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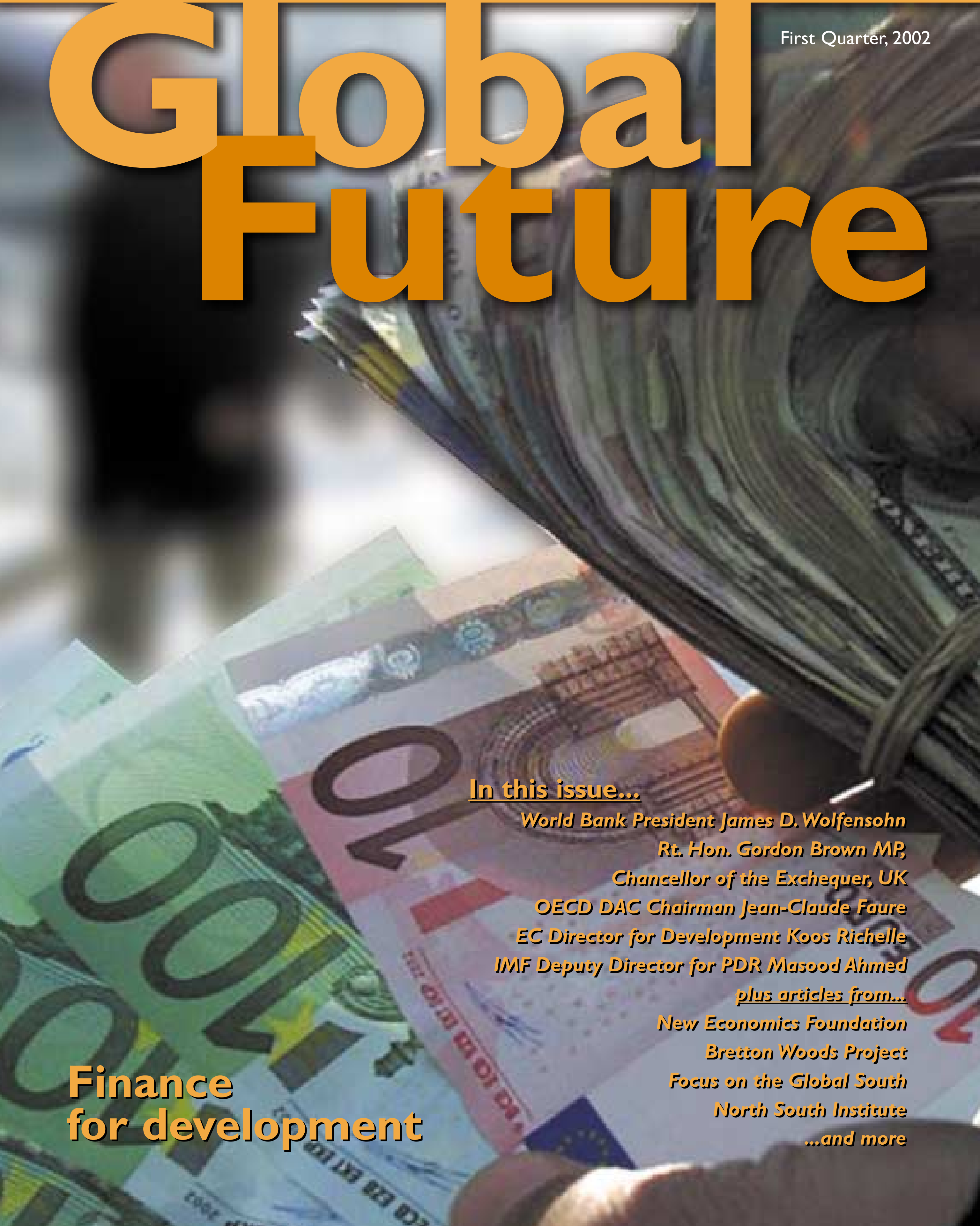
Global Future

First Quarter, 2002



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New Economics Foundation

Bretton Woods Project

Focus on the Global South

North South Institute

...and more

Finance for development

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Global Future is published quarterly by World Vision to encourage debate and discussion on development issues.

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It takes money

FINANCING for development is undoubtedly one of the most important, if not the most important, issue facing the global movement today. Without resolving the scandal of inadequate financing, we cannot address the health, educational and economic issues that face the poor, nor can we hope to create a more stable world. Conferences on child trafficking, say, or HIV/AIDS may grab media headlines, but such issues all require the world to solve the matter of financing for development.

We've prepared this edition with the March 2002 Financing for Development Conference in Monterrey, Mexico, in mind, and have invited an array of leading thinkers on global economic issues to contribute, in an attempt to provide insight and fodder for discussion.

In our lead article, World Bank President James D. Wolfensohn suggests five areas in which results from the Monterrey conference could assist developing countries to reduce poverty and strengthen their economies. The Rt. Hon. Gordon Brown MP, Chancellor of the Exchequer, UK, reminds us of the important role FfD can have in alleviating the suffering of the world's children. Brown recently launched a proposal for a US$50 billion global development investment fund that marks one of the most creative and interesting ideas to emerge from an OECD state for some years.

Contributors from OECD, the European Community, the IMF, the New Economics Foundation, the Bretton Woods Project, Focus on the Global South, the North South Institute, and voices from the poor, themselves, round out what we hope will be a useful springboard for discussion leading up to the conference in March. ■

— *Randy Miller*

COVER PHOTO: REUTERS–THE EURO, THE NEW CURRENCY FOR 12 OF THE 15 EU STATES, HIT THE STREETS 1 JANUARY 2000.

Financing for development: a time for action

James D. Wolfensohn

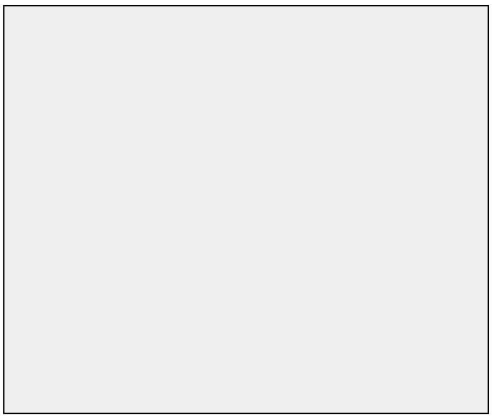
THE MILLENNIUM Declaration endorsed in September 2000 by more than 150 heads of governments at the United Nations is a landmark effort to ensure that the opportunities and benefits presented by globalisation are shared by the peoples of all countries. The Declaration gave new political impetus to pursuit of the goal of halving extreme poverty and hunger around the globe by the year 2015, and to the other goals promoting education for all, health, and a sustainable environment–now known as the Millennium Development Goals– which have emerged from the series of United Nations conferences in the 1990s. As the Declaration affirms, the World Bank is an important partner with the United Nations in this effort.

Economic consequences

In the wake of the tragic events of September 11, we at the World Bank believe that international co-operation to fight poverty is more critical than ever. Our analysis shows that economic growth will suffer world-wide in 2001 and 2002, condemning as many as 10 million more people to live in poverty next year, and hampering the fight against childhood diseases and malnutrition. We estimate that an additional 20,000-40,000 children under 5 years old could die from the economic consequences of the September 11 attack as poverty worsens. The worst hit area will be in sub-Saharan Africa, where, in addition to the possible increases in poverty of 2-3 million people as a result of lower growth and incomes, a further 2 million people may be condemned to living below US$1 a day, due to the effects of falling commodity prices.

The UN Financing for Development (FfD) process, leading to the March 2002 international conference in Mexico, provides a unique opportunity to galvanise international action and focus on the means required to reach the Millennium Goals. An important feature of this process–which the Bank fully supports–is the recognition that the means are not only financial. While mobilising public and private capital is a necessary part of the solution, it must be complemented by adopting good public policies, building greater capacity, expanding opportunities for world trade, and empowering the poor to participate in development.

REUTERS



World Bank President James D. Wolfensohn responds to questions from reporters in Sydney in August as Australian Foreign Affairs Minister Alexander Downer looks on.

The Bank has been a full participant in the intensive intergovernmental consultations over the course of the last year and a half to prepare for the FfD Conference. As the process moves to the final stages, we hope that the constructive spirit that has prevailed in the discussions will continue and will lead to identifying those areas where the conference can offer the basis for concrete progress.

There are five areas where we believe that concrete results from the FfD Conference could have a significant impact on the ability of developing countries to reduce poverty and expand their economies:

<u>1. Increased levels of Official Development Assistance (ODA).</u> Low- and middle-income countries need a major increase in aid from rich countries in order to reach the goal of halving extreme poverty by the year 2015. Our analysis suggests that up to a doubling of current aid levels may be needed, from just under US$60 billion to US$120 billion per year. But these additional resources must be focused on the neediest countries, which have demonstrated that they will use these new resources wisely and address human development needs. Expe-rience shows that, in countries without sound policies or good governance, external assistance has a limited effect on reducing poverty. In countries implementing sound policies and pursuing good governance, however, external assistance can have a high pay-off.

We at the World Bank believe international co-operation to fight poverty is more critical than ever.

Overall development

<u>2. Establishing a hospitable environment for private sector development.</u> A dynamic private sector–including small and medium enterprises–in poor countries is essential for creating jobs and contributing to a country's overall development. Foreign investors, who can also help fuel a country's growth, will not be attracted to enter developing country markets unless there is already a good policy and regulatory environment in place and domestic investors are active at

home, instead of engaging in capital flight overseas.

3. Integrating developing countries into the world trading system. Increased access to global markets offers the best promise for developing countries to lift their people out of poverty. We must help developing countries build their capacity to produce quality goods, and to engage in a new round of multilateral trade negotiations that will open fairly the doors of rich country markets to developing country exports. Developing countries are adversely affected by the numerous trade barriers imposed by rich nations, such as subsidies to agriculture that amount to an estimated US$1 billion per day–or more than six times all development assistance. The relaxation of trade barriers by rich countries will significantly reduce the amounts of aid required to reach the Millennium Goals.

Developing countries are adversely affected by the numerous trade barriers imposed by rich nations.

Co-ordinated efforts

4. Reducing the administrative burdens of aid. It is not enough to increase the amount of assistance we give; it is equally important that these resources be used more efficiently. Different donor agencies, such as the Bank and the United Nations–as well as rich country governments–must co-ordinate their efforts to help. Many developing countries have limited public sector capacity to deal with multiple donors, each with its own agenda and requirements for how to use their aid. Harmonising the operational policies, procedures and practices of different donor agencies will allow recipient countries to better manage their aid programs to meet their peoples' needs.

5. Financing for Global Public Goods. In addition to meeting the development needs of a specific country, many of today's development challenges require collective action across national borders. These include preventing and treating communicable diseases, maintaining financial stability, sharing of knowledge, and protecting the environmental commons. Since both poor and rich countries alike stand to benefit, there is a compelling case for additional financing to meet these needs–such as the newly created Global AIDS and Health Fund. We need to keep up public pressure for contributions to this fund.

For many countries, debt relief is also an important part of the solution. Under the Heavily Indebted Poor Countries (HIPC) Initiative, the World Bank, the International Monetary Fund and member governments already are providing debt relief to 23 countries, amounting to a total of US$34 billion as of early November 2001, with another three countries in early 2002. As a result, poor countries have more resources available for spending on health care, education and other social services. We are proud of this initiative, and more countries are scheduled for decisions on debt relief in the coming months. But debt relief cannot be seen in isolation, or be given at the expense of further aid or trade. It is hypocritical to give debt relief with one hand and then deny poor countries promised aid or the ability to export their way out of poverty with the other. We must provide all low-income countries–not just those that are highly indebted–with the levels and forms of assistance that best suit their needs.

Underlying all of this is the need to help developing countries build their capacities–the institutions, skills, knowledge and infrastructure–to promote economic growth and empower the poor to participate in development. This includes establishing strong financial institutions to provide access to credit; promote and protect people's savings and investments; a fair and effective legal system, judiciary and police to protect people's rights, root out corruption and ensure public safety; schools to educate the next generation of workers and leaders; hospitals and clinics to ensure public health; and modern technology and roads to connect people to knowledge and to new markets. Helping developing countries meet these needs is the focus of the World Bank's programs.

Slow progress

Clearly, the Millennium Goals provide a formidable challenge and responsibility for all of us. Progress since 1990 has been too slow to achieve most of the goals, and, in some cases, we are losing the fight. For instance, in 14 countries, there were increases in child mortality between 1990 and 1999. This is simply unacceptable. Political will and stepped-up efforts are required if there is to be a real chance of meeting these goals.

The World Bank is committed to work in partnership with the full range of public and private organisations.

The World Bank is committed to work in partnership with the full range of public and private organisations–including civil society organisations like World Vision–in this fight against poverty. The challenges are daunting, but we can win this fight if we work together. Together, we can and must build a wider public constituency–especially in the rich countries–and urge governments to take necessary actions in promoting aid, trade and capacity building to help the poor lift themselves out of poverty. We have agreed on the goals. Now, with the Financing for Development Conference, it is time for action. ■

James D. Wolfensohn is President of the World Bank.

FfD and children

Rt. Hon. Gordon Brown MP

EVERY DAY this year, 30,000 children will lose the fight they are waging for life. Seven million children will perish before reaching their first birthday, and over ten million will die before the age of 5. Of those children winning their fight for survival, 113 million have no access to primary education, 60% of them girls. Millions more do not complete the five years of schooling needed to develop the basic literacy and math skills that would last them a lifetime.

This is the face of global poverty today. It is an affront to our basic belief in the equal worth and inherent potential of every human life. It is a challenge to the values at the core of our character.

Ensuring a better future for the world's children means not only putting the needs of the young and the poor at the centre of social policy, but also at the centre of financial decision-making, economic planning and international diplomatic action.

Our starting point for action is the United Nations development goal to halve the proportion of people living in poverty by 2015, including:

1. Reducing by two-thirds infant and child mortality rates;
2. Ensuring that all children complete five years of good quality basic education; and
3. Closing the gender gap between boys and girls at all levels of education.

International concensus

But simply setting targets is not enough. Too often, the world has set development goals and failed to meet them. That is why we must build an international consensus amongst governments, NGOs, multilateral institutions and the business sector and demand new and concrete commitments from all. We must all be ready to reshape our policies, adjust our expenditure, and refashion our priorities so that the actions of each of us make possible the attainment of the goals set by all of us.

In particular, there are two areas on which action is imperative: health and education.

Global poverty is an affront to our basic belief in the equal worth and inherent potential of all people.

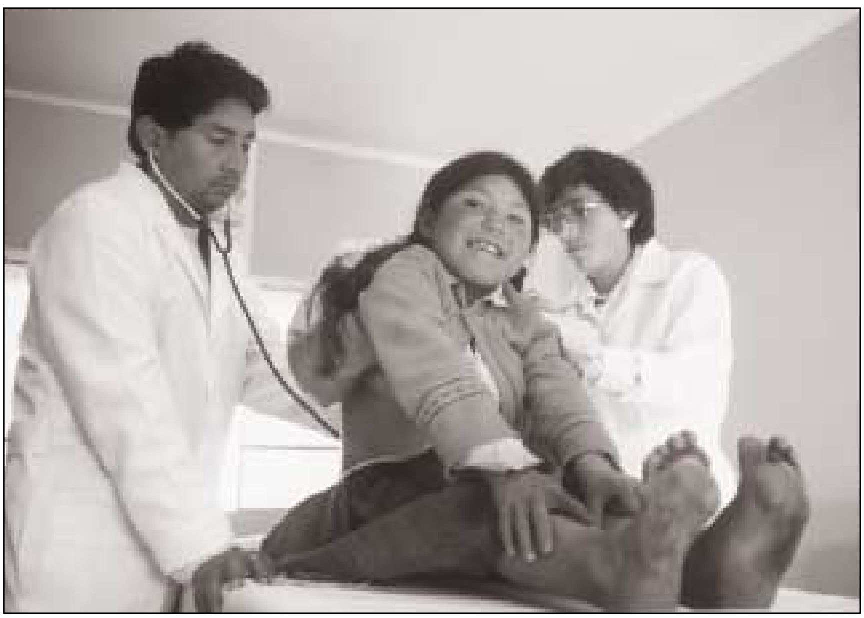
A child's health should not be determined by a family's–or a country's–wealth. We well know the human and economic costs of poor health and infectious disease in developing countries. In the developing world, 150 million children are underweight, with their mental health and physical development at severe risk. Diseases like malaria and tuberculosis kill millions of children each year; in South Africa, Botswana and Zimbabwe, half of all 15-year-olds are expected to die of AIDS.

Where developing countries have adopted strategies to tackle these problems, they have yielded positive results. And there is more that they can do to reduce disease and despair. Yet there is also a natural limit imposed by their ailing economies. So it is vital that developed countries take action, and take action together.

Unique partnership

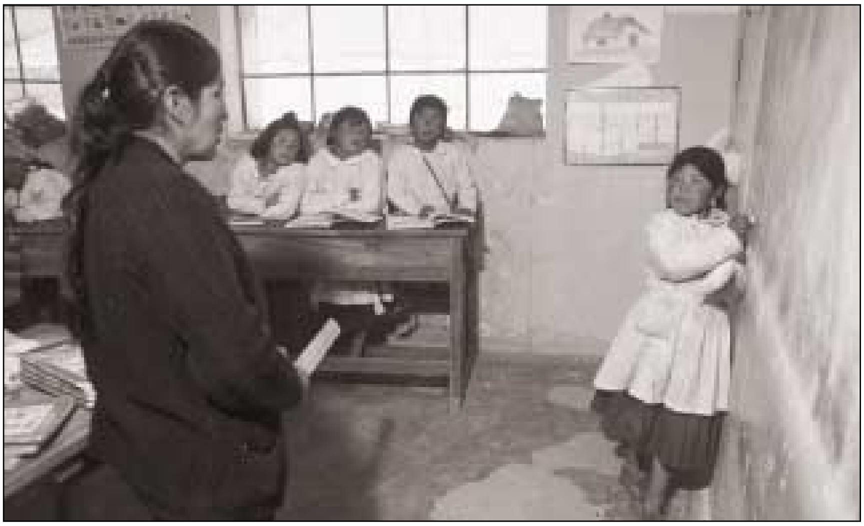
In the UK and elsewhere, new tax incentives have been created to accelerate research on diseases like HIV/AIDS, TB and malaria. In addition, the UK is leading in the development –with the United Nations, other governments, international agencies and foundations–of a unique partnership: a Global Health Fund to mobilise resources for the prevention, management and care of HIV/AIDS, TB and malaria. The UK is contributing US$200 million to the fund, and globally the total of commitments already exceeds US$1.8 billion.

But it is essential that pharmaceutical companies join us, responding to



RANDY MILLER

'A child's health should not be determined by a family's–or a country's–wealth.'



RANDY MILLER

'We know education–especially girls' education–is a precondition of personal and national progress. It is the best anti-poverty strategy, the best economic development programme.'

the challenge we face by developing and delivering affordable treatments for the world's poor. Quite simply, we cannot save lives and raise hopes without their commitment.

We know that education–and especially girls' education–is a precondition of both personal and national progress. It is the very best anti-poverty strategy, the best economic development programme.

Progress is being made. In the past decade, primary enrolments have increased at twice the rate of the 1980s. But the challenge remains great. Almost half of all African children and one-quarter of those in Southeast Asia are being denied a basic education. Public expenditure per pupil in the 19 least developed countries is less than US$40, compared with US$200 per pupil in developing countries, and US$5,300 in more advanced economies. So again it is vital that developed countries take action together.

Universal primary education

Action must begin with aid. Since 1997, the UK has increased its commitments on education by US$850 million. And this year–in Her Majesty the Queen's jubilee year–we will create a fund to speed the introduction of universal primary education in the Commonwealth.

But no aid budget, and no one nation, can achieve enough on its own. The cost of meeting our targets is not huge–recent studies estimate that the additional cost of achieving universal primary education could be in the region of US$10 billion a year–and the effect of these additional resources would be dramatic. Developed countries must work together to mobilise additional resources to fill the funding gap that amounts to less than one-quarter of one percent of the OECD countries' combined GDP. Similarly, developing countries must reprioritise their own budgets to meet part of the funding gap and ensure long-term sustainability. We must recognise the scale of the challenge we face and, working together, respond on an equal scale.

We know that education is the best anti-poverty strategy; the best economic development programme.

The Millennium Summit in September 2000 brought together more world leaders than ever before, and sought to find common ground for progress on development. We must now identify the concrete steps necessary to finance the achievement of our development goals, recognising that this will require a coherent approach involving a number of elements:

* Faster, wider and deeper debt relief so that money paid by the poorest countries for debt today can be money spent on education and health tomorrow;
* Increased and untied aid commitments;
* Growth through trade, as one of the best means of lifting people up;
* Increased flows of FDI and improvements in the environment for private capital, especially in low-income countries;
* Community-driven poverty reduction strategies at the heart of economic policy in developing countries;
* Increased domestic saving, investment and entrepreneurship in developing counties; improving the access of the poor–particularly women–to land, property and credit markets; and
* A stronger voice for developing countries in the international system, by sustained capacity building on an institution-by-institution basis.

Much-needed progress

It is critical that the UN Financing for Development conference to be held in Monterrey, Mexico, in March 2002, achieves a successful outcome–and makes much needed progress in mobilising the resources that are essential to meeting our shared development goals.

It is a vital test of our progress that a mother in sub-Saharan Africa will give birth without transmitting HIV to her child, and will herself live long enough to nurture the child; that a child in South Asia will have sustenance and shelter; and that a young man or woman will gain the tools and skills and education it will take not only to live, but to thrive, in the 21st century. ■

Rt. Hon. Gordon Brown MP is Chancellor of the Exchequer, UK.

Development finance, policy coherence and governance

Jean-Claude Faure

THE UN CONFERENCE on Financing for Development, to be held in Monterrey, Mexico, in March 2002, will provide the international community a valuable opportunity to revisit the issue of development financing. In particular, it will present an occasion to promote an overall coherent approach where each of the following elements will play an important role: domestic resources; better distributed and guided expansion of private external flows for development in partner countries, including the poorest of them; and a renewed role for development assistance, linked to increased efficiency and adequate volume. Along with coherence, good governance–both domestically and at the global level, and in the private sector as well as the public sector–emerges as a necessary and unifying condition for the success of each of these elements of development financing.

There is now strengthened conviction that good and efficient governance fosters economic development, social and political cohesion, and the protection of the environment, to the extent that it respects full participation by all individuals. This conviction is gaining ground at the same time as development and poverty reduction policies are becoming comprehensive.

Governance principles

The governance principles called upon to direct, in an increasingly wide-ranging way, interactions between states, markets and civil society, are embodied in formulations, institutions and practices that are, of course, proper to each type of actor. But they share common foundations: legitimacy, the rule of law, transparency, accountability, foresight and adaptability–in a word, participation. These are indeed the vital ingredients for the emergence of the common and more collective management of globalisation. Poverty reduction, sustainable development, the effects of globalisation–all these elements must be fully integrated in the general movement of international relations at the economic level, but also the political level.

Ownership of policies is a two-way street–with commitment by both developed and partner countries as an essential element for their success. Such commitment and ownership is the foundation of political will and the consent of citizens.

Preparing for Monterrey

Against this background, the Monterrey conference will be an opportunity for all participants to reach a dynamic consensus on the objectives to be attained–at the level of the principles involved and the actions required to mobilise, in a sustainable way, the financial resources needed in order to meet the Millennium Development Goals. This is indeed why the OECD and the DAC have joined in the preparatory work currently underway.

Preliminary orientations that can be gauged from consultation among bilateral donors indicate their interest in a coherent, systemic and integrated approach to development finance–to clarify the relationships between public and private financing; external and international resources; financial systems and formal and informal intermediaries; and sound resource management and capacity building in partner countries.

Regarding ODA, the Millennium Development Goals and the new comprehensive development frameworks, such as the Poverty Reduction Strategy Papers (PRSPs), should constitute a common basis from which to identify the multiple dimensions of aid, encompassing issues of effectiveness and governance as well as questions of aid volume and allocation.

The Third United Nations Conference on Least Developed Countries, held in Brussels last May, has already provided an opportunity to deal with development aid issues, taking account of the general evolutions mentioned above. A special forum on financing for growth was chaired by Evelyn Herfkens, Minister of Development Co-operation of the Netherlands, and Donald Kaberuka, Minister of Finance of Rwanda. The key message emerging from this discussion was the need to build partnerships based on mutual accountability in the context of PRSPs:

* developing countries must be accountable for their policies, governance and development management;
* donor countries must be accountable, individually and collectively, for the efficiency of their aid practices, and for timely follow-through on commitments;
* PRSPs that meet the accepted standards should be adequately financed by donors.

Mutual accountability

The new African-generated initiative for a New Partnership for Africa's Development (NEPAD) takes the concept of mutual accountability as a starting point for the relationship with donors, and proposes arrangements for moving from concept to reality, via an 'ODA Forum', for interacting with the DAC.

On the volume of aid, new calls for a doubling of ODA have emerged in the Monterrey process. On the supply side, this would mark a dramatic change from the declining aid effort of the past ten years. But it would not be inconceivable in the form of an incremental return over the next ten years to the ODA/GNI ratio of the 1980s. The more fundamental issues are how to ensure public support and the effective absorption of a major increase in aid flows.

But policy coherence, governance and mutual accountability must evolve further across a wide range of public policies to do with development finance. The decade of the 1990s witnessed a major increase in the flows of international capital to developing countries, in which private capital became much more significant in total than ODA. Factors accounting for this phenomenon include deregulation, regional integration, and advanced information technology. Although this has provided much needed capital, mostly for the larger and more developed of the developing countries, it has also led to an increased volatility of flows, to debt crises and to wider financial crises. Among the areas of policy coherence involved are the following:

Adequate representation

* *Financial sector reform* is important, both nationally and internationally, for enhancing incentives for efficient investment and economic growth and to minimise the risk of financial crises. Orderly sequencing of reforms is crucial and should include a prudential regulation of the banking sector, institutional capacity-building and better co-ordination between exchange rate policy, monetary policy, and controls or taxes on capital flows. A related issue of concern is that developing countries should adequately be represented in international forums discussing reforms in financial architecture.

* *Portfolio investment* provides valuable financial capital, mainly to middle-income developing countries with fair to good credit ratings. But short-term capital movements are a major cause of volatility, which, in recent financial crises around the world, has increased poverty.

* *Debt relief* for HIPCs (Heavily Indebted Poor Countries) is internationally recognised as necessary if poverty is to be reduced. To be effective it has to be additional, considering both the extent to which the debt could and would have been serviced without relief, and the risk of reducing other forms of ODA and other financial transfer. The amounts of debt relief must be sufficient for debt sustainability, for investment in economic growth, and for adequate social and other expenditures of importance for reducing poverty. Creditors must consider the risks and responsibilities involved in making loans to poor countries, and must share the consequent costs of failed credits.

* *Export finance* policies and practices –including guarantees–have an impact on debt, sustainable development and poverty reduction. OECD ministers have mandated the Export Credit Group (ECG) to strengthen measures to ensure that export credits are consistent with international agreements on sustainable development, and–in the case of HIPCs–are not used for unproductive purposes. Further, the ECG has recommended measures both to deter bribery in the credits themselves and to deny such credits where the relevant export contracts involve bribery.[1]

* *Foreign direct investment* (FDI) in developing countries has grown extremely rapidly in recent years. It has mainly benefited a few emerging market economies in East Asia and Latin America.[2] Low-income countries lack the policy and institutional environments, infrastructure, economic dynamism and market size of better-off nations, which are needed to attract FDI. Much of what they do receive is channelled into extractive industries with limited or even negative impacts on political and social stability, and on poverty. Any negotiating process toward an international agreement on investment rules, which could secure enhanced access to development finance, needs to include developing countries as full-fledged partners.

Beyond development finance

The multidimensional character of the fight against poverty, the closely related objectives and actions in this area and their necessary synergy underscores the need for a global approach, bringing different policy areas into a comprehensive effort. This is a necessary prerequisite of aid effectiveness and political relevance at the level of multilateral institutions and bilateral donors, as well as partner countries. The outcome of the recent WTO meeting in Doha was highly positive in this respect, with development and poverty reduction placed at the heart of the agenda set out in the Ministerial Declaration (which has been referred to as the Doha Development Agenda). In this context, a striking feature of the Declaration is the emphasis on capacity development as the gateway for developing countries to become full participants and beneficiaries in the global trading system.

But following through on Doha, and in other areas of global public policy, will require focused analysis and clear priorities on the part of individual governments and the international community. The DAC has prepared a Checklist on Policy Coherence for Poverty Reduction, which helps governments verify that their co-ordination systems work in this direction (included in the DAC Poverty Reduction Guidelines, www.oecd.org/dac). The OECD as a whole adopted policy coherence for development as a major objective at its Ministerial Meeting in April 2001 (see www.communique–para 41). ■

1. See ECG Action Statement (December 2000) with reference to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

2. Twenty-three such countries account for 90% of FDI. Of these, China and Brazil alone accounted for half of FDI flows to developing countries in 1998, and ten middle-income countries for 70%.

Jean-Claude Faure is Chairman of the Development Assistance Committee for OECD (Organisation for Economic Co-operation and Development).

Sustainable development can work in Mongolia

R. Amarjargal

FOR CENTURIES, Mongolians have respected the sacred relationship between humans and nature. They developed a nomadic lifestyle and culture particularly suited to living in harmony with the earth. This is largely why Mongolians have been quick to embrace the concept of sustainable development in recent years.

A unified national strategy reflecting general trends of sustainable development began taking shape soon after Mongolia's transition to democracy and a market-oriented economy. In 1998, Mongolia's government adopted the Mongolian Action Programme 21 (MAP 21) on sustainable development. This programme offers a unified strategy of development that provides economic growth, social equality and sustainable development, as well as a rational and proper use of natural resources. Its principal objectives are:

* Mobilise all necessary resources to alleviate poverty within the next 10-15 years.

* Combat environmental degradation and unfavourable changes, including desertification and the destruction of forests and water resources.

* Manage the country's development so that it is capable of withstanding and adapting to global climatic changes.

* Form an economic, educational, cultural, informational and social welfare structure with the potential to guarantee human development and living standards.

* Collaborate with regional states and the world community to establish a reliable system of prevention against environmental degradation and natural disasters.

* Ensure that growth and prosperity of Mongolia's regional zones are in line with its sustainable development.

It is essential that such a programme be managed properly. For this, the National Council for Sustainable Development (NCSD), representing the government, NGOs and the private sector, was established under the leadership of the prime minister.

Decision-making at any level

The NCSD opened its branches, known as economic, social and environmental councils, in each *aimag* (region), headed by governors who report to the National Council. This organisational structure allows the issue of sustainable development to be reflected and focused on decision-making at any level of executive governance.

While the formulation and implementation of the MAP 21 Programme has helped consolidate national potential and upgrade the knowledge and skills of citizens and officials in various sectors, it has encountered some difficulties. For instance, a mechanism for monitoring programme implementation does not exist. Moreover, central and local government officials have insufficient experience in planning and co-ordinating the issue of sustainable development.

For young democratic countries, it is important that sustainable development have the necessary political support. I should emphasise here that Mongolia's main political parties have taken an active part in the formulation of the MAP 21 Programme, and are supporting its implementation.

Additionally, considerable effort has gone into providing the proper legal support for this programme. Mongolia joined seven international conventions in the environmental sphere. And the Mongolian Parliament has enacted more than 20 laws on environmental protection, proper management and use of its resources, and restoration of natural resources, which are in keeping with the objectives of the MAP 21 Programme. In fact, the MAP 21 Programme is being used as a primary model for shaping several government policies and programmes on development and the environment.

Social issues–particularly poverty alleviation–are integral to the MAP 21 Programme. Since 2000, we have been using our experience and lessons–gained in implementing poverty alleviation programs since 1996–in executing programmes on raising household living standards

The implementation of this development strategy has raised new demands for educational, cultural and scientific organisations. Therefore, it has been important to include sustainable development issues in the current education system. In Mongolia, a national program for general ecological education was formulated in 1997. Today, ecology lessons are being taught in secondary schools, and concrete measures are in place for creating ecological awareness among citizens.

National strategy

The concept of sustainable development, with a focus on environmental issues at its nucleus, is being increasingly enriched with human, social and economic issues, as well as concepts of governance capacity, technology, traditions and cultural dimensions. It is providing excellent opportunities for developing countries to formulate a national strategy for development. In this field, it is important to disseminate and share gained achievements and accumulated experiences with each other. ■

R. Amarjargal is Chairman of the Amarjargal Foundation, and is former Prime Minister of Mongolia.

Financing for development: what role for NGOs?

Koos Richelle

THE CONFERENCE on Financing for Development, which will take place in Monterrey, Mexico, on 18-22 March, represents an historic opportunity to find innovative ways to address development concerns through the perspective of finance. The conference aims at structuring a new global consensus on poverty eradication, mobilising financial resources for development, and meeting the goals of the Millennium Declaration and other major United Nations conferences of the past decade.

One of the key elements of the FfD conference is the involvement of a wide range of players, not only the United Nations, World Bank, International Monetary Fund, and World Trade Organisation, but also a large number of non-state organisations and private sector actors. Such a holistic approach emphasises the fact that the 'state versus market' dichotomy must be abandoned and that many different kinds of players are to be involved in the international effort to eradicate poverty.

Stimulating debate

The European Commission, for its part, has been committed to the involvement of civil society in all the discussions of the FfD conference. In the past few years, the dialogue between EU institutions and NGOs has been at the centre of a quite stimulating debate, which included the publication of a Commission discussion paper: 'The Commission and Non-Governmental Organisations: Building a Stronger Relationship', in 2000. The need to involve non-state actors in the EU development policy has always been an important element, and different alternatives were considered to strengthen the interactions between the Commission and the NGO community. The new partnership agreement between the ACP (Arab, Caribbean and Pacific Group states) countries and the EU, which was signed in June 2000 in Cotonou, recognises civil society as an important partner. The aim is that civil society actors in the ACP countries be involved not only in the implementation of programmes and projects, but also be consulted in the policy dialogue. With the aim to support non-state actors' activities, the Commission also provides them with significant funding.

I firmly believe that the contribution of civil society organisations is a key for the success of the FfD conference.

As far as the role of non-state actors in the FfD conference is concerned, I firmly believe that the contribution of civil society organisations is a key for the success of the FfD Conference itself. Since the early phases of the FfD process, it was clearly stated that any co-operation effort must be based on the principles of partnership, ownership, and participation so that all relevant stakeholders, both public and private, could participate in the discussion and norm-setting at the global level.

In November 2000, a set of public hearings was held in New York. And, on that occasion, several NGOs provided a series of proposals on those issues that they wanted to see adopted by the conference. The ideas are not all new. On the contrary, we grew quite familiar with a lot of them over the years.

But that is exactly one of the problems.

There is an abundance of good ideas and intentions. However, we have to focus on priorities and delivery and implementation.

As far as the priorities go, we have an easy job: why not take the seven targets of the Millennium Summit to which the international community already agreed? If we do this, the problem of delivery becomes the central issue. Staff of the World Bank and the IMF have calculated that it takes about US$54 billion extra each year to reach those seven targets. That would imply a doubling of present ODA (Official Development Assistance) levels, or call for an economic growth of 7% a year in all the developing countries, or other innovative measures. One thing is certain: financial solidarity toward developing countries must be increased, and the mobilisation of all possible kinds of resources must be taken into consideration.

An engine for development

Trade, as an engine for development, is crucial in any development strategy. And, since the EU is the main trading partner for most developing countries, it has a substantial input to realise. The FfD process is important because it brings together the trade, finance and development communities. Market access is important, but there is a need to complement trade preferences by accompanying measures that help developing countries make full use of the opportunities of trade, including measures addressing supply-side constraints, competitiveness, regional integration, and investment promotion.

As for the issue of debt relief, I share with the NGO community the view that debt is without doubt a major impediment to development. That is why the EU has supported since the beginning the 'Highly Indebted Poor Countries' (HIPC) initiative. Indeed, the Community is by far the most important contributor to the Trust Fund supporting the initiative. The main challenge for the near future will be to see that the enhanced HIPC initiative is actually financed and fully implemented, and that the implementation is flexible enough to take into account special difficulties that may arise because of exogenous circumstances.

Real development will never be realised in a sustainable way if it is not embedded in good governance.

Another crucial issue in the FfD Conference is the notion of global public goods. In the past, non-state actors have been very active in the provision of global public goods. It is necessary that state, non-state, transnational, and international actors work together to find a balance between private goods and public goods. Therefore, one of the main objectives of this conference could become the establishment of a 'GPGs Agenda', which will allow the addressing of global goods concerns on the basis of a common definition.

Good governance

Finally, I would like to highlight another aspect. However much extra financing and trade may be needed, real development will never be realised in a sustainable way if it is not embedded in good governance. The Goteborg summit of the EU has launched the idea of a 'global deal', to be realised in the World Summit for Sustainable Development, to be held in Johannesburg in 2002. The FfD Conference should be seen as an important milestone on the road to that 'deal'. ■

Koos Richelle is the European Commission's Director General for Development.

The IMF's evolving role in poor countries

Masood Ahmed

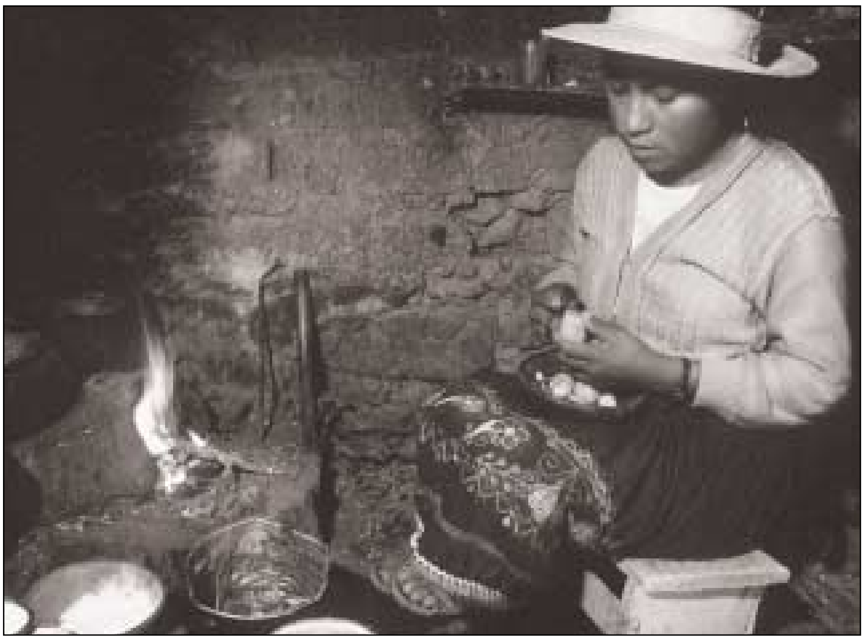
THINK OF THE International Monetary Fund, and one often thinks of economic fire-fighters, responding quickly to financial crises in volatile capital markets around the globe. This certainly is one important aspect of the IMF's work. But the IMF is a global institution with 183 members, nearly half of whom have average incomes of less than US$1,000 per year. These countries are far from the rapid pulse of international capital movements; indeed, many are struggling just to create a simple banking system. The IMF has an obligation to assist its poorer members as well as the larger countries whose troubles make headlines.

In the 15 years that the IMF has been lending substantial amounts to poor countries at the concessional interest rate of 0.5%, it has become clear that, with limited resources for these countries with overwhelming problems, IMF and other donor assistance needs to be carefully targeted at countries' most critical needs.

What worked, what did not

In late 1999, the IMF–in partnership with the World Bank–introduced a new approach to doing just that. We have laboured over the past two years to make it fully operational, not always with complete success. We are now taking a close look at how we have done, inviting public contributions to help us better understand what worked and what did not, and to see how the approach can be made to work better. To that end, the IMF and World Bank are, for four days in January 2002, bringing together in Washington officials from poor countries, administrators from donor agencies, and representatives from civil society groups from both North and South to learn from each other.

The new approach to assistance for poor countries had a number of novel features. First of all, it was specifically targeted at reducing the number of people living in poverty, notably the 300m Africans struggling to live on less than US$1 per day. This



RANDY MILLER

RANDY MILLER

focus was meant to ensure that the efforts of all parties are channelled in a consistent way to where it matters most.

Second, it was designed to build a national consensus on how best to tackle the problems of poverty in each country. Low-income countries applying for debt relief or new loans at highly subsidised rates need to develop their own Poverty Reduction Strategies Papers (PRSP), based on broad consultation within each society–including the poor themselves–to ensure that the problems were understood and the remedies, as far as possible, were agreed upon.

New concept of partnership

Third, the new approach embraced a new concept of partnership between countries and development agencies. The Poverty Reduction Strategy Papers were meant to form the basis for a co-ordinated approach by external donors, and to give countries a way to channel donors' willingness to help where it is most needed.

The PRSP process has been a major departure for the way the IMF works in these countries. Whereas IMF-supported programs in countries in crisis must often be put in place swiftly and in consultation with just a few key officials, the new, more participatory approach is much more time-consuming. The expectation has been,

The PRSP process has been a major departure for the way the IMF works in these countries.

however, that the PRS approach will help both to improve the quality of the programmes supported by the Fund, and increase support for them within the countries themselves.

How has this worked out in practice?

During the upcoming conference, the IMF and the World Bank will be gathering the views of those who have participated in the formulation of the PRSPs. Nevertheless, certain themes already have emerged from a string of earlier consultations around the world over the past few months. When the executive boards of the Fund and the Bank finally convene in March to consider formal changes to the PRSP process, there are a number of key questions they will need to address. For example:

—Have the participatory processes established by national governments met their objectives? The PRSP approach has been a learning process for countries, too. For some of them, public consultation is outside their traditions. Teething problems in opening up the policy process are perfectly understandable, and both we and country officials can learn from them.

—Have the expectations for the PRSP been set too high? Perhaps so, considering some poor countries' ability to implement such an ambitious undertaking in a limited timeframe. What is the need for increased technical assistance?

—Will the new approach really lead the donor community to do business differently? There is understandable scepticism, including about the Fund. But the Fund is committed to ensuring that national governments drive this process. That's why we are conducting a separate review of our lending instrument for poor countries–the Poverty Reduction and Growth Facility–to ensure that it is fully supportive of the PRS process on the ground.

A learning institution

The IMF is a learning institution, and in our work with the poorest countries we need to share that learning with the countries putting together their PRSPs. The shocking events of recent months have highlighted the importance of international co-operation. Even more starkly, they have confirmed the proposition that there can not be a good future for the rich if there is not a good future for the poor. The IMF is committed to the co-operation needed to make the prospect of a good future for the world's poor a reality. ■

Masood Ahmed is Deputy Director, Policy Development and Review Department, for the International Monetary Fund.

Go with the flow?

Angela Wood

AMONGST THE VARIOUS methods of financing to be discussed at the United Nations Financing for Development Conference next March, the role of private sector finance will be a key and contentious issue. The World Bank and International Monetary Fund (IMF) are keen to promote private capital for development purposes. They argue that since aid is in long-term decline, there is no alternative but to encourage greater private sector flows as a substitute.

Indeed, from the end of the 1980s, there has been a major growth of foreign direct investment and portfolio investment, which by the late 1990s represented the majority of flows (including aid) to developing countries (although only a select few of middle-income countries receive much of these). The IMF and World Bank have helped to facilitate this growth through their structural adjustment programmes, which have included liberalisation of foreign exchange and financial systems, privatisation of state-owned enterprises, the development of stock exchanges and their opening up to foreign investors, liberalisation of foreign investment regimes, and capital account liberalisation.

Bretton Woods Project is particularly concerned about capital account liberalisation (removal of restrictions on cross-border financial flows) because capital that is quick to flow in and out makes a country vulnerable to economic instability and crisis. Witness the crises in Mexico in 1994-5, Southeast Asia in 1997-8, Brazil 1998-9, and now Argentina. The poor are likely to benefit less from in-flowing capital than the rich, but suffer more in a crisis when capital surges out because they are less able to protect themselves and recover. There is evidence from Mexico to suggest that inequality has increased even though income levels returned to previous levels after the crisis.

Despite the obvious risks, the IMF and World Bank–and their G7 masters–promote capital account liberalisation in the belief that it helps encourage foreign private capital to flow into developing countries, by soothing investors' fears that they might not be able to take their profits out of a country quickly. More private inflows, it is argued, leads to more investment and therefore growth. Growth is a vital ingredient for reducing poverty. Therefore, capital account liberalisation helps reduce poverty, goes the reasoning, albeit indirectly.

However, while theory might predict this, reality suggests that, even in good times, capital account liberalisation is not a significant factor for enticing new investment flows (and, indeed, much foreign money that has come in has been invested in mergers and acquisitions of domestic companies, not necessarily new investments). Despite no guarantee of growth, the potential for instability caused by free- flowing private capital means that governments must pay more attention to ensuring 'market confidence' and building up protection against crisis. This has several potential impacts harmful to the poor:

* It takes government attention away from domestic matters, and policy is directed toward satisfying the whims of (mostly) foreign investors who are concerned with earning maximum profit, not achieving pro-poor development;
* More foreign currency resources (known as reserves) are set aside for dealing with crises rather than being used productively, for example, to import machinery or medicines;
* Efforts to keep inflation low, to give greater market confidence, means that pro-poor spending is cut to ensure budgets balance.

The IMF and Bank view capital account liberalisation as an inevitable, one-way process, but it need not be so. Nor is it the case that countries must fully liberalise. Some private flows are likely to be useful for development purposes. The problem is that the Bank and Fund do not know which ones; they have not monitored different flows to understand their impacts through the economy to the household level.

Better ways needed

Financial liberalisation is often viewed as a retreat by government. Granted, previous methods of imposing controls on capital flows have, in some cases, led to corruption or distorted markets. But this does not mean that the objective of controlling flows to protect against external shocks, encourage economic stability, or direct capital to needy areas was wrong. It does suggest that better ways need to be found. The issue now is not to abandon control but find better ways of doing so. Without appropriate institutions and mechanisms, private sector finance is unlikely to target pro-poor sectors or businesses (such as small- and medium-term enterprises). The G7 governments are encouraging the IMF to help countries liberalise their financial markets and capital accounts. They also should be encouraging it to advise on appropriate, market-friendly mechanisms for allocating credit to 'pro-poor' sectors, develop market-sensitive mechanisms to limit the speed of flows or to build better national systems for monitoring flows. ■

Angela Wood is Economic Policy Officer for Bretton Woods Project, an organisation that monitors the World Bank and IMF in collaboration with NGOs and researchers. For further discussion of the impacts of capital account liberalisation on the poor, see 'Go with the Flows? Capital Account Liberalisation and Poverty', www.brettonwoodsproject.org/topic/financial/index.html.

From hands-free to hands-off conditionality

Alan Whaites

THE IMF (International Monetary Fund) has seemed a little absorbed recently with the issue of `conditionality'–those strings attached to the lending it provides to states in desperate need of its finance. Gaining finance for development (and keeping a government solvent) often hinges decisively on these instructions–and a government's willingness to fall into line.

Subject to strings

In September 2000, a new initiative was launched through the IMF Managing Director's 'Interim Guidance Note on Streamlining Structural Conditionality'. The premise was that the extent to which conditions should apply to the fine detail of national policy at the level of government ministries should be reduced–while economic policy would still be subject to strings just as before (if not more).

In effect, the IMF wanted to introduce a new form of hands-free conditionality in which it would determine those parts of national policy that provide the platform for all others (fiscal, financial, exchange-rate policy, etc.), while allowing the borrowing state to work out the localised implications for itself. Within a year, the IMF was trying to gauge the effect so far, though a series of papers, particularly 'Streamlining Structural Conditionality: Review of Initial Experience', from July 2001.

Arrival of the debt crisis

Why this absorption with conditionality on the part of the IMF? Well, its decision to pay attention to the way it gives instructions is understandable, given the growing weight of evidence accumulating on the efficacy of those instructions in the past. The arrival of the debt crisis in the 1980s caused the level of conditions applied by the IMF to spring into overdrive, with the instructions often based more on neo-liberal ideology than proven economic best practice. As Mike Edwards has remarked: `It's one thing to have unwelcome house guests, but another for them to take over the housekeeping and insist that they know best.'[1]

> ***Will the hands-free conditionality put forward by the IMF actually work any better for the poor?***

Now the effects of those conditions have been around long enough to enable serious analysis, and, sure enough, the IMF papers on conditionality follow hard on the heels of Structural Adjustment reviews that underline failures in the past. The draft reports of the World Bank's Adjustment Lending Retrospective, as well as the joint Bank/NGO Structural Adjustment Participatory Review Initiative, do not make cheering reading, and they only add to the weight of existing and disturbing research.[2]

Put simply, the conditionality of the 1980s and 1990s was neither particularly effective at achieving the objectives that had been set (such as economic growth) nor was it of any benefit to the poor. On the contrary, it caused avoidable harm.[3]

Will the hands-free conditionality put forward by the IMF actually work any better for the poor? Well, some governments may thank the Fund for the fact that in several cases the actual numbers of conditions have increased, with those in the fiscal arena rising from one-third to half of the total[4] (although, frankly, I doubt it). But, regardless of the response, the actual quality of advice offered by the Fund is likely to be the same.

In essence, the Fund has a bad track record as a policy-maker for contexts in which poverty is a primary concern and, sadly, the changes to conditionality are about quantity, not quality. There is no evidence that the IMF has decided to abandon ideology in favour of best practice, nor that they are willing to embrace more successful models of development.

Stark differences

The need to be open to different models was underlined recently in a report published by World Vision called 'Precarious States', which compared the conditions set by the IMF in the 1980s and 1990s with the policies pursued by successful developing states. The differences are stark, and the Newly Industrialised Countries of Asia would have struggled to develop the IMF's way. Even those states that have been good pupils of IMF orthodoxy have struggled to do as well in poverty alleviation as states pursuing an alternative approach.[5]

So, perhaps it is time for the IMF to look not at hands-free conditionality but, instead, at a hands-off approach. Hands-off conditionality does not mean no strings at all; the provider of the funds has a right to expect that they will be properly used. But instead of having young Harvard graduates trying to second-guess what might work in often unfamiliar contexts, it would mean a switch to targets for governments themselves to achieve. Letting the homeowners try their hand with the housekeeping might prove to be effec-

> ***Perhaps it is time for the IMF to look not at hands-free conditionality, but instead at a hands-off approach.***

tive (as it has in numerous states less beholden to the IMF).

Hands-off conditionality means using a target-based approach, with lenders and borrowers establishing a small group of targets to aim for over a three-to-five year timeframe (in both economic and social policy). Targets, rather than policy prescription, would allow states the flexibility to graduate reforms and adapt to sudden shocks and political change.

Hands-off conditionality need not be a license for borrowers to take the money and then ditch the targets.

Hands-off conditionality need not be a license for borrowers to take the money and then ditch the targets, nor for corrupt politicians to squander resources once freed from supervisory scrutiny. (Indeed, there is little evidence that existing approaches have been effective in these regards).

A chance of success

The key to success is the most elusive attribute of all in development policy: consistency. If borrowers and lenders abide by the principle that states that achieve their targets are rewarded, while those that do not lose access to further funds (with suitable provision for exceptional factors beyond a government's control), then the process has a chance of success.

Amid the hype surrounding the move toward hands-free conditionality, the IMF has talked much about focusing on its real areas of expertise. But past evidence shows that development is not one of these. Rather than streamlining the flow of bad advice, maybe now is the time to allow states to learn from best practice and be free to choose the model they wish to pursue. Taking the hands-off option is always the difficult option–losing control is never easy–but sometimes it is best for all. Certainly, in the past, the alternative has done little for the poor. ■

1 Mike Edwards, Future Positive, *Earthscan*, London 1999 p. 117.

2 A selection of examples might include Radha Sinha, Economic Reform in Developing Countries, *World Development* Vol. 23, No. 4, or Paul Collier and Jan Willem Gunning, The IMF's role in structural adjustment, June 1999, or Paul Mosley, Turan Subaset and John Weeks, Assessing Adjustment in Africa, World Development Vol. 23, No. 9 or Oxfam's briefing paper: The IMF: wrong diagnosis, wrong medicine.

3 See Collier and Gunning op cit, or Galupa Garuda, The Distributional Effects of IMF Programs: A Cross-Country Analysis, *World Development,* Vol. 28, No 6.

4 IMF Streamlining Structural Conditionality: Review of Initial Experience, paragraph 13.

5 See Rosemary McGee and Andy Norton: 'Participation in poverty reduction strategies', IDS Working Paper No 109, p. 25 in relation to Uganda and Vietnam.

Concentrate on the children to make the country better

Nigel Marsh

IT IS RAINING, and the already crowded brick building continues to fill with still more people trying to stay dry. Above the cries of children receiving their immunisations, the happy hubbub of a Congolese throng asserts itself.

This is the Grand Nord of North Kivu, Eastern Democratic Republic of the Congo. A major war is raging in this region, with scores of armed groups vying for influence. But you wouldn't be able to tell that today.

This may be the world's largest developmental emergency, where poverty, disease and malnutrition kill hundreds of thousands of people a year. Many of those bustling around this humid room have been displaced from distant parts of the country by violence. And yet the atmosphere here is curiously optimistic. Women discuss the best way to kill crop pests; mothers comfort their newly vaccinated babies; and everyone jostles around the collectively owned sewing machine to hear their leader speak.

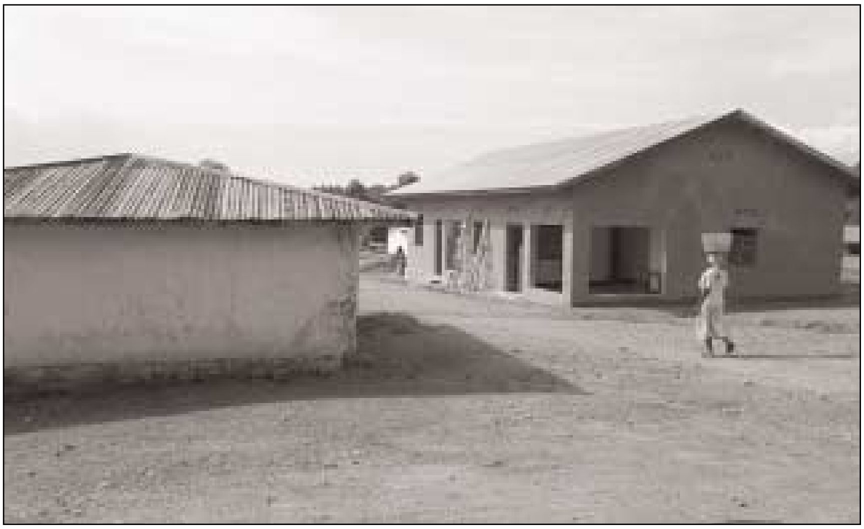
She is Kavo Siphora, president of the vibrant Women's Development Co-operative of Mavivi village. She has to raise her voice to explain where the abused community finds strength to fight back to prosperity, and where she believes foreign investment would help them most. Thanks to the energy and passion she has for the subject, it's not difficult for her to be heard above the din.

Health and education

'International donors should not always be so complicated,' she says in

NIGEL MARSH

Kavo Siphora



NIGEL MARSH

Grand Nord Beni health center buildings, where children are brought for immunisations.

French. 'They need to concentrate on investing in things that will provide a better life for our children–such as health and education. It is our children who will then go on and make a better Congo.

'Donors should invest in trustworthy groups, such as churches and women's associations like ours–people who are really in the community. If money is given to our government and leaders, we are not sure it will ever get through to us.'

Kavo's group has earned the right to speak about development through sheer hard work and tenacity in its ten-year history. A little help has been secured from NGOs here and there, but most of the progress has come without outside money or help, thanks to the drive of women like Kavo.

Even when leaders ignore us

She listens patiently to an explanation of why donors tend not to want to put money in places where violence and political instability increase the risks of wasted investment, then asks simply, 'Don't people still have to eat, even if their leaders decide they must fight? We have shown how to create a better life for our families and children, even when leaders ignore us or make war around us.

'Let the world help us build community learning centres for women, like this one we built,' she says, waving a hand vigorously around the building. 'Rather than spend money on big national schemes, it is better to support women with small business projects. Fathers don't care for the children, but women's associations make

Donors should invest in trustworthy groups, such as churches and women's associations like ours.

sure that children are being cared for.'

That's how the Mavivi women's association started, in fact–as a kindergarten for the children of the village, for whom there was no school, while their mothers tried to grow and harvest enough food from their gardens to feed them. Now the women also come together for lectures in crop management and marketing, to press palm oil, or make clothes to sell. But their children are still cared for in a communal kindergarten.

The group has flourished into an adult learning centre–25 women are learning French and mathematics today, for instance. The building, and what it represents, has become a focus for the whole community. Hence, its occasional role as a stand-in vaccination clinic, where staff from the nearest hospital at Oicha–many of whom have not been paid for years–use European Union and World Health Organisation medicines to protect children from major childhood diseases.

Importantly, in a land where malnutrition is rife, those who do have a little extra food bring it along so porridge can be made for the children.

'We were teaching the children, but we realised that they were sick and hungry and not able to concentrate,' says Kavo. 'First you must eat, then learn.'

Everything can be taken

International influence to end a conflict is as important as international finance, she adds, warming to her theme. 'It isn't just money that a community like ours needs. It's no good sending us money or buying things, while leaving us victims in a war. Everything can be taken from us again.

'The war in Congo has totally destabilised our community,' she explains. 'We have several times had to run from our homes and leave our fields behind for a season. Now we even harvest our crops too early because we are worried that we will have to run again and lose everything. All this means we have a shortage of food, and, of course, the first thing is that people need to eat.

'If we had the World Bank here, the United Nations, anyone who wanted to help us, we would say: "We want peace so we can grow our food, and we want development for our children."

'But even without peace, we can work for our future. War is something that we have had to learn to live with; we know that we have to keep going, to try and change things for ourselves. Only God knows when peace will come–perhaps when women can attend the peace dialogues and be listened to by the men.' ■

Nigel Marsh is Communications Manager for World Vision's East Africa region.

Where's the development?

Nicola Bullard

SO FAR, discussions about financing for development have concentrated on the 'financing' end of the seesaw, and taken the 'development' end for granted. But, for many people in the South, the most important question is not where the money will come from, but what sort of development is being promoted.

The answer to this question is all too clear.

The United Nations' financing for development discourse is rooted firmly in the neo-liberal paradigm that assumes that development is the same as growth, and that growth is the result of trade and financial liberalisation. Indeed, trade is seen as having such transformational powers that at one preparatory committee meeting, the WTO representative in attendance was forced to dampen the gathering expectations, saying that trade is only one dimension of development.

The cascade of financial crises in the late 1990s showed the risks of heavy dependence on external finances.

Dismal failure

Given the dismal failure of the neo-liberal 'development' model to generate growth and jobs–let alone development–it is extraordinary that this vital part of the equation should be passed over so lightly. However, the re-casting of geo-politics since September 11–and the looming global recession–gives us the political imperative to reconsider some of the assumptions underpinning financing for development.

After the attacks of September 11, the instability and insecurity of many countries in the South became a matter of great concern to the West. The (simplistic) argument that 'poverty is the breeding ground for terrorism' made the United States realise that poverty was not someone else's problem, but could–at least in their view–pose a direct security threat. The logic may be faulty–how many of the 2 billion people living on less than US$1 a day are terrorists? Yet, the effect may be that global inequality could become a serious foreign policy concern, which in turn could lead to serious commitments to action. This logic must be pushed further, but it also must be pushed in the right direction.

There are 20 years of accumulated evidence that structural adjustment programmes and trade and financial liberalisation have widened the gap between the rich and the poor, that wealth–in the form of natural resources, debt repayments and sheer human effort–is being siphoned from the South to the North, and that integration into the global economy brings with it tremendous danger and uncertainty.

The cascade of financial crises in the late 1990s showed the risks of heavy dependence on external finances, and the tremendous power of capital to turn around the fortunes of a country almost overnight. It also showed the vulnerability of predominantly export-oriented economies to fluctuations in global prices and demand. And the never-ending cycle of debt is evidence not of profligacy, but of the inability of countries to get their heads above the parapet when they are constantly bombarded with declining terms of trade, weak currencies, and few means to protect their domestic producers from aggressive competition.

The boss's adage, 'last on, first off', to decide who goes first when the jobs start disappearing, is also true for developing countries. They are the last to benefit from 'globalisation', and they will be the first to feel the backlash when the global recession kicks in.

Serious toll

The US recession, which started around mid-year, then accelerated sharply after September 11, will have a serious social and economic toll in the United States, bringing rising unemployment and declining profits.

The evidence is in–the neo-liberal economic development model has failed to deliver growth or create jobs.

Elsewhere, falling prices, closing markets, the shift of finance to safer havens, and a general slow-down in global demand will hit most developing economies hard, especially those that are dependent on exports and external financing for their 'development.'

The evidence is in–the neo-liberal economic development model has failed to deliver growth, and it has failed to create jobs. Instead, it has created dependence, vulnerability and inequality. It is high time to re-open the debate about development. The Financing for Development Summit in March will give us an opportunity to start proposing other models of development that move away from dependence on external financing and external markets, and toward economic models that put domestic markets, domestic capacities, domestic resources and, most important, people, at the very centre. ■

Nicola Bullard is Deputy Director of Focus on the Global South, an international non-governmental policy analysis and advocacy organisation based in Bangkok, Thailand.

Huge debts are choking Indonesia

Hendro Swito

SWEAT SOAKED his shirt as Yakub peddled his *becak*–a three-wheel rickshaw–through the crowded, narrow lanes of Surabaya, Indonesia's second-largest city. A scorching sun beat down on him as, at last, he dropped off his two customers and collected his fare: 3,000 rupiah–about US30 cents.

'On average, I earn around 15,000 rupiah (US$1.50) per day,' said the 30-year-old husband and father. This means he earns some 450,000 rupiah a month, or 5,500,000 rupiah (about US$550) a year. His annual income is less than the average per capita income of Indonesia, estimated at US$690 in 2001.

Hypothetically, if Yakub's situation is representative of most of the 210 million inhabitants of Indonesia, and if everyone in the country received the same earnings (US$550 a year), and all the earnings were collected into one account, some US$115 billion would be available after one year of work.

Staggering debt

With this money, Indonesia still would not be able to fully repay the staggering US$140 billion it owes in public and private debts. Of course, if all the people's earnings were used to repay these debts, all the people like Yakub would perish long before they could complete their year of work.

Foreign debts are choking Indonesia, a resource-rich country once known as one of Asia's emerging economies. Most of the debts were incurred during the 32-year reign of former President Suharto. Some observers believe that around 30% of the money loaned during this period ended up in the bank accounts of corrupt bureaucrats and businessmen–both in the country and abroad–with only a fraction of the loan funds actually benefitting the poor.

It is not surprising, therefore, that around 100 million people–half of the population–still live in abject poverty. Economic collapse during the last four years delivered a further blow, rendering unemployed or under-employed more than 30 million people out of the 95 million work-force.

'Poor people here suffer from double misfortune,' Christian intellectual Robert P. Borrong remarked in an October seminar in Jakarta on debt-servicing problems. 'They are like those who fall from a ladder, then get struck by the ladder when it falls.'

It is not surprising that around 100 million people–half the population–still live in abject poverty.

'When government officials approach creditors, they sell the suffering of the poor as the reason for requesting financial support. Yet, once the loans are secured, it is the elite circle and the donors themselves who really reap the benefits,' Mr Borrong said.

Muslim intellectual Masdar F. Mas'udi said most projects funded with foreign loans were obligated to use consultants and materials from the respective countries. 'All the prices were marked up. The loans also carried burdensome interests. The loans actually did not help us. In the long run, they even brought about unbearable burdens.'

President Megawati Sukarnoputri, who succeeded President Abdurrahman Wahid last July, emphasised that a loan is a loan, and should therefore be paid. It should not be regarded as 'financial assistance.' Megawati had to swallow a bitter pill when she tried to explore debt reduction from the Japanese government during her visit in September. Japan bluntly turned down her requests.

Loan reductions

Nathan Setiabudi, chairman of the Indonesian Council of Churches, said in October that the new government of Indonesia deserves getting substantial reductions on its huge outstanding loans inherited from Suharto's era.

'When Suharto succeeded Sukarno in the late 1960s, he secured loan reductions from donor countries because some of the loans incurred by the Sukarno government were being used to protect Sukarno's legacy,' Setiabudi said, adding that similar criteria could be applied to loans incurred during Suharto's administration.

Mr. Mas'udi also emphasised that Islam did not allow interest-bearing loans. 'If we sincerely want to help a poor person, it is a sin to charge interest over our loan.' Therefore, he suggested the government ask donor countries to abolish the interest payment obligation.

'The government also has to take actions to retrieve funds looted by all the corruptors–from the bureaucrats to the business circle–to repay the loans,' said Mas'udi, who is a vice chairman of Indonesia's largest Muslim organisation, Nahdlatul Ulama.

Robert Borrong also noted it is high time for donor countries to be more sincere, and even to repent if they have been adopting new colonialism practices over poor nations, as such an inhumane policy has impacted the lives of millions of poor people.

Meanwhile, Yakub keeps pedaling his becak. He doesn't spend much time worrying about Indonesia's huge foreign debt. His main concern is keeping his family alive. ■

Hendro Suwito is Communications Manager of World Vision Indonesia.

Donors in the dock– rethinking ODA effectiveness

Kelly Currah

OVERSEAS Development Assistance is back on the agenda. While rich donor countries traditionally have set conditions and standards on poorer countries seeking debt relief, pressure is now increasing for donors themselves to clean up their act when it comes to ODA. This new clamour for a rethinking of attitudes to ODA has not come from major bilateral donors, nor from NGOs, but instead, from two different sources.

The first of these was most recently voiced by World Bank President James Wolfensohn, after the September 11th attacks, when he called on rich donors to put more into ODA to help poorer countries overcome the consequences of a global recession. This reflected Wolfensohn's earlier and highly controversial chastising of industrialised nations for not thinking seriously about the need for adequate investment in development. He was joined by his counterpart at the IMF, when, during the 2000 annual meetings of the World Bank and IMF in Prague, the newly installed Horst Koehler called for a substantial increase in the level of ODA from rich states.

New urgency

The reason for the new urgency in the calls of the major multi-lateral lenders is a worried recognition on their part that many of their own initiatives will succeed only if there is an 'enabling environment'. The two ingredients they have identified as critical to such an environment are budgetary support (ODA) and the liberalisation of Northern markets. The latter alone would release an estimated US$150 billion of extra resources for the South.

The most vulnerable of the World Bank/IMF's new projects is their flagship initiative for reducing poverty, the Poverty Reduction Strategy Papers. These strategies are intended to provide countries with comprehensive plans to raise living standards that would be co-ordinated among all lenders and donors. The programme interventions needed will require new funding, only some of which could realistically come from concessionary World Bank sources, such as IDA. The resources gap will need to be filled by ODA. Yet, if the new aid funds are not forthcoming, the whole PRSP experiment may quickly be discredited, leading to heightened criticism of the Bank and Fund.

REUTERS

IMF Managing Director Horst Koehler

The second source of impetus of the rising profile of ODA has come from the less pragmatic halls of academia, where recent studies have cast doubt on traditional arguments that aid is ineffective and less useful than commercial investment. In reality, only a fraction of Foreign Direct Investment has ever reached the poorest states. Most is spent by rich country firms buying up other firms in equally rich markets. A total of 3% of FDI is spent in Africa, with most of the resources that flow to the South being devoted instead to investment in a few countries in Asia and Latin America. Even these sums often pale into insignificance when compared with the FDI that flows between the richest states, with single-investment deals measured in the hundreds of billions of dollars (figures in recent years have been skewed by a rash of such deals, e.g.: the BP purchase of Amoco, or Vodafone's decision to buy Mannesman).

The realisation that FDI will not save the developing world led the World Bank to undertake research on ODA, led by economist David Dollar. Dollar's work has sparked a vociferous academic debate that has helped re-energise the issue of ODA. Dollar was initially seen as pessimistic about aid, pointing to its failure to achieve stated objectives. But closer scrutiny of his data actually showed that aid policy (rather than aid, per se) is the culprit. In effect, Dollar showed that aid could be an extremely effective tool in poverty alleviation, but that the politicised priorities of donors were leading to misapplication and misuse that undermined potential benefits. Bilateral donors, who had long accused others of misusing development funding, stood squarely in the dock.

Improvements elsewhere

Dollar's work sparked academics such as Oliver Morrissey to produce research of their own. Morrissey showed that a critically important factor in the impact of aid was simply its consistency–if aid flowed regularly, the stability it provided could spark dramatic improvements elsewhere in a country's economic life. However, figures show that ODA is declining as a percentage of GDP for most developing countries. In 1996, the OECD countries gave 0.3% of the GNP as ODA. In 1999 it had slumped to 0.24% of GNP.

The heightened debate on the effectiveness of aid and its central role in new initiatives has also fuelled a rash of new calls for reform of the ODA system. In particular, the suggestion from academia that donor governments squander aid has led to new proposals to take ODA out of direct donor control. Although, politically, it is accepted that donors are unlikely to

If the new aid funds are not forthcoming, the whole PRSP process may quickly be discredited.

cede control of an area of their own expenditure, the new proposals are intended to create a moral pressure toward better practice. Amongst the most provocative of these has come from the ex-World Bank economist and editor of the World Development Report on Poverty, Ravi Kanbur, who proposed a new international aid system that included a central dispensing body, similar to the original 1940s idea put forth by economist John Maynard Keynes.

It is doubtful whether these proposals will be taken up by forums like the upcoming Financing for Development Conference. However, the pressure on donors to address their policies on ODA will increase. When the two main ways to promote growth in developing countries–trade and budgetary support–are both in the political hands of donor countries, sustainable development continues to be beyond the reach of poorer countries. ■

Kelly Currah is a writer and independent economics consultant.

Innovation and resistance– Civil society and FfD

John W. Foster

THE UNITED NATIONS Conference on Financing for Development will have, as agreed at its Preparatory Committee meeting in October, an innovative and relatively participatory format. But will the substance of its discussions and its result break any new ground, set any new concrete initiatives in motion?

The conference invites heads of state and ministers of finance and economy, development and other key portfolios for the week of March 18 in Monterrey, Mexico. A three-day civil society forum planned by a coalition of Mexican NGOs will precede the event.

An important initiative

The conference is designed as a comprehensive examination of the challenges of development financing. Its purview includes the mobilisation of domestic and international private resources, trade, aid, combating debt and systemic and governance issues.

Financing for Development (FfD) represents an important initiative on the part of the United Nations in several aspects.

* It is a process of involvement not only of key UN elements and agencies, but also of the World Bank, the International Monetary Fund and the World Trade Organisation.

* There has been a committed effort to bring about staff collaboration among these multilateral bodies in the preparatory process

* Representatives of the Bank, Fund and WTO have been encouraged more fully than ever before in the debates and conversations preparatory to the conference.

This builds on and broadens the more tentative regular high-level meetings between ECOSOC (United Nations Economic and Social Council) and the Bretton Woods Institutions.

The Preparatory Committee has included hearings for business and for civil society organisations in its process. Taking place in the fall of 2000, these gatherings at the United Nations in New York provided an opportunity for a variety of expert testimony, questioning and debate, resulting in an extensive menu of possible reforms and initiatives recently published as: Financing for Development: Proposals from Business and Civil Society (ed. by Barry Herman, Frederica Pietracci & Krishna Sharma, UNU Press, Tokyo and New York, 2001).

The conference will have a participatory process never before attempted in the United Nations.

The UN Secretary-General mandated a high-level panel on FfD, headed by Mexican ex-President Zedillo, and including former US Treasury Secretary Bob Rubin, former EU president Jacques Delors, and former OXFAM-GB head David Bryer. The panel's report, issued in June 2001, supported campaigning for the UN's Millennium Goals, and highlighted proposals for global taxes (on carbon and currency transactions), strengthening the ILO's enforcement capacity and moving toward a global Economic Security Council within the United Nations.

The conference will have a participatory process never before attempted in the United Nations, with a series of roundtables among heads of state and among ministers. In each case, both business and civil society representatives are invited to participate, opening up some 84 seats in total for each.

The developments in preparatory and conference process and the efforts to build collaboration among multilateral institutions should not be discounted. Inter-institutional collaboration at the multilateral level means pressure at the national level to bring departments of finance, trade, foreign affairs and development co-operation or economy into greater co-ordination. The holding of significant economic discussions at the United Nations has brought a number of national finance officials accustomed to the halls of the Bank or annual meetings of the Fund in Washington into a new and unfamiliar context: the United Nations. These innovations have, potentially, much more potent effect than mere changes in travel itineraries.

However, the Financing for Development Conference has a much stiffer challenge. The focus on financing and on economic governance emerged in good part from the world conferences of the 1990s. Whether at Beijing, Istanbul, Rio, Vienna, Cairo or Copenhagen, agendas for increased global equity, environmental sustainability, basic needs, human rights and gender justice came up against the hard facts of economic injustice, polarisation, the evident down-sides of 'globalisation', and the enduring facts of mass poverty and environmental destruction.

Huge gaps

Many civil society participants in the thematic conferences, as well as high-level panels on global governance, recognised that the organisation of the world's economic governance had huge gaps, recognised by some, and destructive effects, felt by many. At the same time, debt had become a major crisis, foreign investment was unevenly placed and regulated poorly, if at all. Aid flows were being reduced. The assessment of the Secretary-General on post-Copenhagen progress, presented in the lead-up to the Geneva five-year review of the World Summit on Social Development, recognised these challenges. It was an unusual moment of self-criticism among governments at a high level.

Hopes for a major effort to secure increased financing for development and to create a new architecture for global, social and economic governance were raised. Thus came civil society engagement with the Financing for Development preparations.

As for economic policy, developing countries should partake in the usual reforms summed up as 'openness.'

The signals, as presented in the preparatory process, are hardly encouraging. The Group of 77 has put forward a fairly familiar list: access and participation in macro-economic governance, more place and weight at the Bank and the Fund; debt relief and cancellation; the currency transactions tax; market access; differential treatment in trade and investment, etc. The civil society organisations have called, in many cases, for a transformation of the goals of global institutions toward poverty eradication, sustainability and inclusion, along with a long list of governance and sectoral reforms. The 'facilitator' of the conference, Mexican diplomat Mauricio Escanero, prepared a draft result of the conference that was very moderate and balanced in tone, but which included at least tentative steps toward reform of global economic governance.

The response of the more powerful has been stark. US spokesperson Terry Miller called for a simple recipe of peace, freedom and capitalism, and a one-page conference declaration that would embody the triad. For those who want to try anything else, they are welcome to their independence, but should not expect either help or positive results. As for institutional or systemic change, there is no perceived need for either. The Bank, Fund, WTO and business are functioning as they should–no change in mandate or behaviour or goal (simple profit in the case of business), is required. As for economic policy, developing countries and the poor should partake in the usual reforms summed up as 'openness': trade liberalisation, financial liberalisation, doses of deflation and warm welcomes for foreign investors. A number of other countries including Australia and Canada were perceived to tailor their positions to the US cloth.

Hopes for significant change

Given the further threat to economic growth resulting from the crisis of September 11, the specific crises in Argentina and elsewhere, and the current mood of global insecurity, hopes for significant changes in position are faint, if long overdue.

One of the hopeful signs at the October 2001 Preparatory Committee was the appearance of the High Commissioner for Human Rights, Mary Robinson, and her call to place the FfD agenda in the context of human rights. The UN Special Rapporteur on the Right to Housing, Miloon Kothari, tabled a paper challenging the conference to deal with domestic equity and internal reform to assure that the poor actually benefit from its deliberations. The Ecumenical Team observing the PrepCom called for 'a fundamental change of heart', moving beyond trade and markets, to development alternatives that build interdependence and sustainable and just communities.

A diverse and inventive assembly of NGOs and CSOs are following the Financing for Development process. More, including groups who usually focus on the Bretton Woods Institutions or the WTO, NAFTA and APEC, will join. There is no lack of ideas or proposals for reform and transformation. However, our efforts remain dispersed and often ignored in substance, if not in the UN process.

To gain significant change probably entails much more coherent and forceful work at home in the United States and other countries of the rich and the powerful. It means mobilisation for change and for global citizenship that will be felt in parliaments, congresses and among executives. In the process of financing for development, it will probably require not only persistence, but also an evaluation of methods and approaches used in other battles. The example of the environmental movement is relevant: advancing and defending fundamental principles like the precautionary principle, demanding and defending open and transparent negotiations regarding global, social and economic governance, and developing a higher level of organisational co-ordination, application of expertise, and consistent follow-through than has as yet been exhibited by the NGOs following the preparatory process.

It will require not only persistence, but also an evaluation of methods and approaches used in other battles.

The Monterrey conference will not be the end of the debate, only a beginning. The essential task is to ensure that a process for continuing the debate, and that pressure–involving a wider and deeper participation by all parties, particularly civil society organisations–emerges. There are governments clearly opposed even to this modest objective. That is where the change of heart must first be sought, and must be achieved. ■

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The future of microfinance–one way, or many ways?

Christopher Shore

JUST AS THEOLOGIANS and students of religion debate whether there is one way to heaven, donors and microfinance practitioners are now debating whether there is one best method of both practising and supporting microfinance.

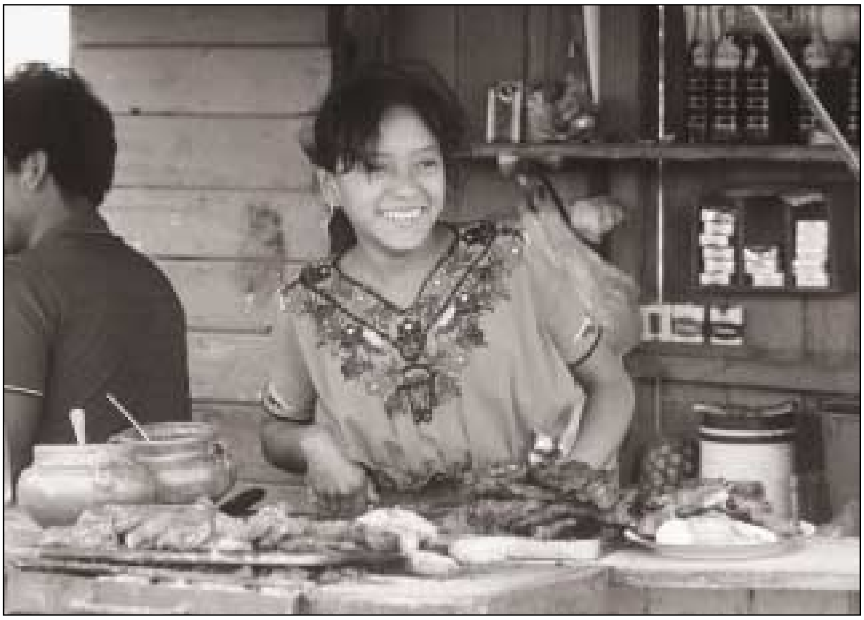
There is no question that microfinance as a development tool has come into its own. This is due largely to innovations in the late 1970s and early 1980s in places like Latin America, Bangladesh and Indonesia. Eliminating the requirement for collateral, and delivering credit in a financially sustainable way that eliminates the need for ongoing operational subsidy, microfinance has grown to the point that it is clearly becoming its own industry.

Fuelling economic growth

Millions of the poor are being helped to improve their economic lot in life. On every continent, loans are fuelling economic growth among the poor. Savings and insurance products for the poor are growing quickly to help smooth shocks to the individual household and prevent lurches back to extreme poverty.

However, at this moment when microfinance is enjoying its greatest triumphs so far–and when it appears poised for explosive growth–microfinance is clearly reaching another crossroad. A quiet but important debate is echoing in the conference rooms and hallways where microfinance is being discussed.

What many readers may not be aware of is the rising chorus of concern over the inappropriate homogenisation of microfinance approaches that are occurring under the guise of 'best practices'. While nearly all microfinance practitioners welcome and support moving to ever-better levels of performance and impact in the lives of the poor, it is by no means clear that there is any single best approach to microfinance. Moreover, some activities of bilateral and multilateral donors actually appear to be stifling the innovation needed to serve the needs of the poor.



RANDY MILLER

To understand why this is important, several issues must be raised. First, microfinance is not a panacea. It will not and cannot solve all development needs. Economic empowerment is critical for sustainable transformational development. However, without integration with other aspects of development, microfinance cannot carry the development day alone. Nevertheless, those who have seen its revolutionary potential have often been the ones pushing for it to fill the vast needs for effective economic programming that benefits the poor.

Industry standards

With donor funds limited and falling, the question of which approach to follow is critical. To date, almost no microfinance programme has been able to start without some form of donor subsidy. Because of the desperate needs of the poor–and the proven potential of microfinance to deliver economic possibilities for the poor–a number of major donors have sought to accelerate the process of spreading microfinance by creating industry standards or best practices, as well as encouraging governments to adopt the mutually reinforcing pattern of commercialisation of microfinance and increased regulation. While most practitioners and theorists welcome the interest of expanding microfinance, the devil is in the details, and the risk is to standardise an approach that is not truly best practice, and with a policy and regulatory framework that risks institutionalising a drift away from the poor.

With regard to donor-supported approaches, the main concerns are about the emerging narrow emphasis on:

* Micro-enterprise loans versus the household use of credit;
* better-off segments of the urban and peri-urban poor, or even the non-poor, versus the very poor and rural communities;
* individual lending or solidarity-group lending versus larger-group lending and savings services; and
* commercial banking and its various iterations versus social enterprise NGOs and savings-and-credit co-operatives.

The reality remains that this support is not because of solid evidence as to the superiority of the approach, but because of articulate ideology. Commercialised microfinance does well in urban areas, but less well in rural areas, or where savings mobilisation is a more important need. In Bolivia, for example, of the 311 municipalities, 227 have absolutely no microfinance or banking outlets. Moreover, in Bolivia, the so-called cutting edges are financial services for the rural poor and savings mobilisation, which are the very domain of social enterprise NGOs engaging in rural village banking or of credit unions or credit and savings co-operatives.

Without integration with other aspects of development, microfinance cannot carry the day alone.

At the same time, donors are pushing both microfinance practitioners and host governments toward commercialisation of microfinance and ever-tighter regulation and central bank oversight. On these issues, the great risk is that we copy the processes that have occurred in places like Bolivia without regard for the very necessary preconditions in each country.

Bolivia's microfinance experiment shows that microfinance moved from NGOs to commercial organisations. Does this mean that we should push all microfinance to commercialisation? That is likely moving too quickly. Commercialisation did not occur in a vacuum, but as a result effective government macro-economic and financial sector policies, including control of inflation, liberalisation of interest rates, and effective superintendency. The result was that microfinance flourished. Establishing both good-sized microfinance institutions and proving that microfinance could flourish in Bolivia set up the necessary conditions that allowed for commercialisation. Pushing the commercialisation of microfinance too early in its country-specific life cycle is an inappropriate development activity for bilateral and multilateral donors.

Pushing back the agenda

We are also seeing major donors recommend that governments move quickly to regulate microfinance without ensuring that the necessary framework is in place that welcomes microfinance and properly includes it. As we can see in a host of Latin American experiments, many central bank regulators are not familiar with, comfortable with, interested in, or equipped for properly supervising microfinance institutions. Some regulators have pushed back the agenda for providing financial services for the poor in their rush to regulation. The results are, unfortunately, telling, and can actually lead to a decrease in capital available to the poor.

Just because it is easier to fit a standard model or a commercial model into the development paradigm of large bilateral or multilateral donors does not make it the best approach for the poor.

In short, both donors and practitioners need to avoid the siren call of only one way ahead for microfinance. Innovation and experimentation always lead to breakthroughs in approach and product. A more pluralistic, inclusive vision is necessary for all who practice and support microfinance–a vision that recognises that a range of approaches may be the best way forward for different people and different circumstances. ■

Christopher Shore is Director of World Vision International's Microfinance Development Group.

Standing at the crossroads

Andrew Simms

WE STAND at a crossroads today in deciding how to finance development. One path leads toward greater human and environmental vulnerability. The other leads toward greater security for all. But which path is which?

A big world power and its institutions preaches the values of free trade and sound money, then tries to ignore the human consequences.

It's a criticism that any official at the International Monetary Fund, World Bank or a rich country official aid agency will find all too familiar in the run-up to the United Nations' Financing for Development conference in March. But this is a description of an earlier phase of globalisation as described by historian Mike Davis–a phase largely controlled by the British Empire's economic superpower in the19th century.

Which path?

Increasingly, as we stand at that crossroads arguing over which path to take, people are looking to the past for guidance on where to go next.

Joseph Stiglitz, former chief economist at the World Bank, and recently awarded the Nobel Prize for economics, was quoted in a British national newspaper saying, 'Countries find themselves in situations where they are having policies imposed on them. It is not unlike the19th century opium wars when countries were told to open up their markets, and this threat was backed up by military force. Now it is an all or nothing deal. Either you do it the Washington consensus way or we will exclude you.'

China, the victim of the opium wars then, is now important and self-confident enough to set its own terms for integration into global markets. It is doing so gradually and very carefully. Once bitten, perhaps, twice shy.

Free trade, sound money and export-led development strategies are still at the heart of the policy packages promoted by the IMF and World Bank, in return for access to credit and debt relief. Incurable problems with depressed commodity prices, beggar-thy neighbour South-South competition, environmental stress, and the reluctance of rich countries to assist or open their markets to any significant products, are generally dismissed. But the fragility of such a model, and the reluctance of policy makers to see its damage, is also nothing new.

According to Davis, under the British in India, 'Between 1875 and 1900–years that included the worst famines in Indian history–annual grain exports increased from 3 million to 10 million tonnes, an amount equivalent to the annual nutrition of 25 million people.' It is a scene reminiscent of Sudan and Ethiopia in the 1970s and 80s, for example, who continued exporting food, following export-led models, in the midst of famine. It is also a warning as poor countries gear their agricultural systems today toward supplying rich country consumers at the expense of their own food security.

Root of human vulnerability

Commentators as diverse as World Bank President James Wolfensohn, former head of the IMF Michel Camdessus, and European Union Commissioner Chris Patten, all cite poverty and the growing gaps between rich and poor as being at the root of human vulnerability and the breakdown of global social order.

Yet rich country policymakers remain deaf to the voices of Southern countries, and dogmatically hooked on the endless, creeping economic liberalisation of trade and finance. Despite the fact that it is precisely these trends that have overseen the growing global gap.

So it is that Argentina's economy is wrecked by following the IMF's advice of tight monetary control and pushing exports at a time of chronically low commodity prices–just as the United Kingdom follows a policy of cheap money and public spending to stimulate the economy.

Since the 1960s, every attempt by developing countries to engage with the global economy on terms that would help them develop–such as managing investment, regulating foreign multinationals, and stabilising commodity prices–has been resisted and opposed.

The dominant power

What is the lesson we should learn from history? Globalisation in the 19th century was on the terms of the dominant power: Britain. The British claimed that they had rescued India from 'Timeless hunger.' It's is the sort of rescue that they could have done without. The structural adjustment of India by the British Raj, and its knock-on effect in China, wrecked indigenous coping strategies. Thirty-one serious famines happened in 120 years of British rule of India. Only 17 famines were recorded in the previous 2000 years. Africa's indigenous industry suffered, too. Nigeria's textile industry was destroyed, just as India's, according to Kwesi Owuso, of the Jubilee Plus campaign.

Now we have the international human development targets to pay for. In choosing a strategy to mobilise finance for development, the IMF–and all the other key institutions who maintain a stranglehold on the framework for development–must learn from history. If they don't, they will be doomed to repeat it. ■

Andrew Simms is Chief Economist for the New Economics Foundation.

Debating globalisation and finance for development

Brett Parris

FOR THOSE AFFLICTED with the ability to see shades of grey, the globalisation 'debates' can be enormously frustrating and perplexing. Entrenched interests on both sides slug it out with tired slogans and endless papers, speeches, meetings and marches.

Here, I want to discuss some possible ways of strengthening the quality of the debates on globalisation and how some of these injustices can be addressed.

1. Avoid the genetic fallacy

In philosophy, the genetic fallacy is the logical mistake of dismissing an argument simply because of where it comes from, rather than considering it on its own merits. Try: 'Well what would you expect from the IMF?', or alternatively: 'Here they go again–they wouldn't know a cointegrating vector if it hit them in the face, and they presume to question us!'

I fear a lot of the debate is conducted in this manner. Some in the global institutions don't listen to the protestors because they think all they're offering is a clamorous mess of poorly articulated arguments. Some of the protestors won't listen to anyone in a suit who's 'sold out' to the demon capitalism. Both sides suffer as a result.

Of course, we must be guarded and check our information. But in an age of information overload, the temptation to listen only to those views that agree with ours is very great indeed. The issues are complex–maybe we can learn some things from our opponents too.

Technocrats have a particular responsibility here. Nobel-prize winning economist Amartya Sen made an important point in a speech in Melbourne when he said that the anti-globalisation protestors don't have to be able to articulate a clear, alternative vision for their protests to be legitimate. Pointing to the problems and injustices in the current system is an important service.

The legitimate challenges the protestors raise should not be disingenuously side-stepped simply because they may not understand the technical nuances. The stories and experiences of grass-roots activists can reflect important local realities in a way that aggregate statistics and cross-country regressions simply can not.

The genetic fallacy is the logical mistake of dismissing an argument simply because of where it comes from.

2. Articulate your theory of wealth creation

One of the striking features of the anti-globalisation movement is its strong anti-corporate streak. This is hardly surprising. The three biggest corporations have revenues exceeding the GDP of sub-Saharan Africa. Their power is growing and national laws often are weak. Some corporations also misuse their power terribly, with abuses ranging from the violation of local labour, tax and environmental laws, to spending millions manipulating the public with slick PR campaigns.

Even so, surely there are also some benefits from the globalisation of business as well? The growing density of knowledge networks? The greatly reduced real costs, and increased variety of basic goods for millions of people? The spread of technology and technical expertise?

Clearly, the appropriate role of corporations is a divisive issue, and one of the fundamental issues underlying this division is conflicting understandings of wealth creation. Two extremes are false:

First, there is the assumption that wealth comes only through the exploitation of others–so if you're rich, it's only because you made someone else poor. This zero-sum labour theory of value assumes that those providing the capital (the 'capitalists') and the ideas–and who assume much of the risk–provide nothing. This is much too simplistic. New wealth–real wealth–arises from a complex mix of ideas, capital, labour, land, entrepreneurship, risk-taking, natural resources, technology and tastes.

Second, from the 'all tax is theft' lunatics, we have the view that wealth is created purely though *my* hard work, *my* entrepreneurship and the smart use of *my* private property. They forget, of course, the embedded social nature of institutions, infrastructure and specialisation, and the gifts of health, intelligence, and opportunity, which make wealth-creation possible.

Neither extreme serves us well. Let's have a more serious debate about how wealth is created. Without it, our calls for greater redistribution will be dismissed with vapid rhetoric about the need to 'grow the pie not divide the pie'–and business's pleas for understanding will be drowned out with slogans and megaphones.

But let's also be sure to look carefully at where wealth and jobs are being created most. Is it really in the few thousand biggest corporations, who have been laying off staff at an astonishing rate since the economic downturn began? Or is it in the millions of small businesses, farms and corner stores that wield little power in national capitals, but which are in fact the backbones of our economies?

3. Ask to see their cost-benefit analysis

As any economist worth her salt knows, the important question to ask of any project or policy is not just its accounting price, but its opportunity cost. What does it cost us in real terms to use resources in this way, foregoing another possible use? Likewise, the important prices to consider in a cost-benefit framework are not just market prices, but what are termed 'shadow prices.' Shadow prices attempt to capture these opportunity costs, and 'externalities'–the good and bad things that market prices just don't capture, like the real costs of pollution or forest destruction. Often, of course, you can't put a real figure on some of these things, but it's important to describe and articulate them in detail and weigh their significance as best we can.

Ask about the assumptions

So, when economists try to snow you with policy recommendations based on particular models or simple accounting frameworks, ask them about the assumptions. Get them to articulate them. Ask to see their cost-benefit analysis. Ask how they decided on that particular discount rate, and how they determined the distributional weights to decide whether or not a dollar is worth the same to a millionaire as to a poor farmer. Oh, they've assumed all people value an extra dollar equally? How interesting. Ask about how they evaluated the externalities. Are they using shadow prices that incorporate social, environmental and opportunity costs, or are they simply using market prices? Ask if their model is static or dynamic. And, about that government budget deficit they're criticising–have they adjusted for inflation? For asset sales? For the stage of the economic cycle? Are they classing primary health and education spending as current expenditure (bad) or an investment in human capital and therefore a capital expense (good)?

The questions are endless, but the basic message is the same: Don't believe everything you hear. But then–from my first point–don't dismiss everything either, just because it comes from an economist. When they do their jobs well, they're often right.

Unfortunately, many are not doing their jobs well. Twelve years ago, at the World Bank's 1990 Annual Bank Conference on Development Economics, two of the founders of cost-benefit analysis, Little and Mirrlees, described its shameful neglect by the Bank as a 'shattering indictment.' Since shadow prices are nothing less than the marginal effects on social welfare of any quantity change, their use is fundamental to informed economic decision making. They are the true opportunity costs of resource use: 'Shadow prices and cost-benefit analysis are inseparable. Sometimes actual prices coincide with their shadow values, as if on the equator in the midday sun. Only then is financial analysis also cost-benefit analysis.'

Leaders of vision

The pitiful neglect of the craft of cost-benefit analysis is one of the dirty little secrets of governments and the international financial institutions. If policy-makers took it remotely seriously, we would get some very different recommendations emanating from the halls of power. For one thing, our leaders would recognise the staggering opportunity cost and waste of leaving a couple of billion people to languish in poverty. They would recognise the folly of toying with the world's climate. And they would shake their heads in wonder at the sheer mind-numbing economic stupidity of cutting aid budgets, under-funding research in tropical agriculture and medicine, and gutting reconciliation and peace-building programmes.

Where are our leaders of vision?

Most people I speak with are immensely frustrated with the quality of political debate–the endless pandering to our basest instincts. 'More tax cuts? Sure, why not–as long as you still fix up those schools and hospitals like you promised.' Perhaps it's a function of writing in Australia during election campaign, but my American and British friends tell me much the same thing.

Where are the political leaders who can articulate a vision for a better world? If you find one, be sure to tell me. I am surrounded by poll-driven media-chasers. ■

Like breathing out and breathing in

David Beckmann

MANY CHRISTIANS are generous to churches and charities that help people in need. Year after year, these organisations work tirelessly to assist hungry and poor people around the world.

But as people of faith, Christians must also be a voice for justice. We are called by God to speak for those who are marginalised in an unjust world. And we must urge our governments to employ sound public policies to benefit hungry and poor people.

The gospels depict Jesus repeatedly reaching out to those at the bottom of the social pyramid–poor people, women, Samaritans, lepers, children, prostitutes and tax collectors. Jesus criticised and disobeyed laws when they got in the way of helping people. He healed people on the Sabbath, for example, even though all work was prohibited on the Sabbath. Religion and government were intermixed, so Jesus was challenging the law of the land. The threat Jesus posed to both religious and political authorities led to his crucifixion.

God requires both charity and justice, and justice can often be achieved only through the mechanism of government. The view that nations, as well as individuals, will be judged by the way they treat the weakest and most vulnerable among them is deeply embedded in the prophets like Isaiah, who said:

'How terrible it will be for those who make unfair laws, and those who write laws that make life hard for people. They are not fair to the poor, and they rob my people of their rights. They allow people to steal from widows and to take from orphans what really belongs to them.' (10:1-2)

The participation of caring individuals draws the attention of the governments in power, and calls for change.

Government is one of the institutions created by God–part of God's providence–for the welfare of people. Especially in democracies, nations with governments 'of the people', Christians have a special privilege and responsibility to use the power of citizenship to promote public justice and reduce hunger and poverty.

Working together, the nations of the world could cut hunger in the world in half in two decades through targeted development aid that includes agriculture, health care, infrastructure, education and debt relief. Now it is especially important to focus on Africa, where hunger and poverty are on the increase and AIDS is rampant. In coming years, we hope that the United States and other G-8 countries will form greater partnership with African nations to strengthen anti-poverty efforts.

Acting together, Christians can be a powerful voice on behalf of our hungry and poor brothers and sisters around the world. One of the most effective ways to work for justice is to contact our elected leaders. The participation of caring individuals draws the attention of the governments in power and calls them to change.

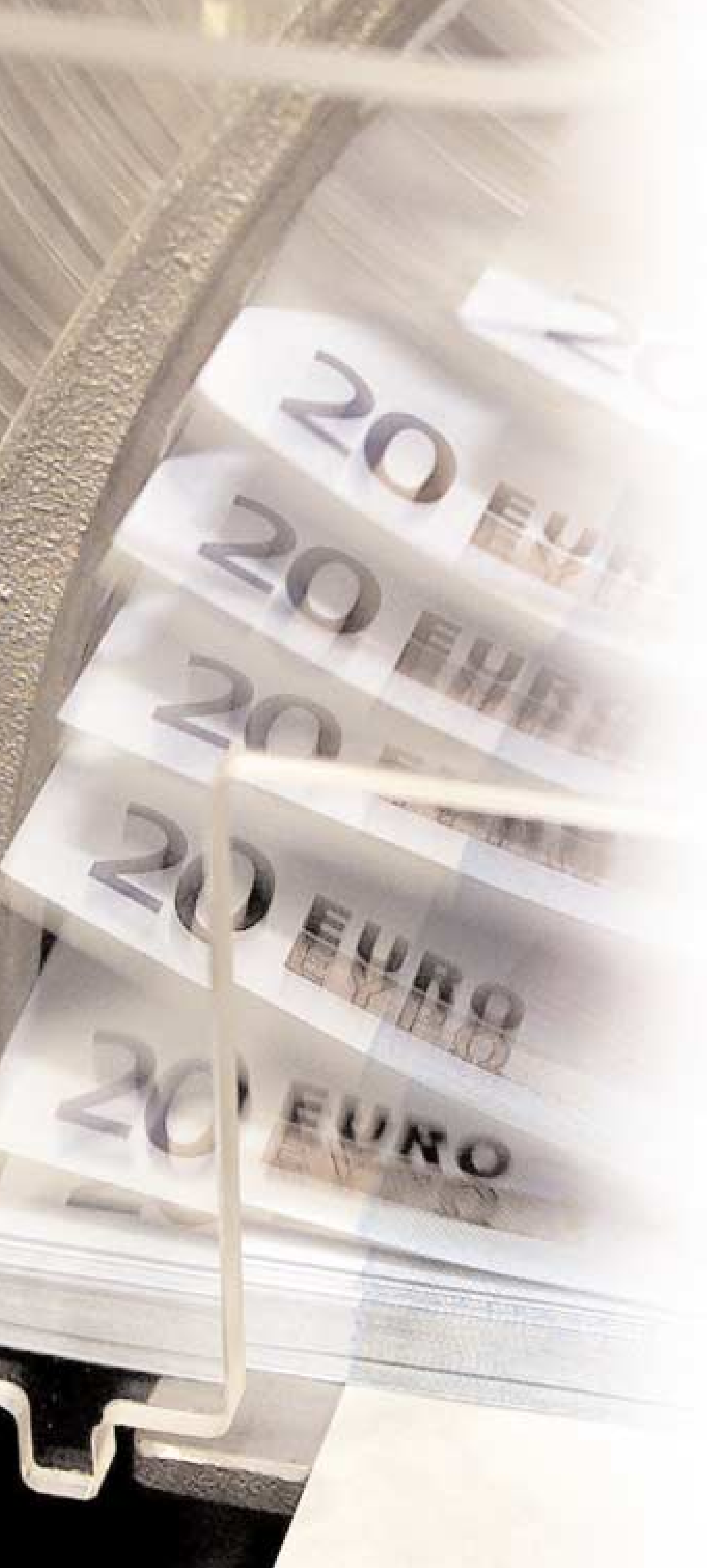
Helping hungry people is to Christian faith as breathing out is to breathing in. As people of faith, God challenges Christians to seek justice and work for a world without hunger and want, calling our governments to do the same. Together, let us heed God's call! ■

Rev. David Beckmann is President of Bread for the World and a Lutheran pastor. For more information on Bread for the World, please visit www.bread.org.

WORLD VISION is a Christian relief and development partnership which serves more than 70 million people in nearly 100 countries. World Vision seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation.

Children are often most vulnerable to the effects of poverty. World Vision works with each partner community to ensure that children are able to enjoy improved nutrition, health and education. Where children live in especially difficult circumstances, surviving on the streets, suffering in exploitative labour, or exposed to the abuse and trauma of conflict, World Vision works to restore hope and to bring justice.

World Vision recognises that poverty is not inevitable. Our Mission Statement calls us to challenge those unjust structures, which constrain the poor in a world of false priorities, gross inequalities and distorted values. World Vision desires that all people are able to reach their God-given potential, and thus works for a world which no longer tolerates poverty. ■



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