Components of a Future Development Strategy

The Importance of Human Development

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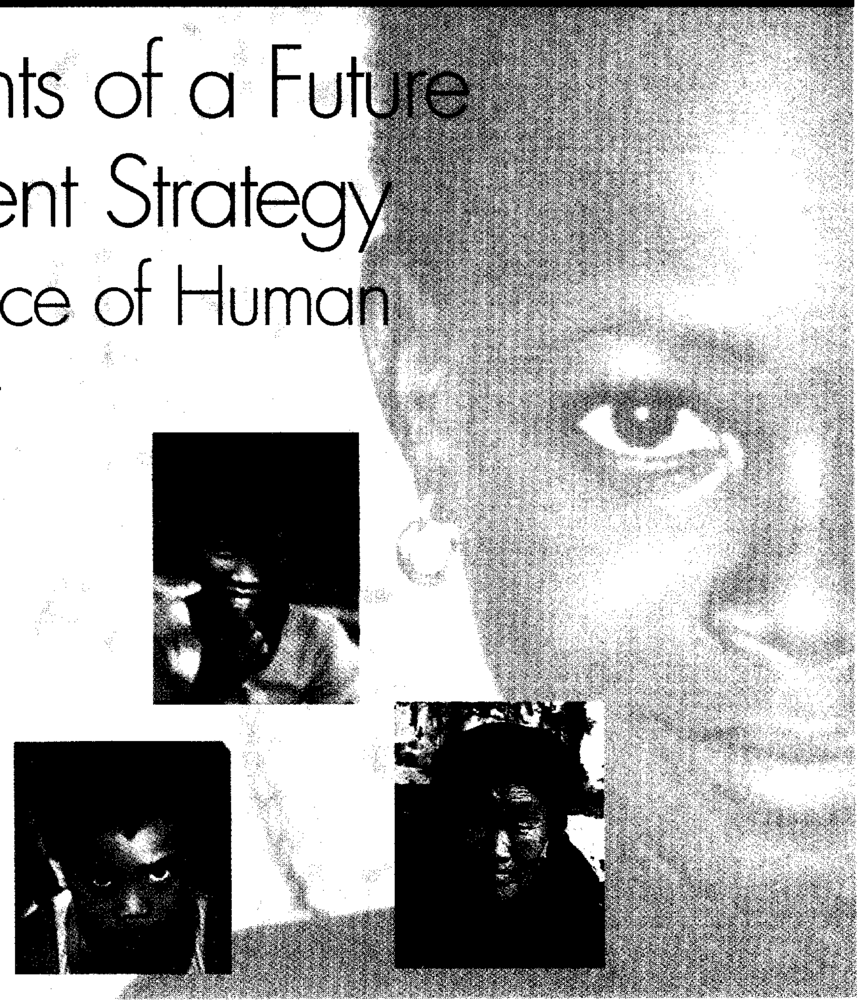

Although current prospects for increased aid disbursements are not good, efforts to combat poverty could be more successful if aid were provided on conditions that included human, or social, criteria.

THE IMF, the World Bank, and orthodox economists argue for full integration of the developing countries into the global economy. But to achieve a world order with a human face, integration must be accompanied by policies that guarantee the satisfaction of basic needs; correct for highly unequal asset, income, and power distribution; and prevent the growth of insecurity and social exclusion. To bring the 1.3 billion people now below the poverty line up to a minimum income level would require a fourfold increase in current aid. We know that this is not likely to happen. Although 1998 saw an increase in aid, prospects for continued increases look gloomy. But there are five hopeful signs for global antipoverty policies in the present, otherwise dismal, climate.

First, the structural adjustment programs negotiated mainly with the IMF and the World Bank have made political leaders receptive to more "targeted" programs protecting, or even advancing the interests of, some of the more vulnerable groups. In the past, these leaders had been more interested in large-scale industrialization and infrastructure projects and had dismissed the informal sector (small businesses that are not registered with the national government and do not pay taxes) as a disguised form of unemployment, not as a source of productive growth. Recent examples of successful change are India's introduction of an Integrated Rural Development Program, Kenya's having begun to pay attention to the employment report of the International Labor Organization, and Egypt's encouragement of small entrepreneurs. Shortly after its new president, James Wolfensohn, began his term in the summer of 1995, the World Bank canceled a large hydroelectric project in Nepal after a newly set-up independent inspection panel criticized it. The Bank is also scrutinizing other large projects.

Second, following the perhaps no longer quite so fashionable practice of "getting prices right" as the top priority can be a way

of benefiting the informal sector, which, though it comprises some quite well-off people, also includes many poor people. Low interest rates have often meant rationing capital in favor of large firms, depriving the informal sector of funds, and encouraging capital-intensive methods of production. High wages in the organized sector have often raised unemployment and helped only a privileged labor aristocracy; low prices of publicly supplied electricity from loss-making public power stations have helped private industry and the middle class; and so on. Devaluation of overvalued currencies can help the sales of informal sector enterprises. A few years ago, Kenya began to give small manufacturers a tariff rebate for imported inputs. The popularity of Hernando de Soto's book *The Other Path* among high officials in the U.S. Republican Party, including former presidents George Bush and Richard Nixon, is a sign of the apparent convergence of business interests and antipoverty concerns. In fact, the book's message does not quite fit the Republican philosophy. For example, there is much more cooperation and mutual support in the informal sector than in the individualistic, competitive ethos of private enterprises in the formal sector.

Third, problems caused by a balance of payments crisis and the need to service debt can also help the poor in the informal sector. By restraining imports, exchange and trade restrictions direct demand to the products and services the informal sector supplies. Devaluations may even encourage exports from the informal sector, and if other exports are produced labor intensively, more people will find employment. The rise in the prices of imported inputs may make it worthwhile for large domestic firms to subcontract to informal sector firms.

Fourth, the current fashion for decentralization, though it can in some cases reinforce the grip of local power elites who grind down the poor, and can shift financial responsibilities from the center to local authorities, can also in other circumstances strengthen poor people's access to political power; make governments more responsive to the needs of the poor; reduce corruption; and enhance transparency, equity, and efficiency.

Fifth, the same is true of the fashionable elevation of the role of nongovernmental organizations (NGOs), private voluntary organizations, and cooperatives, and the move away from large state bureaucracies. The Grameen Bank in Bangladesh, the Indian Self-Employed Women's Association based in Ahmedabad, and the dairy project in Andhra Pradesh ("Operation Flood"), following the Anand model (Anand, in the state of Gujarat, is now the center of the Indian dairy cooperatives), are outstanding successes in helping the poor through cooperative self-help. Since the late 1980s, the World Bank has relied increasingly on NGOs as partners in planning and carrying out projects. During 1973–88, NGOs were involved in only 6 percent of all World Bank–financed projects. By 1990, NGOs were directly involved in 22 percent, and by 1998–99 in 54 percent, of all Bank-financed projects. Interaction with NGOs is encouraged not only in the implementation but also in the design and planning of projects. There has also been increasing involvement in the Bank's projects by NGOs from the developing countries. Whereas during 1973–91, 40 percent of NGOs the Bank worked with on projects were international, by 1998 community-based organizations represented 70 percent, local NGOs 80 percent, and international NGOs only 25 percent. (Often, an NGO falls into more than one category.) NGOs are also increasingly involved in macro-level consultations about the World Bank's Country Assistance Strategies, economic and sector work, public sector monitoring (of, for example, public expenditure and the disbursement of aid), and Mr. Wolfensohn's Comprehensive Development Framework. In July 1995, an initiative was announced that could further enhance the role of NGOs. The Consultative Group to Assist the Poorest is, according to the Bank, designed "to promote the replication and growth of NGO-managed programs that provide financial services to the poor." The Bank has provided initial capital of $30 million, and other donors are expected to contribute at least as much. There is much more discussion of policies between NGOs and the Bank. There is a seven-member Policy Advisory Group, chaired by Muhammad Yunus of the Grameen Bank. Other members include Ela Bhatt of the Self-Employed Women's Association and Nancy Barry of Women's World Banking. In these ways, the lot of poor people can be improved almost incidentally, as side effects of strategies advocated by the IMF and the World Bank.

Human development and conditionality

Development aid has lost much of its glamour. Many predict its demise in the next century. Whatever interest is left is focused on changing the nature of aid to rights or entitlements and on adopting new forms of resource transfers. By this is meant a move toward an international income tax (contributions are obligatory, the burden is distributed progressively, and the annual flows are predictable). There are numerous proposals for international taxation, ranging from a tax on short-term capital movements to taxes on international trade, weapons trade, tourism, carbon emissions and other pollutants, fuel, fishing in international waters, and international flights. There are also proposals for an international lottery and a new issue of SDRs (special drawing rights) by the IMF.

Another possibility for changing the nature of aid would be to make payments to developing countries for services they render or as compensation for damages inflicted on them by industrial countries. Examples are programs to protect the environment (thereby benefiting the rich countries, among others), reduce the risk of catastrophic wars by destroying nuclear weapons, reduce the supply of narcotic drugs (by, for example, encouraging crop substitution), protect public health by preventing the spread of infectious diseases, convert arms factories to peaceful purposes, reduce international terrorism and transnational crime, and provide for joint financing and management of natural resources that cross national boundaries (coastal fisheries, the global commons, etc.). Some authors have also proposed either compensating developing countries for damages stemming from, for example, the brain drain, or restricting the migration of unskilled workers and trade in goods and services. There is also a strong case for paying compensation for the climatic damages that occur in poor tropical countries because of global warming resulting from human action. The carbon emissions of rich countries are likely to lower tropical food production and increase the severity of tropical climatic disturbances. My view is that although there is much to be said for these proposals, conventional aid will still play an important part in the next century—in this context, it is encouraging to note that, for the first time since 1994, aid from member countries of the Organization for Economic Cooperation and Development's (OECD's) Development Assistance Committee rose in 1998 in terms of cash and of real resources, and as a percentage of GNP—though the conditionality attached to it should be changed.

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Conditionality has conventionally been applied to monetary, fiscal, exchange rate, and trade policies. It has more recently been applied to environmental, political, and human rights policies and institutional reform policies (under the banner of "governance") without, alas, substantially adding to the funds committed or disbursed. By a simple extension of this rationale for applying conditionality to increase the effectiveness of loans, human or social conditions could also be specified. Indeed, it can be argued that these should have higher priority, because the effects of economic variables are not a matter of scientific certainty but the obligation to reduce human misery is a moral certainty.

The United Nations Development Program (UNDP) and the chief architect of its annual *Human Development Reports* for 1990–99, the late Mahbub ul Haq, have eloquently put the case for human development. Globalization has been discussed in terms of both markets and states, but rarely in terms of its impact on people. Similarly, aid conditionality should be concerned with the impact of aid on people. Two types of human conditionality—that is, the setting of conditions serving the objective of human development—should be considered. The first would apply to the equivalent of adjustment assistance provided for a short transition period, the second to longer-term policies for human development.

Overcoming transitional difficulties. A reform-minded government that wishes to implement a land reform, a tax reform, an educational reform, or an administrative reform, or to channel more resources into social services or directly to the poor may run into transitional difficulties. Pursuing such reforms is bound to impose additional burdens on the country's budget and on its administrative capacity. If incomes are redistributed to the poor, the demand for food will rise. Food is likely to be in inelastic supply—that is, increases in prices paid to producers will not increase the amount produced very much—so that inflationary pressures will increase. Land reform is likely to reduce food supplies in the short run. As more food is imported into the country, the balance of payments will worsen and inflationary pressures will increase. As the incomes of the rich are reduced, unemployment in the luxury trades will increase. A combination of inflation and rising unemployment will result.

If the private sector loses confidence, there is likely to be capital flight, aggravating the balance of payments crisis. Domestic investment may decline, and securities prices may fall. This would lead to a drop in the value of collateral for bank loans, which could cause a banking crisis and aggravate the decline in real investment. Disaffected groups may organize strikes, sabotage, or even coups d'état. All these are familiar problems for reform-minded governments that wish to change the course of policy in favor of the poor.

Unfortunately, the manifestations of such transitional difficulties look very much like the manifestations of a mismanaged economy. Indeed, if the reform-minded government has no experience, some degree of mismanagement will be added to the problems of the transition. In such critical situations, international donors can help make the transition less painful and disruptive and increase the country's chances of success. Just as structural adjustment loans have been made to countries going through periods of economic restructuring carried out by means of reformed macroeconomic policies, so *human adjustment assistance* should be provided to countries taking positive steps toward human development. Such assistance would promote economic growth centered on people by improving the nutrition, health, education, skills, and productivity of the poor and by reducing population growth; and it would, above all, improve the human condition as a worthy end in itself.

The principle of assisting human development could be extended from tiding governments over until adjustment periods are completed to providing support for long-term human and social development. What are the arguments for and against such a policy? On the one hand, human conditionality—conditions on loans providing that borrowing governments would carry out specific human development objectives (for example, ensuring that an increased percentage of the country's children, and especially girls, were enrolled in primary schools by an agreed-upon date)—may be regarded by recipient countries as intrusive and perhaps even as violating national sovereignty. On the other hand, donors believe that their responsibility to the taxpayer is to account for the use of aid funds and to ensure that poverty reduction and human development are achieved, assuming that this is the purpose of the aid. Recipients distrust donor institutions because they fear that extraneous criteria may enter into the process of determining whether to provide aid and on what conditions (for example, requirements that all or part of the aid be spent on imports from the donor country); and donors distrust recipients' institutions, because the latter may wish to conceal unsuccessful performance. To resolve this conflict, it is necessary to design institutions that are trusted by both sides and monitor their performance reliably and objectively.

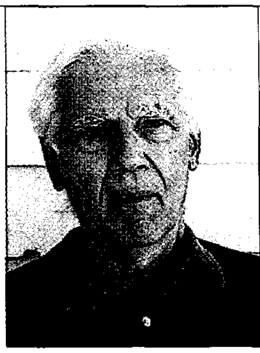
Monitoring. In addition to having to gain the trust of both sides, and be responsive to their needs and demands, these institutions would have to serve as buffers between donors and recipients, be sensitive to social and political conditions, and be able to judge the impact of programs on poverty reduction. They should also help to build up developing countries' indigenous capacity to carry out poverty monitoring.

One possible solution would be to adopt the method that the Organization for European Economic Cooperation, the forerunner of the OECD, used for aid provided under the Marshall Plan. The United States generously withdrew from monitoring the fulfillment of the conditions involved and encouraged European governments to monitor each other's performance. Analogously, groups of countries, such as those of East Africa, would get together, and one—say, Uganda—could monitor the performance of another—say, Kenya—and vice versa. Technical assistance would initially be needed to develop or strengthen their professional capacity to do this.

Another solution would be to appoint a mutually acceptable council of wise men and women, with a competent secretariat, who would do the monitoring and, again, possibly provide technical assistance to strengthen indigenous capacity. A third solution would be to create a genuinely global secretariat loyal to the embryonic world community, socially sensitive, and—at the same time—technically competent. The secretariats of existing international organizations, such as the World Bank, the IMF, and the UN agencies, have not quite reached that point and are not perceived by recipients as being truly global in their loyalties and commitments. Reforms in recruitment, training, and promotion—and perhaps in the governance and location of these institutions—would be needed. Decentralization of control to strong regional offices, whose members would have daily contact with the officials and the ordinary people of the recipient countries, may also be necessary. Until such reforms are initiated, bilateral aid will continue to have advantages over multilateral aid in terms of targeting and monitoring. This conclusion goes against the conventional wisdom but will remain true as long as the bureaucracies of the multilateral agencies are not reformed.

Whatever institutional solution might be adopted, there is virtue in introducing a degree of competition into the monitoring process, so that a variety of methods may be tested and compared. At the moment, some observers fear that the large international financial institutions exercise a monopoly of power and wisdom and, at times, propagate prematurely crystallized, flawed orthodoxies. The proposed buffer procedures or buffer institutions would have the additional advantage of contributing to building and strengthening the indigenous research and monitoring capacities of the recipient developing countries. For research on poverty, action against poverty, and human development tend to go together, as has been shown by the investigations of Charles Booth and Seebohm Rowntree at the beginning of the century, and of Sidney and Beatrice Webb, the World Bank, and the specialized UN development agencies.

There is a fourth way of combining nonintrusiveness and respect for national sovereignty with human development that does not depend on a buffer institution. Instead of imposing the desirable policies as a condition for receiving aid, donors could judge which countries intended to pursue good policies or showed a genuine intention of adopting them, and then quietly support these countries. These are neither the needy nor the speedy, because the former may not use the aid effectively and the latter do not need it, but those with the greatest potential to improve. This might be called the "quiet style in aid giving," because it does not proclaim its intentions and does not use heavy-handed performance criteria, which can cause acrimony and bad feelings. Instead, worthy candidates are selected and supported. The message will soon spread, and the signals will convey to others that if they wish to receive aid, they, too, will have to adopt reforms and the right policies. If a dialogue precedes the disbursements, it will proceed by persuasion, not by coercion. F&D



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Reference:

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