

# A new paradigm for development assistance

INAAMUL HAQUE

FROM March 18 to 22, world leaders meet in Monterrey, Mexico to discuss financing for development in a world which remains divided in two parts, one embarrassingly rich and the other desperately poor. One would think this divide could block progress in Monterrey. But the tragic events of September 11th have brought rich and poor countries closer together, raising the stakes for everyone in a more vulnerable world.

We know now that someone else's poverty in the farthest corner of the globe can very quickly turn into one's own problem, such as illegal immigration, pollution, contagious diseases, insecurity, fanaticism and terrorism that ignores borders. It is of if poverty is, in the words of World Bank President James Wolfensohn, "like a cancer weakening the whole of the body not just the parts that are directly affected."

Today, more than ever before, we need a new paradigm for development assistance, transforming aid developing countries from just a handout, to a productive investment in the well-being of humanity. Aid is not just about charity. It is also about self-interest, the desire to fight global poverty, end deprivation, promote inclusion

**We should all, whether in the developing world or in the developed countries, positively respond to the call of President Wolfensohn, Chancellor Brown and other enlightened leaders for transforming today's global alliance for peace into tomorrow's global alliance for prosperity. We must not be content only with fighting the war against terror. We must achieve victory in the war on poverty that will yield enduring peace.**

and bring the marginalized into the mainstream of the global economic community.

Early signs are promising that Monterrey may mark a positive step in meeting the Millennium Development Goals, which call for a halving of world poverty by 2015. The Draft Monterrey Outcome Document calls for mobilizing domestic financial resources, and private international capital flows, liberalizing trade, and substantially increasing the official development assistance. But while action on these other fronts is important, it is vital to increase the amount of aid to developing countries. As Jeffrey Sachs puts it: "If the world and the US and other industrialized countries in particular allocated a small share of their military expenses to the easing of the world's poorest needs, our generation could free mankind from poverty's iron stronghold."

In his latest proposal, Wolfensohn called for matching the reform efforts of developing countries step by step with a phased-in increase in aid say an additional \$10 billion a year for the next five years, building to an extra \$50 billion a year in year five. The recent announcements by the President of the United States and the EU are important first steps in meeting this target. But we must go further.

Naysayers argue that too much aid has been wasted. And it is true that in the Cold War era, foreign assistance was too often used to win friends, influence people and sometimes even to keep dictators in power.

Fortunately, aid can be extended objectively today and preference can be given to those countries who have put in place sound policies, strong institutions and good governance. Many developing countries are far more capable of using aid

properly today because many of them have initiated serious policies and governance reforms. A new World Bank study, *The Role and Effectiveness of Development Assistance*, has found that foreign aid is increasingly a catalyst for change and its better allocation since the end of the Cold War means that it is more effective today at reducing poverty than ever before.

The question is whether developing countries would be amenable to changes in their policies, institutions and governance. Specifically, will they be willing to pursue corruption-free policies for stability, encourage private investment, use aid in ways that maximize the long run expectations of their poorest citizens, and agree to impartial monitoring of their policies and development efforts? Rich countries in return must take action to open up their markets, reduce their

agricultural subsidies and increase aid.

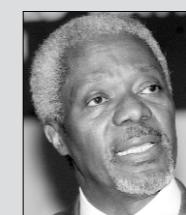
Not long ago, many developing countries were still in infancy and coming to terms with the reality of freedom from their colonial masters. They were prone to presenting the developed world with a charter of demands, and rich countries in return would dismiss the requested changes without giving any thought to their merits.

But the world has changed. Developing countries have since grown more pragmatic, and industrialized countries have become more cognizant of the dangers of neglecting the poor.

Because of this, we should all, whether in the developing world or in the developed countries, positively respond to the call of President Wolfensohn, Chancellor Brown and other enlightened leaders for transforming today's global alliance for peace into tomorrow's global alliance for prosperity. We must not be content only with fighting the war against terror. We must achieve victory in the war on poverty that will yield enduring peace.

Inaamul Haque is alternate executive director at the World Bank in Washington representing Afghanistan, Algeria, Ghana, Iran, Iraq, Morocco, Pakistan and Tunisia.

# Investing in the world's future



KOFI ANNAN

Eighteen months ago, the political leaders of the world agreed, at the Millennium Summit here in New York, that we must use the first 15 years of this new century to begin a major onslaught on poverty, illiteracy and disease. And they set a clear set of targets, by which to measure success or failure: the Millennium Development Goals.

Those Goals will not be reached without resources: human resources, natural resources, and also crucially as

If the global deal is clinched in Monterrey, many more girls, in Africa, Asia and Latin America, will go to school like their sisters in Narshingdi; millions of children will grow up to be productive members of their societies, instead of falling victim to AIDS, tuberculosis or malaria; and the world as a whole will be much, much better off.

countries.

Until now, most developed countries have reacted with skepticism to this request, feeling that too much aid was wasted in previous decades, by corrupt or inefficient governments.

But they also realize that we live in one world, not two; and that no one in this world can feel comfortable, or safe, while so many are suffering and deprived.

And now they are also realising that there is a global deal on the table: where developing countries reduce inflation, liberalize markets, open up their economies, reduce budget deficits, and spend more on the needs of the poor, rich countries can support them with trade, aid, investment and debt relief.

Last Thursday President Bush announced an important American contribution, when he pledged \$5 billion of additional spending over three years for a "Millennium Challenge Account", to help developing countries improve their economies and standards of living.

On the same day the European Union announced that by 2006 its members would increase their development assistance by \$4 billion a year, so as to reach an average of 0.39 percent of gross national product a significant step towards the agreed UN target of 0.7 percent.

These amounts will not be sufficient by themselves. All economic studies agree that, to achieve the Millennium Development Goals, we need an increase of at least \$50 billion a year in worldwide official aid a doubling of present levels.

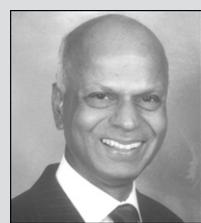
But these decisions do suggest that the argument on principle has now been won. All governments accept that official aid is only one element in the mix, but an essential one. Aid is much more effective than handouts. Leaders from the developing world will also be there.

They are not asking for handouts. They know that they themselves must adopt the right policies to mobilize private investment, from their own citizens and from abroad. They have to embrace the market, ensure economic stability, collect taxes in a transparent and accountable way, fight corruption, uphold the rule of law and protect property rights.

If that global deal is clinched in Monterrey this week, many more girls, in Africa, Asia and Latin America, will go to school like their sisters in Narshingdi; millions of children will grow up to be productive members of their societies, instead of falling victim to AIDS, tuberculosis or malaria; and the world as a whole will be much, much better off.

Kofi Annan is Secretary-General of the United Nations. (UNIC Dhaka)

## The EU and development aid



CHAKLADER MAHBOOB-UL ALAM writes from Madrid

ness of ODA. Questions were raised as regards the appropriate level of the ODA. Finally, in 1979, it was agreed under the auspices of a UN initiative that the industrialised countries should aim at donating 0.7 percent of their GNP as aid for the development of poorer countries of the world. Although the actual aid never reached the target figure of 0.7 percent of the total GNP of the donor countries, until recently they tried their best to increase the level gradually. Unfortunately, it seems

case, most of the Spanish aid went to Latin America and very little to the countries named in the List of Least Developed Countries (LLDCs), most of which are in Africa. (Unfortunately, all through the 1990s, combined ODA to Africa from all the donor countries gradually declined.) The Spanish government is aware of this failure and expecting trouble from the NGOs and thousands of anti-globalisation protesters, who are converging on Barcelona. The EU Foreign ministers recently met in

many NGOs are expected to attend this meeting. This will probably be the largest gathering of world economic powers after the Bretton Woods conference of 1944, which defined the rules of the post-war economic order and established the principal international financial institutions. Now the questions are: What economic results has this post-war economic order produced? Has it created wealth? If so, how has that wealth been distributed between the rich industrialised

despite phenomenal growth in total wealth over the last fifty years, there are some regions of the world such as sub-Saharan Africa and Central Asia, where the absolute number of people living in poverty has increased. According to the World Bank, in the next decade the number of the very poor in sub-Saharan Africa and Latin America will rise even further. During the last thirty-five years, the per capita income (after adjustment for inflation) in thirty of the poorest countries has actually fallen. Thus it is evident that most of the benefits derived from rapid industrialisation and the expansion of trade under the post-war economic order has gone to the rich industrialised countries of the North. In brief, in the words of Amartya Sen, globalisation has so far created "massive levels of inequality and poverty".

Until very recently all this was viewed as normal in the prosperous North. According to James Wolfensohn, the president of the World Bank, the rich in the North lived in a kind of cocoon, feeling completely secure behind an imaginary fortified wall which separated them from the poor South. This was an illusion. This protective wall only existed in the minds of the rich North. In reality, it did not exist. Sept. 11 has completely shattered this illusion. Now there is a sudden realisation in the so-far complacent North that persistent poverty, hunger and misery in the distant countries of the South may eventually have unpleasant repercussions in their happy and comfortable neighbourhoods as well...

that trend has been reversed. Now, in certain quarters, there are even talk of reducing the aid further or even stopping the aid programmes completely because according to them aids do not achieve what they are supposed to achieve, i.e. sustained economic development. Mr. Paul O'Neill, the US Treasury secretary has just rejected a proposal made by the World Bank president James Wolfensohn and the UN secretary-general Kofi Annan to double the current level of ODA from \$50 billion to \$100 billion.

Without going too far back in history, it is evident from a recently published report on ODA by Development Initiatives, that the level of ODA has even been lower in 2001 than in 2000. The total EU contribution fell from 0.33 percent to 0.32 percent of the GNP. While in 2001, Denmark, Norway, Holland and Sweden gave away 1.01 percent, 0.91 percent, 0.79 percent, 0.7 percent of their GNP respectively, Spain's level of ODA reached only 0.23 percent of its GNP. In any

Brussels to work out a common policy as regards ODA, but failed to reach an agreement. The CONGDE (Co-ordinator, Spanish NGOs) has put forward a number of proposals to the Spanish government to use the opportunity of being the current holder of EU presidency to take up the cause of world poverty at this week's meeting of the Council of Europe in Barcelona and push for an increase in the level of ODA from 0.32 percent to 0.70 percent of the GNP. These NGOs insist that Spain should also take the initiative and try to influence the participants at The Monterrey conference (the UN conference on financing for development), next week to take bold measures with a view to bridging the gap between the prosperous North and the poverty-stricken South. This, according to many, would be a good opportunity to launch a "War on Poverty". Most of the presidents (including George W. Bush), prime ministers and finance ministers of the member countries of the UN, the World Bank, the IMF, the WTO and

nations of the North (where roughly one fifth of world's population lives) and the poor developing nations of the South (where four fifths of world's population live)? Why at this particular moment, when the US is so engrossed in its particular brand of "War on Terror", such a conference is being called?

Well, there is no doubt that the post-war economic order has generated enormous wealth. But so far it has not been distributed fairly between the rich and the poor countries. The per capita income difference between the richest country of the world and the poorest has grown to such an extent that the ratio today stands at approximately 100 to 1. In 1960, the income of the richest 20 percent of the world's total population was 30 times that of the poorest 20 percent, in 1997, the corresponding figure was 74. Although the percentage of world's total population living on \$1 a day seems to be falling, even now close to 3 billion people (more women than men) live on \$2 a day. Actually,

there is no doubt that the post-war economic order has generated enormous wealth. But so far it has not been distributed fairly between the rich and the poor countries. The per capita income difference between the richest country of the world and the poorest has grown to such an extent that the ratio today stands at approximately 100 to 1. In 1960, the income of the richest 20 percent of the world's total population was 30 times that of the poorest 20 percent, in 1997, the corresponding figure was 74. Although the percentage of world's total population living on \$1 a day seems to be falling, even now close to 3 billion people (more women than men) live on \$2 a day. Actually,

the example of the girls in Narshingdi shows financial resources.

That is why President George W Bush and more than 50 other heads of state, as well as cabinet members, business leaders, foundation executives and not-for-profit groups will be going this week to Monterrey, Mexico, to discuss financing for development. The fate of millions of people depends on us getting this right.

Leaders from the developing world will also be there. They are not asking for handouts. They know that they themselves must adopt the right policies to mobilize private investment, from their own citizens and from abroad. They have to embrace the market, ensure economic stability, collect taxes in a transparent and accountable way, fight corruption, uphold the rule of law and protect property rights.

At present they are denied that chance. Well over a billion people one fifth of the human race are forced to live on less than one dollar a day. They go to bed hungry every night. They do not even have water that they can drink without grave risk of disease.

Development means enabling those people, and another two billion who are only marginally better off, to build themselves a better life.

Many are also asking for relief from unsustainable debts.

And many are saying that, in order to do without hand-outs, they need a helping hand up, in the form of increased aid from wealthier