of evidence- and results-based initiatives
- Multi-stakeholder approach

Development Cooperation under SSC is plurilateral in nature as different countries of global South have different modalities which are in tune with their national priorities and comparative advantages. It must be mentioned that SSC originated much before the formulation of the Marshall Plan.

THEORETICAL FRAMEWORK FOR SSC: A STRUCTURALIST FOUNDATION

The engagement of Southern economies with development cooperation since the 1960s, and its policies towards specific sectors have evolved significantly over the last five and a half decades. The South with a clear vision of the potential for mutual gain in sharing prosperity with fellow developing countries, engaged themselves in technical cooperation among each other – a vision that would be implemented



fully through the Buenos Aires Plan of Action (BAPA) in 1978. Towards this end, it seems appropriate to link SSC approach with existing paradigms of economic thought, to improve its robustness, continuity, and consistency, on the one hand and make it more appealing, acceptable, and relevant for its partners, on the other. Such an approach would also provide a basis for empirical validation of its philosophy of development cooperation.

To compare, while development cooperation approach followed by OECD's Development Assistance Committee (DAC) has a strong theoretical base in monetarist tradition, there are some similarities between the structuralist approach and the *modus operandi* of SSC.

SSC shares the structuralist view that macroeconomic management should address supply constraints. In developing countries, such constraints persist in agriculture, manufacturing, services, infrastructure, and access to technology. Individual countries have sector-specific requirements, and therefore it is sector-specific, demand-driven needs that the Southern countries must address according to its capacity to support. The structuralist approach emphasises income redistribution in the recipient economy as an important condition for growth. SSC has been aimed to create income in specific locales, through small projects that may generate local employment. Employing 'appropriate technology' in these projects leads to gainful jobs for local populations. Many of these projects occur in the social sector and other productive sectors, such as agriculture, industrialisation, and services.

From the structuralist perspective, imposing conditionality does little to influence the growth prospects of a programme country. According to structuralists, a certain level of inflation is a natural phenomenon in developing countries, which tend to experience long-term supply bottlenecks. Since the structuralist framework sees convergence between inflation and development as a long-term policy objective, it imposes no strict adherence to conditionality. Though this approach is too simplified to address short-term imbalances in the economy, it has long-term implications for allowing macroeconomic stability to go hand-in-hand with economic growth. Therefore, current SSC practice — development cooperation programmes without conditionality — is very much consistent with the structuralist approach.

Furthermore, external economic engagements and integration strategies provide an important backdrop for analysing SSC. The engagement in trade cooperation differs from one emerging country to another, and further demonstrates assumptions closer to the structuralist position than the monetarist one. Following the structuralist approach to development cooperation, SSC has distinct characteristics of its own. Its theoretical underpinnings strongly reflect the experience of Southern nations as aid recipients and have stressed 'win-win' partnerships that embody shared challenges but distinct national priorities. It follows a "Mission Approach" that centres on empowering developing countries and supporting them in efforts to come out of deprivation and engage in long-term, sustained development. Conceptually, the mission approach aims to identify a set of growth drivers that support partner development efforts, setting them on a high-growth path.

In short, we can see the ‘mission approach’ as articulating the broad theoretical basis of SSC, while the ‘development compact’ represents the broad strategies flowing from that approach. The approach shuns big push, attempts to conquer the existing dualism in partner countries through mutual benefits and follow a structuralist philosophy of unbalanced strategic development path proposed by Hirschman.

DEVELOPMENT COMPACT

The modalities followed in pursuing the mission of South-South Cooperation (SSC) are referred to in the relevant literature as “Development Compact”. It rests on five action pillars: capacity-building and skills transfer, concessional finance (further divided into grants and lines of credit), preferential trade, investment, and technical cooperation (Chaturvedi,2015). It implicitly depends on the principle of ‘equitable accesses to trade, investment, and technology in SSC initiatives. Deployment of a broad portfolio of modalities allows for flexibility that makes it much more attractive and appropriate for partner countries in the South. Significantly, this ‘compact’ rests solidly on the concept of mutual gain. ‘Development Compact’ is, therefore, something less than the articulated policies of the DAC members, but more than a string of unrelated aid programmes, and intimately related to broader economic strategies of the recipient country, bypassing the doctrine of “big push”. It helps actualizing a process that takes care of removing the dualistic systemic structures of the partner countries through interlinked efforts that mix up the different modalities of cooperation often in a sequential manner and that mostly involves “nudging” as required.

CONDITIONALITIES OR LACK THEREOF: AN EXTERNALITIES PERSPECTIVE

This emphasis on fulfillment of conditionalities by the South in return for development assistance from the North was predicated by some major research findings that dot the development literature of the 1980s. It is observed that while conditionalities manifested in ODA arise from the intent of the donors to take care of negative externalities that they expect to emerge through the process of development cooperation.

The inherent theoretical framework in favour of strengthening SSC as an alternative approach to development, even though not as a substitute to NSC altogether, focuses on taking advantages of the positive externalities in breaking the low-level equilibrium trap in a developing country.

A PERSPECTIVE FROM PREMISE CONTROL

SSC is considered a process of collective action. Collin (1993) develops a third form of a governance structure that corresponds neither to a market nor to a hierarchical structure. He identifies such a structure as “brotherhood”. Such a form of governance structure emerges when neither the goals are highly measurable, nor the actions required to achieve the goals are clearly known. Collin (1993) identifies them to be guided by what he terms as “premise control” – control prior to action through socialization and controlling the inputs.



CONCLUSION

To conclude, SSC may be viewed as pursuing a development process that involves the Southern nations in engaging themselves in a mission mode shunning “big push” but coming out of the vicious circle of poverty through taking care of the structural dualities in their respective social systems. The structuralist approach thus followed in a spirit of “premise control”, helps them avoid conditionalities and violation of one another’s sovereignty, and thereby derive mutual benefits for themselves in a spirit of horizontality. Thus, it avoids contractual obligations but creates a healthy “development compact”.

Rawls (1971) asserted that the strength of a chain is determined by the strength of its weakest link. Similarly, global prosperity is predicated upon the degree of prosperity of the weakest community living on earth. The call for “leaving no one behind” while aspiring to achieve the Sustainable Development Goals (SDGs) echoes similar sentiments. SSC may be considered a strong mechanism for pursuing the goals for achieving sustainable development.

1. INTRODUCTION

While examining international cooperation and global financial assistance, scholars have given due credit to the post Second World War success of the Marshall Plan for the emergence of development cooperation as a concept. The idea of development cooperation has multifarious facets, largely aiming to support national and international priorities; formulate developmental agendas; facilitate growth and development in developing countries and institute cooperative relationships to promote “giving” (OECD/ DAC -- model of cooperation) and “sharing” (SSC arrangements). The given idea of OECD/DAC model emerged out of the Two-gap theory that followed from the Harrod Domar (Harrod 1939, Domar 1946) model of growth and its subsequent extension by Solow (1956). It was designed to take care of two distinct gaps the developing countries were suffering from since the process of decolonization began: gap in resources to meet the capital deficit and gap in foreign exchanges (because of unfavourable balance of trade) that could help them procure required capital from the developed world. Global economic crisis in 2008 and the rising concerns about global warming and climate change, no doubt, paved the way for a new way of thinking beyond the DAC model. OECD discarded the idea of Total Official Support for Sustainable Development (TOSSD) that argued in favour of a paradigm that would accommodate aspirations for mutual benefit from the Northern countries as well, an effort that was characterized by Chaturvedi & Chakrabarti (2016) as southernization of official development assistance (ODA). However, one may still argue that the fundamental structure of ODA accounting and the corresponding DAC methods of monitoring and evaluation of development effectiveness in tune with all its conditionalities have not changed much since they were formulated a few decades back. Similarly, the spirit of SSC has also not changed significantly.

Northern countries, over the years formed a system where transfer of financial assistance to the developing countries has been accompanied by imposition of macroeconomic and political conditionalities. In classic terms, these conditionalities were supplemented with the concept of selectivity, wherein aid agreements were concluded with those countries whose policies synchronised with the donor countries' objectives (Dollar & Levine, 2006, Winters & Martinez 2015, Molenaers et al 2015). Incidentally, being driven by attitudes of giving, the efforts under OECD/DAC model have always been vertical under a donor–donee relationship and the recipient countries enjoy very little freedom in decisions linked to architecture of development cooperation.

A complementary modality evolved which in many ways ran counter to the ideas of imposing conditionalities and interfering in the national policy space of partner countries. This complementary model of support discards the two-gap theory and maintains a relationship of horizontality among the partners engaged in such efforts. Often it is found the partner countries have been helping each other, simultaneously sharing the advantage they enjoy across sectors. It was more intensive of support in the form of non-monetary intangibles, given the obvious scarcity of tangible monetary resources faced by the countries engaged in such a model of cooperation. The spirit of cooperation was largely dictated by logic of sharing – sharing of knowledge, experiences, technology, skills and goodwill of solidarity. Over the years,



its modality and principles evolved further and came to be referred as South-South Cooperation (SSC). While their Northern counterparts developed a well-articulated theoretical framework of development cooperation, social scientists from the South, barring the exceptions of Prebisch (1950) and Samir Amin (1976) failed to provide an alternative theoretical framework that would help rigorously explain the dynamics and pluralities in SSC. However, arguments by Prebisch and Amin were ably supported by social scientists from the North – Hans Singer (1949, 1950) Andre Gunder Frank (1967), Immanuel Wallerstein (1979), being the notables. This study seeks to fill that theoretical gap and broadly argues that SSC has been and still today is a process that is closely linked to the Lewisian desire¹ (1958) of breaking the structural dualism prevailing in the developing countries. While the Buenos Aires Plan of Action (BAPA) of 1978, following the ideas of dependency theory² and the Centre-Periphery model³ emphasized on an import-substitution-led structural change in the Global South that builds on technical cooperation among the Southern partners the spirit of solidarity. Forty years post BAPA, SSC appears committed to the cause of further structural changes in the South through innovation in development financial process and increasing intra-South trade.

In doing so it begins the journey with an elaboration of the empirical realities of SSC in its present context. A detail exposition on the organic linkage of SSC to Lewisian desire of removing “structural dualism” from within the global South follows. The fourth section concentrates on the guiding principles of SSC as they evolved over time, followed by an exposition of theorization of development process from the perspectives of North and South in Section V. A subsection on Development Compact completes the arguments in Section V. Section VI underscores the effectiveness of development compact in capturing the positive externalities generated thereby and tapped for mutual benefit, as opposed to the efforts of NSC to reduce negative externalities by creating conditionalities from the perspectives of a contract mechanism. SSC, with its central focus predicated on solidarity, also has its unique control mechanism that may be called “premise control” that is different from other arrangements visualized for North-South Cooperation (NSC). Some light has been thrown in Section VII on the use of the concept of “premise control” (Collins (1993)) to facilitate SSC. A further attempt was also made to emphasize as to how the Paris Declaration in 2005 argued in favour of a results-based approach to development effectiveness as against the earlier focus on process evaluation. The document concludes with the impression that SSC, instead of emphasizing on “Big Push”⁴, followed a development path that is sequential and helpful in removing dualism persisting among themselves and tried to facilitate the production of intermediate goods within the Southern economies. Section VIII concludes.

Before embarking on untangling the theoretical and conceptual framework distinguishing SSC from the traditional architecture of aid-based development, it will be worth making an attempt at the empirical realities and trends in SSC over the years.

2. SOUTH-SOUTH COOPERATION: THE EVOLUTION AND EMPIRICAL REALITIES

SSC has undergone major transformation that has been marked by several milestones, ever since its conceptualization more than six decades ago. The first one was the Bandung Conference, held in 1955. Bandung outcomes mostly emphasized the need for technical assistance among the countries of the South in form of experts, trainees, exchange of know-how and establishment of national and regional training and research institutes. The establishment of United Nations regional economic commissions (Economic and Social Commission for Asia and the Pacific in 1947, Economic Commission for Latin America and the Caribbean in 1948 and Economic Commission for Africa in 1958), United Nations Conference on Trade and Development (UNCTAD) (1964), and the emergence of the Group of 77 (1964), marked second milestone, even though some of these efforts preceded the Bandung Conference. Needless to add, these efforts contributed to a large extent, to the continuous evolution of SSC over the years to its present status of significance.

The third milestone was achieved when SSC was institutionalized by the United Nations at the global level in 1974 through creation of a special unit to promote “Technical Cooperation among Developing Countries” (TCDC). The unit was later replaced by what is today named as is the predecessor of today’s UN Office for South-South Cooperation. The first United Nations Conference on TCDC adopted the Buenos Aires Plan of Action (BAPA) in 1978 to focus on capacity building through technical cooperation, transfer of technology, and knowledge-sharing within the global South in support of the prevailing construct of import substitution policy à la Prebisch and Singer’s argument of unfavourable terms of trade affecting the developing countries. The arguments put forward by them appear empirically valid even today (Rabah et al 2013, Harvey et al 2010)

The fourth milestone signifies the emergence of new set development cooperation actors from the global South at the end of the last century. The global economic meltdown contributed further to the importance of SSC in development assistance architecture. Establishment of South-led development finance institutions -- New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) – extended the scope of SSC beyond TCDC to development finance as well. Recognition of SSC, along with the possibilities of triangular cooperation⁵, as an effective component in the achievement of the Sustainable Development Goals (SDGs) marked another feather in the cap of the SSC process. (ECOSOC 2017), ESCAP 2018).

A recent assessment (Li, 2018) highlights the challenges and realities facing SSC today. These are characterized by increasing desire from the traditional donors for SSC to come under the same umbrella as ODA (Official Development Assistance). The main argument from the Southern stakeholders engaged in development cooperation is that in contrast to ODA, SSC is not simply public money transfer like ODA—and, moreover, that the element of SSC that is comparable to northern ODA is still very small. In



view of these features, SSC can at the very best be considered as a complement to NSC (North South Cooperation). Such complementarity is necessitated by the fact that domestic financing needs of the south are massive and that many of the Southern countries face vulnerabilities and fragility. It is also found that the modalities of SSC are different from NSC. The South and the North have different history. Given their developmental experiences, countries from the South have comparative advantages in helping each other as they understand the problems faced by their partners in a more intimate manner. Li (2018) further documents the challenges facing SSC so far in view of the lessons learnt out of the experiences. They are

- Weak institutional setup and framework of SSC
- Lack of or insufficient capacity in project management and
- Short history and lack of maturity.

Li (2018) also records that even though the element of SSC is still small in comparison to Northern ODA, the trend in increase of SSC support is evident. He notes, "According to the UN DESA estimates, the volume of official concessional financing from the South for development purposes went through a big increase from \$7.9 billion in 2006 to \$18 billion if concessional export credit is excluded in 2013 but would be \$20 billion if included. Estimates of UN DESA for 2015 indicate that the financial component of such South-South development cooperation may have grown to reach \$26 billion in that year" (Li, 2018, P:7). Such growth is truly impressive. Li further adds, "Comparing with the DAC's reported ODA of the same year, which was \$130.1 billion, the SSC monetary transfer was only 20% of the ODA" (Li, 2018, P-8). However, most of the SSC transfers are non-monetary in nature, and comparable monetary transfer constitutes only 6% of the 2015 ODA (Li, 2018, P-8).

Li (2018) further notes that "According to the United Nations Conference on Trade and Development (UNCTAD), South-South trade increased from \$0.6 trillion in 1995 to \$4 trillion in 2016, almost 29% of the total world trade. Foreign Direct Investment (FDI) flows among developing economies account for about half of world total" (Pp: 6-7). Such observation clearly underscores the tendency of SSC to focus on development finance and trade & investment, beyond the initial emphasis on technical cooperation and capacity building. One may be tempted to argue that trade and investment do not always contribute to SSC. However, the initiatives taken by some providers like China and India to facilitate duty free and quota free access of goods from the least developed countries (LDCs) can rightly be considered to have made a significant contribution to the expansion of SSC.

Another recent study (UNCCS 2018) highlights the structural differences between SSC and NSC. It identifies five broad characteristics that differentiate SSC from NSC. They are in terms of (i) approach, (ii) relationship with other flows, (iii) modality, (iv) sectoral focus and (v) policy conditionality. The differences are given in a tabular form in Table 1 below. It reveals that while SSC is based on a spirit of "mutual benefit", the other is predicated on "giving". Blending of several flows of assistance in SSC stands in stark contrast to the greater effort at separation of development assistance from non-concessional and non-official flows, practices under NSC. NSC's efforts in emphasizing programme aid is at variance with the greater emphasis on project

aid followed under SSC. While SSC is more inclined towards provision of assistance to pursue development through investment in infrastructural and productive sectors, NSC is relatively more concerned to help in investment in social sectors and governance. NSC and SSC differ in terms of the methods in identifying priority areas for assistance. SSC is need based – demand driven, while NSC is strategy based – linked to a pre-determined national development strategy. And finally, policy conditionality is largely avoided in case of development assistance under SSC. NSC, on the other hand, focuses largely on policy conditionality as a precondition for providing aid to the developing countries. We shall take up the issue in greater detail in subsequent sections.

Table 1: Differences between South-South cooperation and North-South cooperation

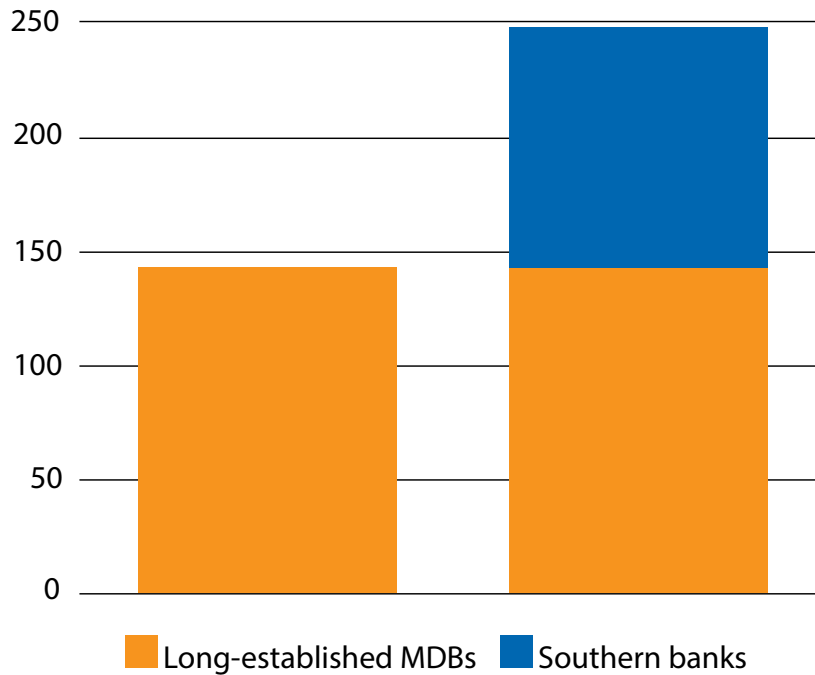
	South-South cooperation	North-South cooperation
Approach	Emphasis on cooperation as investment for mutual benefit and solidarity: "development investment"	Emphasis on cooperation as aid/assistance: "development assistance"
Relationship with other flows	Blending with non-concessional flows, hybrid instruments	Greater separation of development assistance from non-concessional and non-official flows
Modality	Predominantly project aid	Programme aid replacing project aid
Sectoral focus	Emphasis on, but not limited to, infrastructure and productive sectors	Emphasis on, but not limited to, social sectors and governance
Identification of priorities	Request-based: senior officials articulate specific projects for cooperation through high-level dialogue	Strategy-based: national development strategy outlines priority areas for donors, built up from technical discussions
Policy conditionality	Largely avoided	Largely practised

Source: UNCCS (2018); Pp. 19.

As mentioned in a previous paragraph, the increasing contribution of SSC to development finance marks a paradigm shift away from the "import-substitution" led strategy of SSC adopted during BAPA 1978. A recent document from UNCTAD (Barrowclough and Gottschalk 2017) captures the change. Chart 1 below captures the significant contribution from Southern development banks in tune with the shift in the centre of gravity of development finance. One may expect that NDB and AIIB, the recent efforts at creating South-led financial institutions, would take up this issue further in a meaningful manner.



Chart 1: Loan disbursements by development banks, 2016

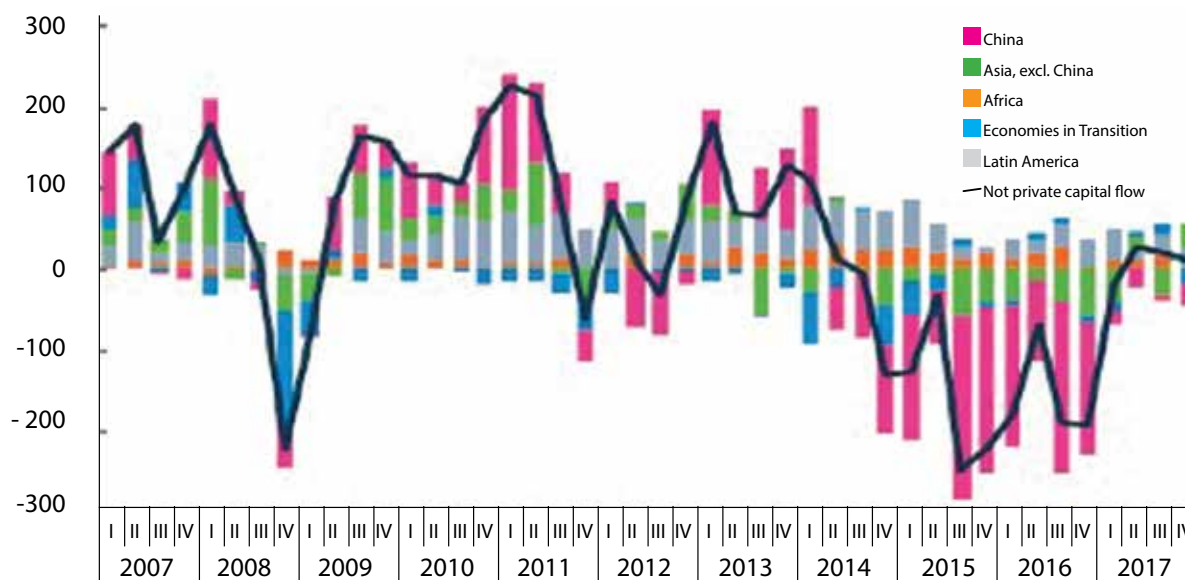


Source: Barrowclough and Gottschalk, 2017; Pp: 12.

Note: Long-established Banks include ADB, AfDB, EIB, IADB and WB. Southern banks include AIIB, BNDES, CAF, CDB, Ch Ex Bank, IsDB and NDB

The global South today faces an urgent need of an international financial system that would help achieve real structural transformation of their economies. The present architecture that promotes massive short-term capital flow, but very little long-term investment and thereby adding to the exchange rate volatility and systemic vulnerabilities in the developing countries calls for the needs to deliver liquidity in times of crisis. Chart 2 captures the volatility in net capital flows to the developing world between 2007 and 2017. It clearly identifies the sudden shifts from peaks to troughs within a quarter. Such sudden changes in the direction of flow of investible resources are highly disturbing from the perspective of developing economies under a situation where they require continuous flow of investible resources to catch up with their developed peers.

Chart 2: Net Capital Flows to Developing Countries 2007-2017



Source: Barrowclough (2017).

The failure of the Global South to participate effectively in the global value chain (GVC), barring a handful few, also is an alarming feature facing them. Proponents of the smiling curve contend that the value chain in respect of products – especially in the case of electronic goods, are so spread out that the values created at the two ends of the chain (product creation, design and R&D, on the one hand, and sales, distribution and marketing, on the other) are higher than that created at the middle ranges that involves production. Incidentally, the middle range of the value chain is generally located in the Southern countries (Shi, 1996, Ye, Ming et al., 2015). This has state of affairs deprived them of potential job creation and contributing to rapid and steady growth in their respective gross domestic products (GDPs). Ideally, participation in GVC can increase the share of manufacturing in GDP to a considerable extent and can add to the process of catching up by the South vis-à-vis the North. In this context, the reader’s attention is drawn to the concern raised by Rodrik (2016) in the form of “premature deindustrialization” being faced by the economies in global South, barring the likes of China. The spread of “Dutch disease” – ability to generate trade surplus through primary commodities, tourism and finance, rather than through manufacturing – among the developing countries has been significantly large during the last two decades. For a further detail on “Dutch Disease” see (Gupta et al 2015)

The middle-income trap – challenges faced by economies sandwiched between LDCs and high-income ones (HICs) – is also a matter of concern facing a number of countries in the global South. The middle-income countries (MICs) are – by the extant norms – denied easier access to ODA⁶. It is observed that 28 (85%) of Latin America and the Caribbean’s 33 countries are classified as MICs. Many other countries from the Southern world are on the verge of graduating to the MIC status. They have to fall back more on SSC in the absence of traditional alternatives in development assistance.



A high hope has been posed on the potential role that can be played by private investment sources in fulfilling the gap between desired and actual availability of resources for investment. Falling investment to profits ratio in the Southern countries is emerging as a matter of concern as it failed to attract required private investments – often lumpy and relatively risky – that could have added to the developmental process of the concerned countries. Increasing intra-South FDI is perhaps an attempt to take care of the falling trend in investment from the developed world. Table 2 (Barrowclough, 2017) captures the reality.

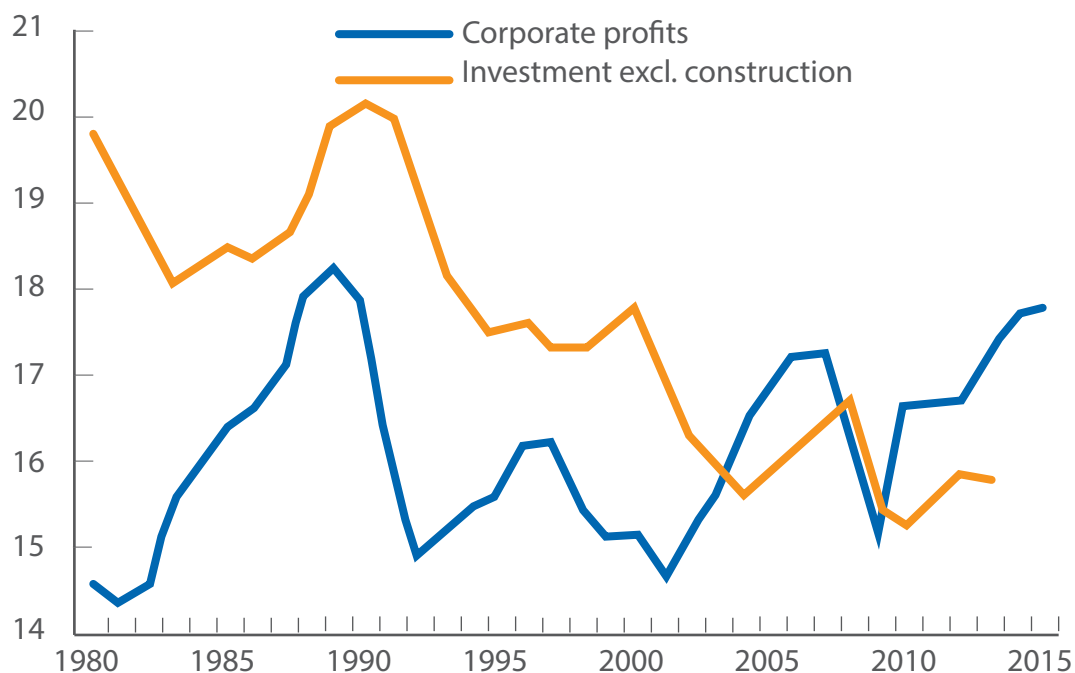
Table 2: Falling Investment to Profit Ratio in Some selected Developing Countries

	Investment to profits (aggregate ratio)		
	1995-2002	2003-2008	2009-2014
Argentina	121.2	91.9	104.9
Brazil	178.2	104.3	79.8
Chile	107.2	109.5	92.7
China	131.1	164.9	105.7
India	122.0	127.5	114.3
Indonesia	109.8	89.4	81.0
Malaysia	88.8	72.3	55.3
Mexico	98.2	92.4	89.2
Rep. of Korea	287.8	103.6	106.8
Russian Federation	217.7	134.0	83.2
South Africa	83.3	73.4	65.8
Thailand	84.6	71.5	58.9
Turkey	138.9	73.1	69.1

Source: Barrowclough, 2017; P: 34.

The integrated movement of corporate profits and investments as captured in Chart 3 reveal the declining trends in corporate investment between 1980 and 2015, even though corporate profits are revealing cyclical trends involving decade-long upswings and downswings.

Chart 3: Corporate Profits and investment (excl. construction), 1980-2015 (Per cent of GDP)

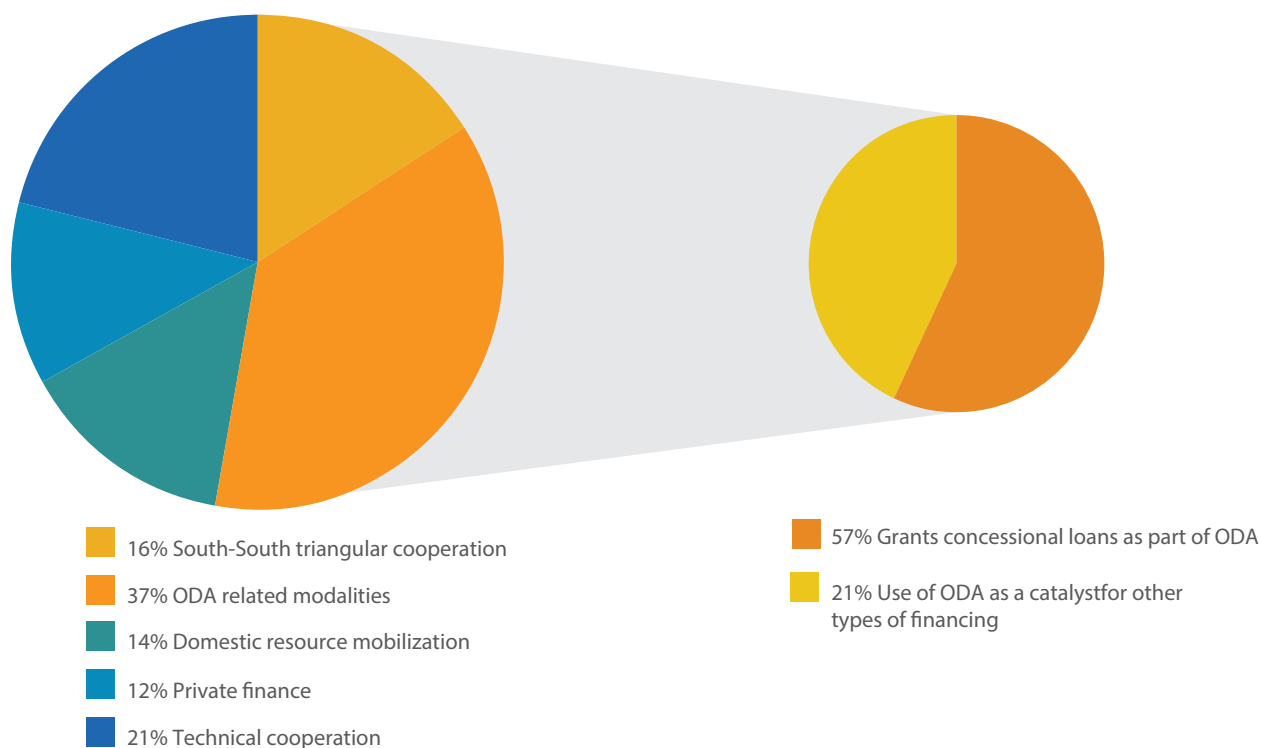


Source: Barrowclough, 2017; P: 34.

SSC has, however, started playing an important role in contributing to the National Development Cooperation Policies (NDCP)⁷. A recent report by the Secretary General of the United Nations on “Trends and progress in international development cooperation” (March 2018) shows relative coverage of different modalities in NDCPs. In 2018, a survey of 58 countries was carried out that “examined key enablers of mutual accountability and transparency, with analysis structured around national development cooperation policies, country results frameworks, national development cooperation forums and development cooperation information systems, and the related capacity support needs”. (UNDCF 2018). While eighty-two per cent of respondents reported that their NDCPs addressed both grants/concessional loans (part of ODA) and technical cooperation and other capacity building, sixty-four per cent on average had provisions for South-South and triangular cooperation. The report further records that 16% of the modalities are covered by SSC and triangular cooperation, compared to 37% linked to ODA-related modalities. 12% are covered by private finance, whereas 14% comes through domestic resource mobilization. The data resulting from a global survey relate to the fact that the respondents were able to select a number of different modalities covered in their NDCPs. Countries with an NDCP in place selected 154 modalities all told. The percentage refers to the proportion of these total selections by modality.



Chart 4: Relative coverage of different modalities in NDCPs



Source: *Trends and progress in international development cooperation: Report of the Secretary-General (March 2018)*

To capture the main features of the status of SSC today we may argue that

- In spite of calls given repeatedly to initiate a process of convergence between SSC and NSC, some structural and systemic differences (as mentioned in Table 1) still exist that are still very difficult to be eliminated;
- It is gradually moving beyond the earlier focus on import substitution to providing development finance to partner countries;
- SSC does not merely involve transfer of public money one to another partner country. Most of the transfers are, unlike those followed by OECD countries, non-monetary in nature;
- Net capital inflows into southern countries show a volatile trend, even though intra-South flow of FDI has been increasing, even though there is a contestation in the literature as to whether all intra-South flow of FDI need to be counted as resulting out of SSC;
- Premature deindustrialization, resulting in “Dutch disease”, has been a bane for many southern countries;
- Many developing countries have either graduated into the group of MICs or are in the process of doing so. Given the restrictive access to ODA accorded to them, SSC has the potential to emerge as more prominent source of development assistance for them;



HOW DOES LEWIS MODEL VALIDATE THE LOGIC OF SSC?

- SSC has been playing an increasingly important role in contributing to the National Development Cooperation Policies.

Given these structural characteristics and recent trends in development cooperation activities, accompanied by the challenges being faced by SSC, it will be worthwhile to have a look at issues through a conceptual lens. The following sections would attempt such an exercise. The next section derives from a fundamental identifier of a developing country – existence of an unlimited supply of labour – a phenomenon not taken care of by the emerging literature around neo-classical economic thought.

3. HOW DOES LEWIS MODEL VALIDATE THE LOGIC OF SSC?⁸

It's about almost seven decades – 68 years to be precise – since W. Arthur Lewis published his phenomenal paper titled "Economic development with Unlimited Supplies of Labour" (Lewis, 1954). Lewis' thesis was preceded by the arguments of Paul Rosenstein Rodan who published "Problems of Industrialisation of Eastern and South-Eastern Europe" more than a decade before (Rosenstein Rodan, 1943). Rosenstein Rodan called for a big push to facilitate development in countries lagging behind from their developed peers. Even though set in the context of eastern and south-eastern European countries, his arguments caught the attention of the development economists who emerged in the intellectual framework with their contributions on the conceptualization of development or lack thereof. By 1953, Ragnar Nurkse developed his idea of the vicious circle of poverty and suggested that the goal of development would be to come out of such a poverty trap. As Rahman (1961) would argue, Nurkse, "while rightly emphasising that success in the development efforts will, in the last resort, depend upon the effectiveness of action on the domestic front, (he) at the same time makes a passionate plea for a sympathetic understanding of the problems and difficulties of the under-developed countries by the rich countries and for offering liberal foreign aid and gifts to them without which, according to (him), the poorer countries will not be in a position to break out of their age-old stagnation and initiate a process of rapid development" (Pp 1-2).

While Rosenstein Rodan called for a balanced growth model to facilitate "big push" and come out of the vicious circle, propounded a decade later by Nurkse (1953), Hirschman offered a different recipe that prescribed initiation of a "big push" strategy through unbalanced growth as he argued, "If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibria." The strategy of unbalanced growth is most suitable, he argues, in managing and maintaining such tensions and disequilibria across the sectors and thus breaking the vicious circle of poverty in underdeveloped countries. Perhaps, the days of "high development theory", argues Krugman (1995), lasted for about 15 years between the publication of the paper by Rosenstein Rodan (1943) and that by Hirschman (1958). As he puts it, "Loosely, high development theory can be described as the view that development is a virtuous circle driven by external economies -- that is, that modernization breeds modernization. Some



countries, according to this view, remain underdeveloped because they have failed to get this virtuous circle going, and thus remain stuck in a low-level trap. Such a view implies a powerful case for government activism as a way of breaking out of this trap". Thus "big push" called for breaking the vicious circle and bringing about a virtuous circle riding on the strengths of increasing returns to scale prevailing in the then global economy. The debate between the effectiveness of balanced and unbalanced growth to bring about development remained, all the while, even though the consensus around big push became firmer.

The Marshall Plan was also an effort at "Big Push", officially known as the European Recovery Programme. It was put to operation between 1947 and 1951, immediately after the Second World War that devastated a large part of Europe. The plan was implemented quite successfully. The visible success might have been effective in tilting the argument in favour of big push and the emergence of development cooperation as a feasible mechanism to bridge the gap between the developed and the developing worlds. The idea of Solow (1956) that convergence between the two worlds is possible through flow of capital from the regions where it is relatively abundant to the regions suffering from relative scarcity also added substance to the argument. It should, however, be noted that unlike ODA-led northern approach to development cooperation of today, Marshall Plan embarked on a saga of horizontal cooperation, in the spirit of solidarity expressed towards the European communities that were badly devastated by the War. The impact of the effort was also huge. The official website of The George C. Marshall Foundation notes, "Sixteen nations, including Germany, became part of the program and shaped the assistance they required, state by state, with administrative and technical assistance provided through the Economic Cooperation Administration (ECA) of the United States. European nations received nearly \$13 billion in aid, which initially resulted in shipments of food, staples, fuel and machinery from the United States and later resulted in investment in industrial capacity in Europe"⁹. Thanks to effective results out of the Marshall Plan, Europe limped back to normalcy in a couple of decades, if not less.

There were arguments contrary to the logic of "big push". Lewis (1954) underscored the role of dualism in explaining the lack of development, while ignoring the role of economies of scale and circular causation. Fleming (1955) emphasized the role of intermediate goods in production in self-reinforcing development that could occur even without dualism. However, the rule of "big push" prevailed and the necessity and sufficiency of aid-based development cooperation became a panacea in the rulebook of economists and development practitioners.

The belief in "big push" framed the mainstream strategies for development for more than 60 years now, till Cohen and Easterly (2009) declared "The Failure of Big Pushes to Raise Growth". They identified three unsuccessful pushes:

1. The early big push in foreign aid (especially in the most aid-intensive continent, Africa).
2. Structural adjustment (also known as the Washington Consensus) in the 1980s and 1990s.
3. "Shock therapy" in the former Communist countries. (P:2)



HOW DOES LEWIS MODEL VALIDATE THE LOGIC OF SSC?

A relook at the Lewis model reveals that he factored in some of the typical characteristics of a developing economy that the “big push” model ignored. It will be worth examining his arguments to account for the failure of the development cooperation models that were built around the ideas of “big push”. Lewis argued in the very first paragraph of his 1954 article:

“This essay is written in the classical tradition, making the classical assumption, and asking the classical question. The classics, from Smith to Marx, all assumed, or argued, that an unlimited supply of labour was available at subsistence wages. They then enquired how production grows through time. They found the answer in capital accumulation, which they explained in terms of their analysis of the distribution of income. Classical systems thus determined simultaneously income distribution and income growth, with the relative prices of commodities as a minor by-product.” (p. 139)

He argued further that “Interest in prices and in income distribution survived into the neo-classical era, but labour ceased to be unlimited in supply...”. Unlimited supply of labour, though not a generalized global phenomenon, was very much a characteristic feature of countries like India, Egypt or Jamaica” (p. 139), he posited and tried to build this feature into his model of development.

He observed that a developing country is characterized by dualism in their domestic economic structures where there exist, simultaneously, a capitalist sector and a subsistence sector. While the former is capital intensive, the subsistence sector is characterized by the existence of disguised unemployment. Disguised unemployment characterizes a phenomenon that does not allow the wage to move beyond a subsistence level, because labour is not scarce. Further, prevalence of disguised unemployment does not reduce the production level significantly if some of the workers are withdrawn from this sector. He argues that flow of capital can play an important role in releasing such disguisedly unemployed labour and push them to employment in the capitalist sector that would offer a wage higher than that prevailing in the subsistence sector. The workers would benefit from higher wages – leading to generation of higher purchasing power among the workers, while the capitalist sector would be benefitted with higher surplus due to higher level of production. Higher level of production would also contribute to increased standards of living for the overall population. On an assumption that such resultant surplus will be reinvested as capital, opportunities for further migration of labour from the subsistence sector to the capitalist one would thereby be created. This process will continue until the supply of labour remains unlimited and cease as and when labour starts getting scarce. The structural dualism would disappear simultaneously, bringing about parity in wages across these two sectors, leading effectively to the process of catching up.

However, Lewis did not distinguish between skilled and unskilled workers as he assumed that

“There may at any time be a shortage of skilled workers of any grade-ranging from masons, electricians or welders to engineers, biologists or administrators. Skilled



labour may be the bottleneck in expansion, just like capital or land. Skilled labour, however, is only what Marshall might have called a “quasi-bottleneck,” if he had not had so nice a sense of elegant language. For it is only a very temporary bottleneck, in the sense that if the capital is available for development, the capitalists or their government will soon provide the facilities for training more skilled people. The real bottlenecks to expansion are therefore capital and natural resources, and we can proceed on the assumption that so long as these are available the necessary skills will be provided as well, though perhaps with some time lag.” Lewis (1954), p. 145.

Thus he asserted,

“Accordingly, in this analysis the growth of productive capital and the growth of technical knowledge are treated as a single phenomenon just as we earlier decided that we could treat the growth of the supply of skilled labour and the growth of capital as a single phenomenon in long run analysis”. (p.153)

Chiswick (2018) finds this assumption very optimistic and rightly questions Lewis’ implicit assumption that capital-formation is costless to the host developing country. Lewis’s argument could not survive critiques by Schultz (1962) and Sen (1966) and soon went into oblivion may be because of empirical evidence that failed to support Lewis’ assumptions, policy recommendations that were not successful, and the theory was not yielding new and useful insights. “There followed decades in which the Lewis model was virtually ignored, effectively displaced by a neoclassical approach to the economic problems of developing countries”. (Chiswick 2018 P:2).

The idea that human capital is a differentiated component of capital formation was developed by Romer (1989) about 35 years later. Lack of such a theoretical framework during his time perhaps did not help Lewis appreciate the short-term importance of upgrading unskilled labour to a skilled one as a complementary necessity to augment the productivity of physical capital accumulated in the capitalist sector. The proponents of South-South Cooperation (SSC), however, did visualize the role of skilling the labour force in developing countries. The beginning of SSC is distinctly marked by conscious efforts in capacity building. The idea was to augment the skill sets of the citizens of fellow southern countries through their *in situ* and *ex situ* training in different trades, an exercise clearly mandated by BAPA in 1978. Technology transfer across South would have been virtually ineffective in the absence of such appropriate measures of skill building. Even today, the largest chunk cooperation under SSC is centred around the idea of capacity building. India’s efforts at capacity building through Indian Technical and Economic Cooperation Programme (ITEC) are quite significant. During 2018-19 it plans to provide skill building opportunities in about 30 domains that include artificial intelligence, banking, finance and accounts, cyber technology, environment and climate change, petroleum and hydro carbon, power and renewable energy among others. Brazil has also engaged itself in such endeavour in an effective manner. The efforts made by Islamic development Bank, through “reverse linkage” also points to the importance of capacity building in upskilling the citizens of the global

South to add to enhancement of the productivity of available physical capital that flows today not just from the traditional donors but also from their Southern partners.

It is the insight generated from the Lewis model – existence of a domestic dualism in a southern economy accompanied by unlimited supply of labour – that, one may argue, might have contributed to the increasing confidence in SSC to help their southern partners in capacity building and thereby remove the “bottlenecks” in generating skilled labour force necessary to combine with the flow of physical capital from the developed world. This was the Southern contribution in reducing dualism, which the “big push” argument could not address to.

4. SSC: THE GUIDING PRINCIPLES

Different approaches and understanding of SSC have led to the evolution of basic principles of SSC. They are as follows

- **Demand Driven**
In SSC, it is the partner or the recipient, rather than the provider as the source of funds or capacities that determines the priorities in the project. The selection of projects and the methods for implementation are decided in consultation with the partner and is never imposed.
- **Respect for national sovereignty**
In line with the principle of national sovereignty, the partner or the recipient countries themselves initiate, organise and manage SSC activities. SSC is basically about interdependences, not ‘new dependencies’.
- **Political and Macroeconomic Non-Conditionality**
SSC never interferes with internal dynamics of the partner countries by providing policy recommendations thereby, challenging the national sovereignty of the partner. Nor does it withhold or/and rescinds partnerships due to changes happening within partner country.
- **Spirit of Sharing (Solidarity)**
One of the major tenants of SSC is that it is based on partnership of partners involved with absence of leaders in development cooperation. Spirit of sharing through capacity building and technology transfer continues to drive SSC.
- **Mutual Benefit**
SSC is carried out in the nature of partnership to promote mutual benefit and thereby rejecting an unequal dependent relationship. The aim of cooperation is to create higher level of capability and economic opportunity for both the partners, aimed at mutually beneficial interdependency. (UNGA2009)

In addition to the abovementioned normative principles, the Framework of Operational Guidelines on



United Nations Support to South-South Cooperation (2016) identified following four operational principles – Mutual accountability and transparency, Development effectiveness, Coordination of evidence- and results-based initiatives and Multi-stakeholder approach.

However, the experiences have shown it very clearly that in spite of sticking to the non-negotiable principles, partners in SSC have utilized several operational tools to implement required interventions. To elaborate, Development Cooperation under SSC is plurilateral in nature as different countries of global South have different modalities which are in sync with their national priorities and comparative advantages. It must be mentioned that SSC originated much before the formulation of Marshall Plan when in 1946 Chinese experts visited India for a capacity building program. Over the years there has been an increase in quantum, sectoral specificities and geographical expanse of SSC. However, these processes did not attract the scholars from the South adequately to frame a theoretical foundation for SSC, beyond what was argued in terms of dependency and centre-periphery models.

The situation in global South has changed significantly from what it was 40 years back when the centre-periphery model was formulated. The idea of import substitution facilitated by intra-South sharing of technology and assistance for capacity building is no longer considered effective in reducing the gap in the quality of living. In a globalized era, a number of Southern countries have engaged themselves in export-led development model and have succeeded in catching up with the North. While some have joined the bandwagon of the Northern donors and acceded to the institutional mechanism of OECD some others still side with Southern solidarity. Northern scholars often assessed SSC in the light of the extant model of NSC, by now brought forward as a working model of cooperation with numbers of empirical support from across the globe. Needless to add, their efforts have been mainly confined to finding deviations of SSC with a critical perspective from the so-called standardised features of development cooperation as referred to as the OEDC/DAC model, as Chang (2010) would call them the “Global Standard Institutions”.

How do we capture the pluralities in SSC? How can we theoretically uncover the differences in SSC vis-a-vis NSC that formulated a theoretical framework for itself? The following section captures the efforts at theorization of the development process that is expected to be influenced by development assistance.

5. THEORIZATION OF DEVELOPMENT PROCESS

Theorization of a phenomenon involves an exercise that establishes a functional relationship between a set of independent variables with another set of dependent variables(s). Such an exercise also facilitates the process of differentiating between two phenomena. Conceptually, the ideas may be considered as dependent variables and one may look for the set of independent variables that contribute causally/functionally in influencing the variations between the ideas in question. The present section attempts to theoretically distinguish between the ideas of NSC and SSC in terms of the variations in factors that

influence them. It is divided into two subsections. Section V(l) provides a theoretical framework of SSC using a structuralist perspective and distinguishes NSC that is theoretically predicated on a monetarist approach. The second subsection elaborates the idea of “development compact” as an operational mechanism that characterizes SSC. Differentiation between NSC and SSC in terms of a few more independent parameters will be considered in the subsequent sections.

6. THEORETICAL FRAMEWORK FOR SSC: A STRUCTURALIST FOUNDATION

As Mohanty (2015) argues, while development cooperation approach followed by OECD/DAC has a strong theoretical base in monetarist tradition, there are some similarities between the structuralist approach and the modus operandi of SSC.

Monetarists generally believe that price stability is a prerequisite for economic growth and that governments therefore call for strict monetary discipline to check inflationary pressure. Hence the emphasis by the monetarists on accomplishment of sustainable growths under conditions of macroeconomic stability. “Inflation is construed as the barometer for domestic instability and therefore the focus of the monetarist approach has been to arrest inflationary pressure through monetary policy” (Mohanty 2015).

Monetary approach to Balance of Payments (MABoP) constitutes another pillar of monetarist theory. According to this approach, disequilibrium in BoP can arise not from fundamental structural imbalance but from an excessive supply of money, leading to associated difficulties in maintaining exchange-rate stability. (Mohanty 2015).

Structuralists, on the other hand, “believe that a given level of inflation is natural to developing countries experiencing long-term supply bottlenecks”. To contain inflationary pressure, supply-side management is required rather than monetary policy”. (Mohanty 2015).

Further, ‘full employment equilibrium’ is not possible in developing economies, in view of their inherent structural problems. “In certain situations of distress, some countries accept IMF-supported stabilization programmes during which they submit to currency devaluation in an attempt to arrest inflation through external-sector management. Often this fails, due to persistent bottlenecks and structural rigidities in supply. Even though aggregate demand is adjusted to meet aggregate supply through policy measures as argued by monetarists, inflation is likely to persist on account of a mismatch between supply and demand in various sectors in the economy.

It was noted that ‘during the period 1971–97, developing members of the IMF received a stabilization



program for more than one-third of the time. There has been an increase in the frequency of IMF-supported stabilization programs since the introduction of SAF and ESAF in 1986 and 1987, respectively. In the post-1986 period, countries received support from the IMF almost half of the time. . . . on average, program countries enter a new program in a worse macroeconomic situation than before. Considering the revolving nature of the Fund support, this result is inconsistent with the effectiveness of stabilization programs and may be interpreted as a signal of moral hazard" (Evrensel, 2002)¹⁰

Structuralists, on the other hand, argue that the problem of price inflation is closely connected with the structural composition of the economy and it follows that the issue of inflation cannot be separated from the problem of development. They explain the causes of inflation by citing 'autonomous' and 'propagating' mechanisms, although they support the idea that inflation has a developmental dimension insofar as it helps to promote growth. Policies aiming at macroeconomic stability in practice may retard growth in developing countries although policy harmonization between inflation and economic development could be possible in the long run" (Mohanty 2015).

SSC thus shares the structuralist view that macroeconomic management should address supply constraints. In developing countries, such constraints persist in agriculture, manufacturing, services, infrastructure, and access to technology. Individual countries have sector-specific requirements, and therefore it is sector-specific, demand-driven needs that the Southern countries must address according to its capacity to support. Much of the current literature has consequently focused on the volume of development assistance under the aegis of SSC across different sectors (see e.g. Chaturvedi 2012; Fuchs and Vadlamannati 2013). The structuralist approach emphasises income redistribution in the recipient economy as an important condition for growth. SSC has been aimed to create income in specific locales, through small projects that may generate local employment. Employing 'appropriate technology' in these projects leads to gainful jobs for local populations. Many of these projects occur in the social sector and other productive sectors, such as agriculture, industrialisation, and services.

From the structuralist perspective, imposing conditionality does little to influence the growth prospects of a programme country. According to structuralists, a certain level of inflation is a natural phenomenon in developing countries, which tend to experience long-term supply bottlenecks. Since the structuralist framework sees convergence between inflation and development as a long-term policy objective, it imposes no strict adherence to conditionality. Though this approach is too simplified to address short-term imbalances in the economy, it has long-term implications for allowing macroeconomic stability to go hand-in-hand with economic growth. Therefore, current SSC practice — development cooperation programmes without conditionality — is very much consistent with the structuralist approach.

Furthermore, external economic engagements and integration strategies provide an important backdrop for analysing SSC. The engagement in trade cooperation differs from one emerging country to another, and further demonstrates assumptions closer to the structuralist position than the monetarist one. India has adopted a multi-pronged strategy, connecting with these recipient countries through trade and

investment as well as cooperation policies. In order to enhance mutual gains, India seeks to bolster trade activities with improved bilateral cooperation, and further engagement with partner countries through free-trade agreements. Other trade engagement enhancements include improved trade financing, lines of credit, and easier terms for bilateral cooperation (Chaturvedi 2013). China finances infrastructure projects in recipient countries but uses barter-trade in settling loans with these countries. Instead of recovering loan elements in monetary terms, China prefers to accept equivalent amounts in goods such as minerals.

MISSION APPROACH

Following the structuralist approach to development cooperation, SSC has distinct characteristics of its own. Its theoretical underpinnings strongly reflect the experience of Southern nations as aid recipients and have stressed 'win-win' partnerships that embody shared challenges but distinct national priorities. It follows a "Mission Approach". The approach to SSC centres on empowering developing countries and supporting them in efforts to come out of deprivation and engage in long-term, sustained development. This long-term development cooperation strategy has often been referred to as the 'mission approach' (Mohanty 2015). Conceptually, the mission approach aims to identify a set of growth drivers that support partner development efforts, setting them on a high-growth path. Technically, an understanding of economic conditions (based on macroeconomic paradigms) in partner countries would help identify these economic drivers and key growth sectors. This might also help in devising a 'road map' for providing consistent and predictable resources to selected areas, without conditionality and in the spirit of the 'partnership' principle.

Some of the salient features of the 'Mission Approach' draw from various past Southern initiatives to support developing countries in securing independence, in their post-independence reconstruction efforts, and their specific attempts to resume steady progress during Plan periods (Chaturvedi 2015; Mohanty 2015). For example, India has been engaged with Bhutan since 1955 and began extending yearly financial support to that country in 1960. In 1972, India also supported the establishment of two industrial estates, namely Nepalganj and Dharan, in Nepal and provided financial support to promote Nepalese cottage industries between 1968 and 1973. As a follow up action, India also agreed to fully support these countries' national five-year plans (Chaturvedi 2015). The 'mission' thus looks beyond debt servicing and undoubtedly, faces challenges in constantly raising resource flows – a pressing issue for Indian development cooperation in its present form.

FRAMEWORK AND INGREDIENT APPROACHES

In this context, we should address the prevalent understanding of other dominant approaches to development cooperation. Japanese economist T. Yanagihara (1992) has evolved a comparative analysis to distinguish different cooperation modes. He identifies two broad types of engagement, the 'framework' approach and the 'ingredient' approach. According to his definition, the framework approach represents the 'rules of the game': economic agents make decisions and take action in a given economy, itself conceived in terms of the functions of institutions and mechanisms, thereby underscore the need to enforce conditionalities. By contrast, the ingredient approach refers to tangible organisational units such



as enterprises, official bureaus, and industrial projects, along with their aggregations in industries, sectors, and regions. Wonhyuk Lim ascribed the framework approach to North-South engagements and the ingredient approach to South-South ones (Lim 2012).

The ‘mission approach’ differs distinctly from the ‘framework approach,’ but it has some elements similar to those of the ‘ingredient approach.’ It favours defining development cooperation as demand-driven, impelled by recipients’ requests and needs. In this view, development cooperation should adopt sectoral-support programmes, based on specific projects, rather than providing broader budgetary support. Such projects undertaken through SSC may not be highly capital-intensive in nature, but should cover several desired sectors, depending upon the request of the partner country. These projects should also aim at improving supply conditions in these countries. The mission approach thus emphasizes sectors such as agriculture and manufacturing, which create large forward and backward linkages in the partner country (Mohanty 2015).

With the detailing of delivery modalities at the practical level, the broad goals of the ‘mission approach’ dovetail with what Chaturvedi terms the ‘development compact.’ This ‘compact’ rests on five action pillars: capacity-building and skills transfer, concessional finance (further divided into grants and lines of credit), preferential trade, investment, and technical cooperation. It implicitly depends on the principle of equitable accesses to trade, investment, and technology in SSC initiatives. Deployment of a broad portfolio of modalities allows for flexibility that makes it much more attractive and appropriate for partner countries in the South. As Chaturvedi (2015) argues, India and other emerging (BRICS) partners have a broader concept of development assistance that goes beyond giving hand-outs, and generates economic activities in the recipient country. Significantly, this ‘compact’ rests solidly on the concept of mutual gain. ‘Development Compact’ is, therefore, something less than the articulated policies of the DAC members, but more than a string of unrelated aid programmes, and intimately related to broader economic strategies of the recipient country. SSC thus transcends from “development contract” to “development compact”.

In short, we can see the ‘mission approach’ as articulating the broad theoretical basis of SSC, while the ‘development compact’ represents the broad strategies flowing from that approach. The approach shuns big push, attempts to conquer the existing dualism in partner countries through mutual benefits and follow a structuralist philosophy of unbalanced strategic development path proposed by Hirschman.

7. DEVELOPMENT COMPACT

At this juncture, it will be worth reviewing the concept of “development compact”. The modalities followed in pursuing the mission of SSC are referred to in the relevant literature as “Development Compact”. The idea was derived from the original proposal of Thorvald Stoltenberg made in 1989 and later articulated by Arjun Sengupta in 1993, when he argued in the context of the hardship faced by the developing countries in fulfilling their contractual agreements linked to the Structural Adjustment Programme (SAP) which emerged as the cornerstone of what was labeled as the “Washington Consensus”. He proposed “that compacts (or agreements) be established between industrialised and developing countries to ensure that the latter received sufficient resources for development as they endeavored to reform their economies through programmes such as SAP, and in that way minimise the social costs of reform”.

According to Chaturvedi (2016), Sengupta’s concept of development compact can be explained as “based on the principles of ‘mutuality of obligation’ and ‘reciprocity of conditionality’! Under the compact developed countries and international organisations will provide assistance necessary for the successful implementation of development plans in poor countries, while in return developing countries will cooperate in the process through bold reform programmes. In the absence of appropriate capacity within a developing country, the developed countries will be obligated to provide whatever assistance is necessary for developing countries to achieve their targets. The development compact envisages a reciprocal obligation between developing countries and bilateral donors, international organisations and the UN system; hence it will be a country-specific arrangement, instead of a traditional one-size-fits-all’ solution applied across the board to all problems of developing countries.” The UNDP Human Development Report of 2003 further explained the proposition, defining the development compact as an arrangement based on a system of shared responsibility, where all countries could direct their efforts towards helping poor countries achieve their development goals. The compact allows poor countries to pitch for higher assistance and improved market access, while provider countries can demand better governance and accountability in return.

Chaturvedi (2016) initiated an effort to put development cooperation activities under SSC in a structuralist framework of what he termed as Development Compact. According to him, ‘development compact’ rests on five action pillars: capacity-building and skills transfer, concessional finance (further divided into grants and lines of credit), preferential trade, investment, and technical cooperation (Chaturvedi, 2015). It implicitly depends on the principle of ‘equitable accesses to trade, investment, and technology in SSC initiatives. Deployment of a broad portfolio of modalities allows for flexibility that makes it much more attractive and appropriate for partner countries in the South (See Table 1 below). Significantly, this ‘compact’ rests solidly on the concept of mutual gain. ‘Development Compact’ is, therefore, something less than the articulated policies of the DAC members, but more than a string of unrelated aid programmes, and intimately related to broader economic strategies of the recipient country. It may be argued further that the “development compact” as an operational tool to implement SSC allows bypassing the doctrine of “big push”. It helps



to actualize a process that effectively removes the dualistic structures of the partner countries through interlinked efforts that mix up the various modalities of cooperation, often in a sequential manner, and that mostly involve “nudging” as required. Involvement of huge transfers of resources is not a pre-condition for the success of SSC to achieve its objectives. Instead of focusing on and quantifying the resource flow, SSC typically involves tapping the qualitative, intangible gains of transfer of the right resources at the right times and in the right doses.

It should, however, be noted that while Sengupta’s call for development compact emerged out of an understanding of the NSC, the term, in the present context is linked to modalities followed under SSC in implementing her perceptions of SSC. Such an imposition of the concept to operationalise SSC, apparently coined in the context of NSC is justified in terms of the principle of ‘mutuality of obligation’ consciously followed in case of the former. Development Compact is visualised as providing an analytical structure to SSC philosophy of development cooperation that is composed of five distinct yet closely interlinked components (Chaturvedi 2016, p. 63). A schematic framework for a “development compact” is given in Table 3. A close look at the accompanying volume on the case studies would reveal as to how the various modalities have been utilized in supporting each other – technology transfer, capacity building, development finance – to facilitate India’s support to Mozambique to develop their Solar Panel sector to a potential level so that they would be capable of exporting surplus electricity and even solar panels to other southern countries. Under the “compact” support in the spirit of SSC, India provided technology transfer support to Mozambique to set up the relevant installation. Not only Indian experts were sent to provide in situ training to the local personnel, some technicians were also brought to India for exposing them to the intricacies of making solar panels (Chaturvedi 2016 P127-48). In addition, suitable amount of credit finance was also arranged at a concessional rate of interest to help procure the necessary capital goods.

Table 3: Components of Development Compact

Capacity Building	Development Finance	Trade and Investment	Technology Transfer	Grants
Training programme in host country	Concessional Loans on interest with or without capacity building component	Duty Free Trade Preference	Technical Cooperation	Debt Forgiveness
Sending experts to partner countries	Commercial Rate of interest for different time periods	Trade permits	Joint scientific and academic research	
Scholarships		Infrastructure improvement for trade facilitation	Turnkey Projects	
Third country training programmes		Trade promotion and trade support services	Technology Transfer with or without component of capacity building	



Deploying volunteers		Providing business facilitation services	Subsidising licensing or exemption from IPR arrangements	
Conducting feasibility studies		Assistance for improving regulatory capacity		
Prototype production and training centre		Providing investment funds		
		Developing Intra-Regional supply chains		
		Regional and sub-regional trade agreements		
		Providing freely convertible currency for trade		
		Tax preference for FDI		

Source: Chaturvedi (2016).

A perusal of Table 3 reveals the following:

- Capacity building and technology sharing – the main planks of BAPA as of 1978 – are still two important and recognized components of SSC.
- Trade and investment, on the one hand, and development finance, on the other, have brought in new dimensions beyond BAPA, in the Southern quest for elimination of structural dualisms – both in the domestic and global levels.
- These two components have the potential to encourage the spread of South-led GVC -- a process that is still marginally represented in by the global South in terms of their share in global value added. Needless to add, different possible permutations and combinations of the components of development compact will pave the way for creation of such GVCs.



8. CONDITIONALITIES OR LACK THEREOF: AN EXTERNALITIES PERSPECTIVE

The present section looks into differentiating NSC and SSC in terms of the type of externalities they seek to concentrate on. We argue that while NSC is more concerned with reducing negative externalities, SSC is content with taking the benefits of positive externalities associated with its model of development cooperation. While avoidance of negative externalities necessitates imposition of conditionalities, realizing the benefits accruing from positive externalities is of greater importance while operating on an SSC mode.

The earliest efforts at interventions to facilitate development cooperation were singularly focused (in the manner of the “big push”) around the central importance of investments in physical capital - infrastructure, heavy industries etc., even though most of the developing countries were content to follow an economic model of resource allocation that was centred around the State as the prime directing force in the economy. Such a belief is as identified in the literature on development as “dirigiste dogma”. A large part of the investment requirements in the developing economies were met out of domestic resources, while investible resources from the developed ones also chipped in to fill, to a considerable extent, the resource gap that could not taken care of through mobilisation of internal resources alone. This is often referred to as the Two Gap Theory. The first gap refers to the gap between the required and actual rate of domestic savings. The second gap pertains to the gap in balance of trade and hence a scarcity of foreign exchange required to import necessary capital goods and technology that could augment the process of growth and development. Thus was institutionalised the term which is commonly known as “official development assistance” (ODA). Initially ODA comprised of grants and soft loans in accompaniment of “technical assistance” that facilitates the conversion of financial flows into usable and productive physical capital. However, grants, loans and credits for military purposes are kept out of the purview of ODA.

ODA has long been considered the backbone of NSC in development intervention. Stemming purely from an approach that considered the lack of capital, the theoretical construct of NSC underscores the primacy of NSC in supplying investible funds to reduce the existing gaps between savings and investment in a developing country. The idea emanates from the belief that such an effort would help generate productive capital – physical, human (at a later stage) and of late natural as well – in ensuring a sustained growth of GDP and employment in the developing economies. In the process, the existing gap in the quality of life between the northern and southern countries will fall in accordance with Solow’s model of convergence. Researchers since the late 1970s and early 1980s, however, started questioning the efficacy of such a model in reducing the gaps that exist between the North and South. The role of negative externalities as exemplified by the “poor governance structure” prevailing in the developing economies were identified as the major stumbling blocks in achievement of the desired impact of the flow of financial resources effected from the North to the South. Thus emerged the “Washington Consensus” that argued, broadly, in favour of the following 10 fundamental policy prescriptions as

conditions to accompany the flow of financial resources from the developed world to its developing counterpart. These conditions constitute what is commonly referred to as the “structural adjustment programme”. A close look at the conditions specified reveal that they have been aimed at removing the potential sources of negative externalities that contribute to the inefficiencies of resource allocation mechanism in the developing economies.

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending from subsidies (“especially indiscriminate subsidies”) toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates;
4. Interest rates that are market determined and positive (but moderate) in real terms;
5. Competitive exchange rates;
6. Trade liberalisation: liberalisation of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
7. Liberalisation of inward foreign direct investment;
8. Privatisation of state enterprises;
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
10. Legal security for property rights. (Williamson 1990, Chapter 2)

This emphasis on fulfillment of conditionalities by the South in return for development assistance from the North was predicated by some major research findings that dot the development literature of the 1980s. Such studies argued that the variations in growth among developing countries, in spite of considerable inflow of investible resources can be explained by factors that lie beyond the ambit of “resource gap” theories, the fundamental premise of NSC. Acemoglu categorises those factors under four groups. They are: Luck hypothesis; Geography hypothesis; Institutions hypothesis and Culture hypothesis (Acemoglu, 2009, Chapter 4).

While luck hypothesis underscores the choice of one particular among the multiple equilibria (often referred to as the “initial condition”), say for example, in the context of technology adoption – with diversified focus on human capital and physical capital, geography hypothesis refers to variations across countries in terms of their physical, geographic and ecological environments, that include soil quality affecting agricultural productivity; natural resources, such as coal and iron ore that facilitate industrialisation;



climate; topography, which can influence transportation and communication costs of economic activities; and “disease environment, which can affect individual health, productivity and incentives to accumulate physical and human capital” (Acemoglu, 2009, p. 158). Institutions refer to rules, regulations, laws and policies that affect economic incentives and thus help coordinate effective and efficient investments in technology, physical capital and human capital. The Institutions hypothesis ascribes the differential growth performance of countries to institution differentials across the nations. Culture hypothesis, on the other hand, refers to variations in beliefs, values and preferences having considerable bearings on individual economic behaviour and thereby, the socioeconomic behavior of a nation.

Development theorists, operating out of the Northern Countries, came to a realisation since the late 1980s that while it is difficult and almost impossible to alter the initial conditions and geography of a country, it is also difficult to change the cultural attributes of a nation in an abrupt manner over a shorter period of time. Institutions, on the other hand, being results of collective decisions of a community are amenable to faster changes. The conditionalities put forward under “Washington Consensus” emerged from the belief that development cannot happen in the absence of a set of institutional structure that “historically” facilitated the sustained growth and subsequent development of the countries that imbibed such institutional prerequisites. Chang (2011) would later term these institutional prerequisites as Global Standardised Institutions (GSI).

To cut the whole story short, development as a process has ceased to be considered as fuelled alone by flow of financial resources from affluent regions to the not-so-affluent ones. Given the present-day realisation that the level of development is significantly and often linked to the degree of coordination failure (Hoff, 2000), the theoretical perspectives on the pathways to development have also undergone considerable changes. In terms of the tenets of coordination failure, development or lack of it, is meaningfully dependent on a number of factors that are called spill-over effects and which are not considered integral to an ideal market system operated by “invisible hands” a la Smith and taken as given, by mainstream neo-classical economics. The possibility of underdevelopment equilibria and vicious circle of poverty was underscored in development literature during the 1950s by many commentators. In the absence of a meaningful theoretical construct to integrate such spillover effects into the neo-classical thought process, the only credible theoretical way out in the earlier days in solving the vexed problem of underdevelopment was considered to be facilitating expansion of the space for market in developing economies. Recent advances in economic understanding not only identified some such spillovers but also helped integrate them with the mainstream economic model of growth and development. Some of these spillover effects – often described as externalities¹¹ – are in terms of technology, international trade, social and political interactions, information and knowledge, networking, innovation etc.

These externalities, if used effectively from a positive perspective to help generate desired positive externalities with concomitant investments, can contribute considerably to efforts to reduce the coordination failure faced by a community that is caught in what is known the literature of development as low-level equilibrium trap. There are some negative externalities identified as well, like corruption, lack of unambiguously defined property rights over resources, absence of appropriate mechanisms to enforce

contracts and apparent failure of state to allocate resources efficiently¹². Needless to add, reduction of coordination failure requires the effects of these negative externalities to be considerably reduced to help the economy shift more closely to an ideal market-based exchange mechanism that “ensures” optimum efficiency in resource allocation¹³. They are, often in the development literature, referred to as “governance mechanism”.

An attempt to link such negative externalities with the emerging development paradigm of governance conditionalities – introduction of global standardised institutions in the manner described by Chang – through Structural Adjustment Programme leads us to the theoretical basis for NSC. The conditionalities espoused under the “Washington Consensus” charted above were introduced to ensure reduction in the extent of generation of negative externalities. Such a possibility of reduction in negative externalities would increase the efficiency of exchange mechanism through the market space and thereby usher in development in economies suffering from the lack thereof provided the existing resource gaps are bridged through investible resources flowing from the economically advanced countries. The following paragraph elaborates the idea to tap the positive externalities through the “development compact” model of SSC.

9. SSC: A PERSPECTIVE FROM PREMISE CONTROL¹⁴

This section distinguishes NSC and SSC from the perspective of variables that control the respective processes. Unlike NSC, SSC may well be considered as a process of collective action, given the involvement of a large number of stakeholders from a horizontal plain. Such a process was also experienced during the implementation of the Marshall Plan in Europe. The collective action under SSC, centred around solidarity – economic, political, cultural and social – which began in 1955 involving nations that were primarily erstwhile colonies, proceeded unabated in providing moral support to yet to be independent countries till they had earned their freedom from the clutches of colonization. BAPA emerged as one of the most significant milestones in this journey of solidarity of the Southern nations in the spirit of “pooling and sharing”. The objectives and the action plans clearly reveal the intent of SSC to foster a collective action process among the developing nations to realize their aspirations, values and needs in a strategic manner so as to carve out a niche for them in the global economic and political arena. A collective action process can be successful only when it revolves around a sound governance structure. NSC, on the other hand, was found to be largely prescriptive and horizontal, even though some efforts have been initiated since 2005 Paris declaration to make the cooperation process participatory, to some extent.

Collin (1993) develops a third form of a governance structure that corresponds neither to a market nor to a hierarchical structure as exemplified by a government. The third structure of governance identified by him is termed as “brotherhood”. There are, according to Collins, two attributes of any governance structure – measurability of goal attainment and knowledge about the actions to achieve the goal. A market governance structure is characterized by a situation where the goals to be attained are to a large



extent measurable. Under such a scenario, the governance is carried out through a bargain mechanism that involves completely specialized contracts. Market exchanges fulfill such a condition as there are no difficulties in separating and specifying a party's contribution to the exchange as long as the contracts for exchange are well defined and the coordination of the parties' efforts are carried out through the price mechanism. Such a mechanism involves specification of the output (measurable goals) in the negotiated contract. Thus it may be called to involve a case of "output control".

Hierarchy on the other hand, governs an exchange under conditions of high transaction-specific investments. Specification of necessary actions is done *ex post* through the use of command – a part of authority relation. It is suitable under situations of low measurability of goal attainment but high knowledge about actions needed to achieve the desired goals. Such cases are found to involve "action control". Success or otherwise of action control is determined through a system, referred to as monitoring and evaluation.

A third form of governance structure emerges when neither the goals are adequately measurable nor the actions required to achieve the goals are clearly known. Collin (1993) considers them to be guided by what he terms as "premise control" – control prior to action through socialization and controlling the inputs. The three modes of control may be classified into a matrix as given in Table 4.

Needless to add, governance of a situation that can ensure simultaneous measurability of goals and considerable knowledge of actions can be facilitated by either output control or action control.

Table 4: Discrimination of control types in terms of knowledge and measurability

		Goal attainment	
Knowledge about the action		Measurable	Not measurable
High		Action control or Output control	Action control
Low		Output control	Premise control

Source: Collin (1993)

Following Collin's typology we may distinguish between the three institutional structures in Development Cooperation (DC). The pre-Paris Declaration approach to DC by the traditional donors may be identified as a hierarchical model of governance characterized by action control, with authority of the donors exemplified by strict conditionalities with the accompaniment of emphasis on monitoring and process evaluation. With not much clarity in terms of measurability of goal attainment, it was but natural that the traditional donors stuck to "action control" and the recipient countries did not enjoy much autonomy in terms of their participation in managing the decision-making process *vis-à-vis* the utilization of the funds committed and disbursed as DC. The Paris Declaration followed by Accra Action Agenda indicated

a change in approach to DC. Calling for efforts at aid effectiveness, a new approach argued in favour of results-based management of DC – a pursuit of “output control”. Subsequent identification of Millennium Development Goals (MDG), on the one hand, and rooting for impact evaluation, on the other, cleared the deck for a shift to a output-centric governance of DC. The autonomy of the recipient countries increased through institutionalization of “Poverty Reduction Strategy Paper” – a joint document prepared by the donors and the donee (Craig and Porter 2003). The approach concentrated on preparing an exhaustive list of negotiated contracts between the parties engaged in DC, with exclusive focus on outcome – output control, to be specific. The experiences gathered over the past four decades were rich enough to move towards output control, as the goals to be achieved appear by now to be clearly measurable, with increased utilization of the methodology of impact evaluation – particularly randomized control trial (RCT). Pre-Paris Declaration approach was, on the other hand, rather characterized by a complete focus on action.

The spirit of SSC, on the other hand, was since Bandung, through BAPA, founded on an ideology that delved into mutual trust among partners in the spirit of solidarity. Such an effort was facilitated by emphasis on increasing people-to-people contact through mostly capacity building efforts that involved participation of individuals from across a host of nations sharing their experiences with one another – a declared respect for premise control. Such principles paved the way for horizontal sharing of experiences and consequent empowerment of the citizens from all the partners engaged, contributing to their mutual benefit. Quest for such a roadmap also coincided with efforts to build new institutions to support SSC. As the SSC has been more focused on the principles of solidarity with partners, the goals to be achieved are not really uniquely measurable; they are often normative. The actions scheduled for implementation are not fully known either, paving the way for plurality of modalities; and hence the insistence on not committing to any fixed template of accounting for SSC. SSC, for its governance, thereby chooses the appropriate control regime in the form of premise control.

So far we underlined the choice of premise control in managing SSC, while it was argued that the development cooperation model followed by OECD/DAC underwent significant changes after the Paris Declaration from action to output control. We shall elaborate the argument in further detail in the present section. Development cooperation involves exchange of resources – transactions, to be precise – between the parties engaged in such an action. Let us first consider the attributes of the transactions under different control regimes. Obviously, the number of transactions under action control (hierarchy) and premise control (Brotherhood) will be higher as the capability of specifying contract *ex ante* would be lower under conditions of limited rationality. The frequency would be generally lower in case of a market determined transaction as the evaluation of the product/services delivered is carried out through output control. In case of exchanges through market involving delivery of a series of intermediate products, the frequency of transactions may even be higher in regimes dictated by output control. Irrespective of the control regime, the uncertainties involved in transaction would be high under all the cases. Table 5 distinguishes the characteristic features of attributes of transactions across the control regimes.

Let us now turn to the characteristics of the transactional forms. The arbiter of relationship between the parties under action control would undoubtedly be authority where the coordination between the donor



and the recipients will be through commands – a feature that characterized development cooperation by OECD/DAC before the Paris Declaration in 2005 – Structural Adjustment Programme included. Post-Paris Declaration, the relationship changed to that of bargaining, with coordination ensured through exhaustive contracts that called for

- **Ownership:** Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- **Alignment:** Donor countries align behind these objectives and use local systems.
- **Harmonisation:** Donor countries coordinate, simplify procedures and share information to avoid duplication.
- **Results:** Developing countries and donors shift focus to development results and results get measured.
- **Mutual** accountability: Donors and partners are accountable for development results¹⁵.

SSC, on the other hand, relied on trust between the partners, with the sense of solidarity, as enshrined in its non-negotiable guiding principles providing the basis for such horizontal coordination.

Table 5: Three institutions of Development Cooperation

	DAC Post-Paris Declaration (Market)	DAC Pre-Paris Declaration (Hierarchy)	SSC (Solidarity)
Attributes of transactions			
Frequency	Low/high	High	High
Uncertainty	High	High	High
Ambiguities about			
Goal	Low	High	High
Action	High	Low	Low
Characteristics of the forms			
Relation	Bargaining	Authority	Trust

	DAC Post-Paris Declaration (Market)	DAC Pre-Paris Declaration (Hierarchy)	SSC (Solidarity)
Coordination through	Exhaustive contracts	Command	Ideology
Transaction- specific investments	No	Yes	Yes
Autonomy of party	Yes	No	Yes
Control type	Output control	Action control	Premise control
Focus of control	Outcome	Action	Person

Source: adapted from Collin (1993) P: 79.

Under action control, investments – in the sense of provision of resources – were transaction specific related to implementation of projects, giving rise to identification of modalities. Paris Declaration, based on output control, argued in favour of investments that need not necessarily be transaction specific. More emphasis was laid on general budget support that covers “financial assistance as a contribution to the overall budget with any conditionality focused on policy measures related to overall budget priorities. Within this category, funds may be notionally accounted for against certain sectors, but there is no formal limitation on where funds may actually be spent”¹⁶. An evaluation study on partnership general budget support (PGBS) in 2004 found¹⁷:

- (a) PGBS has been a relevant response to acknowledged problems in aid effectiveness.
- (b) PGBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies.
- (c) Provision of discretionary funds through national budget systems has produced systemic effects on capacity, particularly PFM-related capacity. These effects are government-wide.
- (d) PGBS tends to enhance the country level quality of aid as a whole, through its direct and indirect effects on coherence, harmonisation and alignment.
- (e) PGBS’s effectiveness in reducing poverty depends on the quality of the strategy that it supports. Given the bias of early poverty reduction strategies towards the expansion of public services, most of the effects of PGBS inputs so far have been on access to services, rather than income poverty and empowerment of the poor.
- (f) It is important not to overload the PGBS instrument, but in all cases a capacity to learn from experience suggests that PGBS could become more effective, and have a broader scope, over time.
- (g) The evaluation considered unintended and adverse effects of PGBS (corruption, undermining



of revenue effort, unpredictability, crowding out of the private sector). It did not find adverse effects that outweighed the benefits of PGBS, but all these risks need to be taken into account in the design of PGBS (and of other aid).

(h) PGBS, as presently designed, is vulnerable to a number of risks, including political risks, that threaten its ability to operate as a long-term support modality.

(i) PGBS is part of a family of programme-based approaches (PBAs), and many of the study findings are also relevant to PBAs in general.

SSC, on the other hand, gives credence to transaction specific investments, as exemplified through the five distinct but highly dependent and interlinked components of development compact – capacity building, trade and investment, development finance, grant and sharing of technology. It also bears the distinction that a considerable part of “development compact” is also not amenable to strict quantification. They are rather more reflective of creation of long-term trust among the partners which itself helps create long term cohesion based on solidarity and the “logic of sharing”. It does not, for sure, involve authority of one over the other in decision making, nor does it take recourse to cut-throat negotiations in identifying the course and nature of the intervention. Being engaged in deriving reciprocal and mutual benefit, SSC considers a long-time horizon to measure the gains from such flow of resources. The accompanying volume on case studies of SSC from some select countries bears out this feature in a very comprehensive manner.

In view of the above differential characteristics, it is obvious that post-Paris regime of aid management increases the autonomy of the recipients, compared to what they enjoyed prior to 2005. In a framework of demand driven, unconditional SSC, the autonomy of the partners in cooperation was never in jeopardy. The focus of control being the people-to-people relations in solidarity, or premise, SSC thus clearly distinguishes itself from the OECD/DAC institution that shifted its focus from action to output since the declaration at the Second-High Level Forum on Aid Effectiveness (2005).

10. CONCLUSION

The present document attempts developing a theoretical basis for “development compact” being used as the cornerstone of development cooperation in the spirit of SSC. In the process, it identified the rationale and theoretical contours of NSC. It is observed that in the absence of a theoretical model that could not go beyond the market-centric neoclassical basis of analyzing the process of growth and development in an economy, votaries of NSC had no options but to prescribe measures that could reduce the generation of negative externalities out of a process of aid flow from the North to the South. Such prescribed measures happen to emerge as the painful conditionalities imposed on the aid recipient countries. Modalities of SSC followed as espoused in the form of “development compact”, on the other hand, shunned conditionalities and captured potential avenues of development cooperation that could thrive on the positive externalities accruing from the efforts made and thereby ensure a win-win situation for both the partners in cooperation. Generation of such positive externalities has been made possible by adopting a “control” regime under SSC that professed premise control on a horizontal setting, being altogether different from the early efforts at “action control” that is gradually being replaced by a regime of “output control”. However, empirical validation of this argument is necessary to be tested with extensive studies on the nature and extent of “mutual benefits” generated out of development cooperation through capacity building, trade and investment, development finance, technology transfer and grants.

To conclude, SSC may be looked at pursuing a development process that involves the Southern nations in engaging themselves in a mission mode shunning “big push” but coming out of the vicious circle of poverty through taking care of the structural dualities in their respective social systems. The structuralist approach so followed in a spirit of “premise control”, helps them avoid conditionalities and infringement of the sovereignty of each other, and thereby derive mutual benefits for themselves in a spirit of horizontality. Thus it avoids contractual obligations but creates a healthy “development compact”.

Rawls (1971) asserted that the strength of a chain is determined by the strength of the weakest link in the same. Similarly, global prosperity is predicated upon the extent of prosperity of the weakest community living on earth. The call for “leaving no one behind” while aspiring to achieve the SDGs echoes similar sentiment. SSC may be considered a strong mechanism to pursue the identified goals for a sustained development on the earth.¹⁸



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ENDNOTES

1 Lewis (1958) argued that a developing country, unlike a developed one, is characterized by the existence of a dualistic structure of the economy. While there is a developed section, the other is based on subsistence. The process of development has to ensure that this dichotomy is phased out.

2 Raul Prebisch (1949) and Hans Singer are credited to have developed this idea wherein they argued about the existence of basic asymmetries between developing and developed worlds, and their persistence over time, in contrast with the perception of the world economy as a place of interactions between equals, on a level playing field.

3 See Frank (1967) for a detailed explanation.

4 See Rosenstein Rodan (1943) for details.

5 UN defines Triangular Cooperation as “Southern-driven partnerships between two or more developing countries, supported by a developed country(ies) or multilateral organization(s), to implement development cooperation programmes and projects”: for details, see Frequently Asked Questions South-South and Triangular Cooperation available at http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/SSC_FAQ%20v1.pdf

6 For the 2019 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas Method, of \$995 or less in 2017; lower middle-income economies are those with a GNI per capita between \$996 and \$3,895; upper middle-income economies are those with a GNI per capita between \$3,896 and \$12,055; high-income economies are those with a GNI per capita of \$12,056 or more, (see <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups> for further details.)

7 As per UNDCF (2015), “National development cooperation policies define a country’s vision, priorities, commitments and activities related to international development cooperation. They can either be stand-alone documents or part of a national action/development plan. Well-structured policies spell out the principles and objectives of development cooperation, the roles and responsibilities or division of labour among the various parties involved, decision-making processes, and how implementation is to be monitored. National development cooperation policies do not exist in isolation of other national legislation and policies – they must be linked to the national development strategies and plans of countries.”

8 This section draws heavily from Chakrabarti (2018e)

9 <https://www.marshallfoundation.org/marshall/the-marshall-plan/history-marshall-plan/>

10 <http://neyapti.bilkent.edu.tr/Readings/evrensel-IMF.pdf>

11 Externalities are referred to as the cost or benefit that affects a party who did not choose to incur that cost or benefit and their presence contribute to failure in achievement of a market-led efficient equilibrium. While positive externalities refer to the benefits accrued, negative externalities are concerned with the costs involved.

12 Justin Yifu Lin (2012) would argue “The failure of the government interventions inspired by the first-wave development thinking generated a new wave, which highlighted government failures and adopted an astructural approach toward economic development that emphasized the essential function of markets in allocating resources and providing incentives for economic development, ignored the structural differences among countries at different levels of development in their policy recommendations, and expected the structural change to happen spontaneously in a country’s development process”. P4

13 Thus argues the first fundamental theorem of welfare economics.

14 This section draws heavily from Chakrabarti (2018b, 2018c).

15 <http://www.oecd.org/dac/effectiveness/parisdeclarationandacraagendaforaction.htm>



16 <http://ec.europa.eu/development/body/theme/rurpol/forum/papers/Hoole1En.pdf>

17 <http://www.oecd.org/development/evaluation/dcdndep/37421292.pdf>

18 For a detailed discussion on linking Rawlsian justice with SSC, see Chakrabarti (2018f)



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