



## ***THE CHANGING FACE of GLOBAL DEVELOPMENT FINANCE***

*Impacts and implications for aid, development, the South  
and the Bretton Woods Institutions*

*Final Report*

*Organized by the Halifax Initiative Coalition  
Co-hosted by the Canadian Council for International Co-operation,  
The North-South Institute and the Reality of Aid Network*

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The opinions expressed in this publication are not necessarily those of the Halifax Initiative Coalition, nor of its members.

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## **STEERING COMMITTEE**

The Halifax Initiative thanks members of the Steering Committee for their guidance in developing this conference: John Dillon (KAÏROS - Canadian Ecumenical Justice Initiatives), Bill Morton (The North-South Institute), Brian Tomlinson (Canadian Council for International Co-operation), Anna Nitoslawska (Canadian Labour Congress) and Catherine Coumans (MiningWatch Canada).

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## About the cover

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The cover represents the changing faces of global development finance by identifying some of the key actors in this shifting landscape. It was not intentional that none of the faces on the cover were those of women; but, it is clearly indicative that some things have yet to change.

**A - Ban Ki-Moon, Secretary General of the United Nations.** The Financing for Development conference and upcoming review of the Monterrey Consensus are taking place under the auspices of the UN. [Photo: © Agência Brasil]

**B - Civil society organizations,** in all their diversity, are increasingly seen as having an important role and voice as development actors in their own right and in the effective delivery of aid. [Photo: © Anthea Davison]

**C - Bill Gates, co-founder and Chairman of Microsoft,** and founder of the Bill and Melinda Gates Foundation. The Foundation gives approximately \$800 million annually to tackling global health issues -equivalent to the annual budget of the World Health Organization. [Photo: © Archive of the Chancellery of the President of the Republic of Poland]

**D - Ángel Gurría, Secretary General of the Organization for Economic Cooperation and Development.** The OECD's Development Co-operation Directorate and Development Assistance Committee (DAC) are the locus of discussion and action for the world's Northern aid donors and the driving force behind the Paris Declaration on Aid Effectiveness. [Photo: © OECD]

**E - President Hu Jintao of the People's Republic of China.** In November, 2006, China promised to double current aid to Africa by 2009, provide \$5 billion in preferential loans and export credits, and cancel all bi-lateral debt, making it a new and significant donor to the region. Its investment in resource extraction and in controversial countries has garnered significant media attention and criticism. [Photo: © Agência Brasil]

**F - President Luiz Inácio Lula da Silva of Brazil.** In December 2007, Brazil, along with Argentina, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela co-founded the new "Banco del sur", viewed by many as an alternative to the World Bank. Brazil has also been instrumental in the work of the Leading Group on Solidarity Levies for Development, a forum for discussing innovative sources of financing for development. Along with China, India and Russia it is one of the BRICs countries, whose economies look set to surpass those of the industrialized North by 2050. [Photo: © Agência Brasil]

**G - Muhammad Yunus, Founder of the Grameen Bank,** which provides microfinance, or small loans, to the poor. By 2005, it had loaned US\$4.2 billion to the poor with payback rates of over 98 percent. Its success has inspired similar models in over 40 countries. In 2006, Yunus was awarded the Nobel Peace Prize for his work. [Photo: © Tanveer Islam]

**H - Robert Zoellick, President of the World Bank Group.** Along with International Monetary Fund, the World Bank continues to be one of the most influential actors in international development thinking, practice and finance. It is also one of the most heavily criticized institutions, along with the IMF, for the detrimental impact its policies have had on developing countries. [Photo: © Simone D. McCourtie / World Bank]

**I -Who next?**

## Preface

***Catherine Coumans, Chair, Halifax Initiative Coalition; Research Coordinator and Asia-Pacific Program Coordinator, MiningWatch Canada***

In 2000, the Halifax Initiative Coalition organized a conference on *Transforming the Global Financial System*. At that time, the prospect of alternative institutions and mechanisms to the Bretton Woods Institutions (BWIs), for funding international development, were very much a matter of theoretical debate.

Now, just seven years later, the landscape has changed dramatically. There are now new players in the field in the form of alternative institutions, such as the Bank of the South and the Chiang Mai initiative. There are alternative sources of development funding, for example through new bi-lateral donors from China, Brazil and India, or from private sources, such as the Bill Gates Foundation. There are alternative mechanisms for financing development and regulating financial flows, such as airline levies, advance market commitments and currency transaction taxes.

The emergence of alternative international development institutions, new sources of development funding, and alternative mechanisms for financing development are occurring in the context of two major international processes relating to aid: the Accra meeting on the Paris Declaration on Aid Effectiveness, and the Doha meeting on Financing for Development.

All of these developments, alongside the Accra and Doha processes, present exciting new opportunities and alternatives to the World Bank and the International Monetary Fund (IMF). But they also pose new challenges.

In February 2008, the Halifax Initiative organized a conference on “*The Changing Face of Global Development Finance - Impacts and implications for aid, development, the South and the Bretton Woods Institutions*”. The purpose of the conference was threefold:

- With the guidance of both southern and northern experts, deepen the knowledge and understanding of Canadian and international civil society organizations (CSOs) on current economic paradigms and policies, and in particular sustainable alternatives to the Bretton Woods Institutions and the post-Washington consensus.
- Contribute to the development of Canadian and international civil society positions on a range of global finance issues, rooted in a perspective of shared human rights obligations.
- Identify key areas of collaborative work for the coming years.

This report includes a summary of the presentations and discussions at the conference. Background reading, glossary of terms, the final agenda, speaker biographies, participants’ list, and presentations and speeches for the meeting are all available on-line at [http://www.halifaxinitiative.org/index.php/past\\_events/Changing\\_face\\_of\\_GDF](http://www.halifaxinitiative.org/index.php/past_events/Changing_face_of_GDF).

We hope you will find it food for thought as we look ahead to the meetings in Accra and Doha.

## Keynote Speeches: The changing face of global development finance

***First keynote speaker: Amar Bhattacharya, Director, Inter-governmental Group of Twenty Four***

*Amar Bhattacharya provided a comprehensive overview of some of the dimensions of the changes that have taken place over the past decade in international development and in global development finance, focusing in particular on the implications for the existing aid architecture and the World Bank and International Monetary Fund.*

The biggest changes have not been in how development is financed, but rather in the field of international development and in the countries where this is taking place. 50 years ago, four out of five people in the developing world lived in low-income countries; now four out of five people live in middle-income countries. 50 years ago, two-thirds of the developing world lived in absolute poverty. Today that number is still significant, but as a proportion, it is only a fifth. What is perhaps most striking is that a lot of this change has taken place over the past decade. From the lost decade of the nineties, to where we are now, developing economies are doing relatively well both in terms of growth and as a stabilizing influence. Developing economies have in fact grown relatively faster than developed economies, and even Sub-Saharan Africa has born witness to the same change.

Even so, many challenges remain which shape the discussions on development finance. Many low-income countries, in particular fragile states, are lagging behind in terms of growth and poverty reduction. There is mixed progress on the Millennium Development Goals (MDGs) with Africa alone not expected to meet the MDGs on poverty by 2020. Beyond poverty, progress on water and health in Asia and Africa is also weak. Great regional disparities and growing inequality are characteristic of this. And, finally environmental sustainability and managing the global commons are the challenge that will require the greatest attention, especially as CO<sub>2</sub> emissions from developing countries accelerate, but also because the poor pay a disproportionate price for climate change through, for example, the loss of agricultural land.

There are also changes happening in how development is financed. But here we should not think first of the external context, but rather look at what is happening to domestic investment and savings. With the exception of Sub-Saharan Africa, investment and savings have been rising in developing countries. Increasingly, developing country governments are able to finance their activities from domestic savings rather than foreign investment. However, despite the availability of domestic finance, the poor often do not have any access to such finance. That said, even here we are seeing a change with e-finance and smart cards, and changes within micro-finance. Against this context we should look at external finance.

On the external side, trade volumes from developing countries have more than tripled over the 1990-2005 period, even in Africa. Remittance flows - while representing a significant loss of skills for developing countries as workers migrate to the North- represent a huge source of finance for low-income countries and are now twice the level of foreign aid. Poorer countries are now financing the rich through the development of large current account surpluses and building up hard currency reserves. Private capital flows remain significant at \$647 billion. Foreign Direct

Investment (FDI), representing \$325 billion, is increasing in Europe, Central Asia and Latin America. Sub-Saharan Africa has also seen its stock of FDI increase, but this has mostly been in the extractive sectors of resource-rich economies.

There is also a lot of volatility throughout the international financial system, with emerging and some developing economies acting to some extent as a stabilizing force in these markets. Developing country multinationals and sovereign wealth funds are becoming global investors. Lending from the official sector is now also insignificant relative to what is actually happening. This is due to very large repayments in particular to the International Monetary Fund (IMF) and Paris Club. This process has been accompanied by very large reserve accumulations, mainly because there is no confidence in the international financial system.

What do these changes mean for the new aid architecture? The post-Monterrey aid compact was characterized by four elements:

- debt relief;
- higher aid commitments;
- innovative financing modalities; and,
- a new partnership on aid effectiveness (ownership, results, alignment and harmonization).

On the first, thanks to the civil society, some debt relief and cancellation has occurred, but a lot of countries have been excluded.

Secondly, on aid, there have been plenty of promises, but the bulk of the increase since 2002 - the apparent doubling of aid- has been because of debt relief. Such that from 1995 to 2005, the development aid portion of Official Development Assistance (ODA) has actually only increased from \$28 billion to \$38 billion. Furthermore, despite the agreements made by the Group of Eight (G8) at Gleneagles, development aid for Africa has not increased by one dollar from 1995. So where will the real doubling of aid by 2010 actually come from when the mythical gain of debt relief is finished?

Thirdly, there has been modest progress on innovative financing including the following: a pilot international financing facility for immunization (IFFI); a modest aviation solidarity levy; Advance Market Commitments for one vaccine; the Stolen Asset Recovery Initiative; the Clean Development Mechanism; a renewed interest in a carbon tax.

Finally, there has been limited progress on aid effectiveness through the adoption of Poverty Reduction Strategy Papers (PRSPs). These reduce explicit conditions, but has the bank really reduced conditionality? Isn't it just in the form of hidden conditions? Similarly, donors have increasingly aligned *their programmes* without necessarily accepting *country priorities*. High volatility and unpredictability of aid flows (only 65 percent of aid arrived on time) and increased fragmentation (due to an increase of donor activities) continues. Furthermore, while all of this has been happening in the old world of the Development Assistance Committee of the OECD, in the world there has been a proliferation of new and sizable non-OECD donors (vertical funds, non-OECD countries and private philanthropy) who think about aid effectiveness on different terms. For example, Private aid now represents around 60 percent (or \$60 billion) of all OECD aid.

In conclusion, the main challenges that require further attention are five-fold. Firstly, how can donors scale-up their aid to African governments in a manner that is sustainable? Secondly, how do you tackle poverty and inclusion in middle-income countries, where economic growth is rapid, but disparities are widening. Thirdly, is a centralized, harmonized approach to aid effectiveness per the Paris Declaration better, or do you support competitive pluralism that may bring about greater empowerment of the recipient? The fourth challenge is how you plan, finance and implement regional-level investments that move beyond the World Bank's country-by-country approach? Finally, on clean energy and adaptation, who will finance the costs of this?

This altered context has several implications for the Bretton Woods Institutions. The World Bank and IMF have to learn to live with this new competitive pluralism: contestability in the system - and the complementarity it brings - is not a bad thing *a priori*. The World Bank needs an expanded and reformed International Development Association. It needs to reestablish its relevance in middle-income countries, but by using these countries' own structures and institutions, and not through externally imposed conditions. The Bank may also need to play a role in the climate change agenda, but given the undemocratic nature of its governance structures, probably it should not be that big a role. For its part, the IMF must engage in more effective surveillance of developed countries, as much as it does with developing countries. And finally, without addressing fundamental changes to the governance of the IMF, countries will establish regional clubs of their own.

### ***Second keynote speaker: Yao Graham, Coordinator, Third World Network-Africa***

*From the overview of international development and global development finance, it is clear that Africa faces particular challenges. Yao Graham provided a perspective on Africa's challenges, focused on particular issues as they related to development finance, and spoke about the political challenge of making change happen in Africa.*

One key feature running throughout Amar's overview of global development with respect to Africa is the relative decline of the West to countries like China and Brazil. These latter countries have been able to expand trade and foreign direct investment (FDI) in other countries. On the other hand, relatively speaking, Africa has not enhanced its economic power and weight and is now also the battleground of intense competition over its resources and markets. While the popular press has focused a lot on the Chinese "threat" to Africa, the real challenges that stem from China's scaled-up involvement in Africa must be assessed by focusing on the real issues, while shedding all of our anxiety about China's rise. The interest of new donors in Africa is not rooted in Africa or China, but in Washington. Liberalization policies imposed at the behest of the Bretton Woods Institutions (BWIs) have paved the way for the low wages and minimal regulations that have made Sub-Saharan Africa an attractive investment for Western companies in the past, and now for countries like China. And so, while Ghana has the most conservative and pro-Western government in West Africa, the same government is also taking full advantage of the stadiums built through Indian connections, the large hydro dam being sponsored by the Chinese, and the health care system being supported by Cuban volunteers. That said, it would still be a mistake for African countries to allow Chinese companies to do to them what the west has done in the past.

Beyond China, if we look across the African continent, there are certain trends that I would like to highlight. Firstly, since 2000, Africa has seen a significant growth in trade and a strong performance of raw material commodities. That said, this is more a correction of pricing from

the preceding 20 years, which witnessed a substantial fall in commodity prices in Africa. It is also a response to an increased demand for raw materials from countries like India and China, which is perpetuating development in Africa based on the extraction of raw materials. Nevertheless, countries' ability to generate revenue domestically has expanded considerably.

Secondly, the Bretton Woods Institutions, unlike other regions, still have huge influence in most African countries. In fact, Africa is still the one continent where the G8 routinely makes policy despite the adoption of the New Partnership for Africa's Development (NEPAD), which was supposed to herald a reformed Washington Consensus.

Debt relief has had a big impact. However, 20 years into these policies and Africa is still seeing very little FDI (with the exception of some resource-rich countries). Furthermore, the benefits are uneven, and because of stability agreements and investment policies, even resource-rich countries are generating negligible returns.

Now the Bank is looking to expand individual national policies into regional investment schemes (for example, in mining and energy) that open up new markets and help to justify further privatization of domestic utilities. Whereas regionalism used to be a space for African countries to pursue their own development strategy, this is quickly being subsumed within the strategies of external actors. China is hoping to create five economic regions; the Europeans are negotiating regional strategies through Economic Partnership Agreements; South Africa sees Africa as an area for its own trade and expansion. African government responses to these regional strategies have been fragmented.

To illustrate my points, how do all of these things play out in the Ghanaian context? Ghana has been a donor darling since the 1980s. In the 1990s, aid constituted ten percent of Gross National Income. The current government, which has been in place since 2000, is very ready to do business with bilateral and multilateral donors, both old and new. As a result, it has seen a surge in aid flows, now constituting nine percent of GDP. Pre-2000, Ghana's progress was impeded because of the country's \$6 billion external debt. Now debt relief and growing domestic revenues (from regressive consumption taxes) and a commodity price boom, have given the country some breathing space to manage its finances and resources. Poverty reduction efforts and social services have received greater financing as a result. Ghana has since exited lending relations with the IMF, and has recently raised money on the bond market.

In terms of the Paris Declaration, Ghana's government has tried to get its bilateral and multilateral donors to align with the country's own priorities. As a result, in 2003, it implemented a multilateral donor budget support system (DBSS). However, in 2006, a World Bank study indicated that less than 50 percent of external assistance uses national procedures and only 40 percent of donor ODA has ever been channeled through the DBSS. Similarly, one of the demands of the donors for the budget support system was that Ghana create a public procurement system acceptable to donors. However, this undercut Ghana's negotiating position at the WTO, which strongly opposed opening up Ghanaian public procurement to transnational competition. So, because of donor demands and despite fervent opposition among the Ghanaian private sector and demands by civil society for an alternate procurement law, the government established such a system. This remains a significant challenge and often creates windows of policy incoherence. There is currently a private sector backlash against the government and this new regime. So while the Paris Declaration promised a new framework for engagement, in reality, it is simply a

new bottle filled with old wine.

The road to the Doha meeting on Financing for Development will be informed by the progress, or lack thereof, achieved at the Accra High Level Forum on Aid Effectiveness. However, while development effectiveness may seem to represent the best measure of aid effectiveness, as the procurement example demonstrates, development might not always be served when the Paris principles are at play. For example, in terms of effectiveness, Ghana has had steady growth over the past 25 years, and over six percent in the past few years. But within this growth, there are important failures: despite a general reduction in poverty, inequality has worsened and productivity, for example in the manufacturing sector, has remained stagnant. In fact, despite Africa's economic growth in recent years, this growth has not been structurally transforming, leaving the majority of Africans still unemployed and without secure sources of income.

We might attribute this lack of change to some external factors. Despite the new policy space that many African countries are gaining through initiatives such as the Paris Declaration, the policies that these governments are pursuing are very much in-line with the policies once imposed on them by donors and multilateral institutions. New governments similarly do not tend to bring anything new to the discussions in terms of new policies. Furthermore, the policy space that has opened up in the aid arena has been thrown away in concessions made through multilateral and bilateral trade agreements. Finally, in a number of countries like Ghana, Tanzania, Uganda, where civil society organizations have been leading the discussion on alternatives, repressive legislation has closed down the space for domestic advocacy work and policy discussions. This gets to the larger question of democracy: policy choices currently being made in Africa are not reflective of the imperatives of the poor. To overcome the *status quo*, more attention needs to be placed on the politics of mobilization.

## Theme one: Emerging institutional alternatives

### ***The Bank of the South: Jorge Marchini, Professor of Economics, University of Buenos Aires, International Coordinator of the International Debt Observatory***

*Jorge Marchini introduced the audience to the concept of the Banco del Sur (Bank of the South) and explained why it was a timely project. He then discussed the contradictions and questions that still need to be addressed in the creation of the bank.*

Over the past three years the *Banco del Sur* has grown from an idea, initially proposed by Venezuelan President Hugo Chavez, into an imminent reality. It comes at a time when there is growing discontent within Latin America with the international financial institutions (IFIs) and a new mood in favour of southern alternatives.

There are a number of factors to explain the impetus behind the *Banco del Sur*. First, since the 1990s there has been a growing consensus that the economic reforms demanded by the IFIs - privatization, deregulation and economic liberalization - have not been positive for Latin America. These reforms favoured distinct economic groups, transferred important public resources from the South to the North and generally led to regressive social, political and economic outcomes. There is a sense that Latin America can learn from this historical experience, and that Latin American leaders are not interested in solutions rooted in the same tired multilateral financial institutions.

Second, the region has faced great economic volatility with repeated boom and bust cycles and there is a need to rethink the financial architecture that creates such uncertainty. The new financial architecture that is emerging, however, is still the same with free movements of capital and no capital controls. This needs to be addressed.

Third, countries in Latin America have reacted against these economic policies through recent political changes that favour new directions.

Fourth, against this backdrop, governments have been considering how to address these new challenges, and whether this means modifying existing institutions or creating new ones.

Fifth, there is a general feeling that the time for change is now. Latin American countries are witnessing high levels of growth, increasing foreign exchange reserves, and increasing terms of trade due to rising global demand for their commodity exports. Along with a trend towards regionalization, current political and economic conditions give Latin America the opportunity to envision southern solutions not only to the current economic crisis, but also for the long-term. Instead of the South financing the North, perhaps now is the time for the South to begin financing the South.

Finally, Latin America's relationship with the United States is changing. This is the result of the declining economic leverage of the US relative to the global economy (and to Latin America) and of the new markets that Latin America is seeking for its exports beyond the US. As a result, the *Banco del Sur* now seems like a realistic proposal.

On December 9, 2007, seven countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela) established the *Banco del Sur*. This was an easy step. But now these countries are faced

with the challenge of what kind of institution to create - how it will be funded, what its funding priorities will be, and what its governance structure will look like. There are concerns that if Latin America is not careful, the *Banco del Sur* could quickly emulate many of the elements that have been strongly criticized about the IFIs. To ensure that the *Banco del Sur* is successful, it needs to be democratic, transparent, staffed by qualified people and supported by society. The Bank should not merely be a project of the elite: it must represent a credible alternative.

Finally I would like to talk about the notion of the *Banco del Sur* vs. the World Bank. Many people see the *Banco del Sur* in opposition to the World Bank. It is not in opposition to it, but rather represents an alternative to it. In fact, one of the most important aspects of this project is the space that it has created for greater and deeper political debate about new alternatives to the existing architecture. It demonstrates the need for a debate that is not technical and is only understood by a few individuals, but one that is political and engages us all.

### ***Country perspective on the Banco del Sur: Fabrina Furtado, Rede Brasil, Brazil***

*Fabrina Furtado provided an articulate criticism of the process through which the Banco del Sur has been created and suggested that if Latin America is not careful the new Bank might merely replicate the current development bank model. She highlighted the exclusion of civil society from the process and the potentially divergent intentions of Brazil and Venezuela as reasons why Latin Americans should be concerned that a democratic and socially and environmentally responsible bank might not be realized.*

The creation of the *Banco del Sur* was seen by Latin American governments and civil society organizations alike as a promising alternative to the international financial institutions (IFIs). The Bank was created to avoid past mistakes and to establish a public financing mechanism created and controlled by governments of the South that could stimulate a different kind of integration and that would respect the autonomy and the social and economic rights of Latin America's people.

To be credible, the new Bank needs to be democratic and socially and environmentally just. This means including civil society organizations in the process and ensuring that governments are transparent about their intentions. However, despite repeated requests, all of the participating governments - with the exception of Ecuador - have excluded civil society organizations from participating in the Bank's creation. The negotiations on the Bank are also completely opaque. Informed participation from all sectors of society is the only way to creating real alternatives, and this is sorely absent in current negotiations.

From Brazil's perspective, the government was not initially sure whether they wanted a Bank of the South as they had prioritized other measures for regional economic integration. Brazil was largely interested in doing so through an expansion of Mercosur (a free trade area of the Americas), through the creation of a regional block of Latin America to be able to negotiate with NAFTA and the European Union, and by inserting Brazil into the global economy as a "protagonist". This, Brazil hoped, would lead to increased competitiveness of national companies, increased national and foreign investment, and increased inter-regional trade for energy, transport and telecommunications. For the Brazilian government, therefore, the Initiative for Regional Infrastructure Integration in South America (IIRSA) represents such a model for regional integration.

IIRSA is a regional development scheme that will divide the continent into ten interconnected territorial hubs and that will invest \$69 billion in “logistical” projects (transportation, energy, telecommunications and infrastructure) over the next few years. It is premised on the notion that an absence of infrastructure and the existence of natural obstacles that have created islands within the continent have been the two greatest barriers to greater regional integration and trade. IIRSA would create “bridges” to help unite these islands and facilitate the transportation of raw materials to international markets. Socially and environmentally, the impacts will be enormous - through, for example, the displacement of millions of people, massive deforestation, and the introduction of monoculture species. One of the biggest and most controversial projects supported by IIRSA is the Madera River Complex. It involves the construction of four hydroelectric dams within Brazil, Bolivia and on the border between the two countries. Despite irregularities in the environmental studies, concerns about the economic viability of the project and significant protests against Madera, the project is going ahead.

If IIRSA represents the plan for integrating Latin America, then Brazil predominantly sees the Brazilian National Social and Economic Development Bank (BNDES) as the agent for furthering Brazilian regional integration and investments abroad. Increasingly BNDES has become a political tool for implementing Brazilian public policy and programmes. In 2006, BNDES disbursed \$24 billion to a variety of projects in Latin America (cf. the Inter-American Development, which disbursed \$6.5 billion and the World Bank \$5 billion). Only three percent of its portfolio goes to social development projects (cf. 93 percent to industry, infrastructure and agri-business), and most of the funding goes to the most developed regions of Brazil and to large Brazilian companies. BNDES has no social or environmental criteria linked to the disbursement of funds, no mechanisms for participating in the decision-making process, and next to no disclosure of key information.

Given the existence of BNDES, from a Brazilian perspective the prospect of a Bank of the South seemed unnecessary. However, when negotiations began on the Bank, Brazil from a geo-political perspective did not feel it could be left out as it did not want to lose its leadership role in the Americas. The Bank also represented an opportunity for exporting more Brazilian capital and products. Not surprisingly, Brazil has actively been advocating for a Bank of the South modeled on a “classical development bank” that will essentially maintain the *status quo* rather than promote new real alternatives. Argentina and Venezuela also support such a model. For example, their initial proposals for the Bank reproduced the IFI model in several ways: a governance structure of one-dollar, one vote; lack of accountability for staff decisions; lack of transparency of documents; no mechanisms for participation; investment in large infrastructure. The larger governments of South America have essentially internalized the IFI policies once imposed on them and are now reproducing them as their own.

Brazil has not demonstrated that it is pushing for a real alternative. If we would like to have a real alternative to the old development bank model, the Bank of the South is only the first step in achieving this. We also need to break free from debt as a political instrument, to guarantee the reparation of social and ecological debt, and to avoid new debts. We need to regulate the market and capital, and promote changes in the model of production and consumption. And there are important changes on this front occurring besides the Bank of the South. Bolivia has exited from the International Centre for the Settlement of Investment Disputes. Ecuador has expelled its World Bank representative and is auditing its external debts. Telesur, a pan-Latin American television network, was created in 2005. Brazil and Argentina are now trading in local currency. And the Bolivarian Alternative for Latin America (ALBA), with its own bank, was also just launched.

To end, criticizing the Bank of the South is not a rejection of the initiative, but rather a way of getting a hold of it, and making sure in the end it is “our” Bank.

***The Chiang Mai Initiative and the Asian Monetary Fund: Worapot Manupipatpong, Director, Asian Development Bank Institute***

*Worapot Manupipatpong discussed how the bilateral swap arrangements of the Chiang Mai Initiative were developed and how they function today. He also detailed how these arrangements are intended to change in the near future and grow to take on the characteristics of a regional monetary fund along the lines of the Asian Monetary Fund idea, initially brokered by Japan during the Asian financial crisis.*

In 1977 the Association of South East Asian States (ASEAN) established procedures to govern bilateral currency swaps. These arrangements enabled countries experiencing liquidity problems to enter into short-term agreements with other members on individual bases that enabled the temporary exchange of currencies. In November 1999 following the Asian financial crisis, ASEAN +3 (China, Japan and South Korea) sought to improve coordinated efforts to guarantee financial stability throughout the region. These reforms included the adoption of new mechanisms to manage macroeconomic risk, including new systems to monitor regional capital flows and expedite reform of banking and financial sectors. The following year in May 2000, in Chiang Mai, Thailand, ASEAN +3 agreed to expand the ASEAN swap arrangements and increase the number of countries able to access swap facilities. Termed the Chiang Mai Initiative (CMI), this arrangement sought to create a new mechanism to quickly disburse short term liquidity support to countries as a first line of defence against economic crises. Quick disbursement facilities can be invoked before, or at the early stages of, a crisis in order to calm the market, and to make subsequent adjustments less severe.

The creation of the CMI was fuelled by a widely shared notion within the ASEAN +3 that the IMF had applied its experience in managing financial crises in Latin America to Asia, but had consequently failed to recognize Asia’s unique problems during the 1997-1998 Asian financial crisis. Many believed the region was plunged into recession due to the IMF’s bad advice and consequently Asian countries sought to construct an alternative. The CMI was designed to complement and/or supplement existing international financing facilities and to give countries the option of obtaining greater levels of short-term liquidity support from within the region.

The CMI functions through an agreement between two parties to exchange a given amount of currency and after a certain amount of time to give back the amount swapped - essentially a secure short term loan. Countries allocate a proportion of their reserves to the CMI on paper and the Initiative enables them to enter into agreements totaling up to twice the amount of their contribution. To facilitate these agreements, ASEAN +3 agreed on a basic framework, including linkages to the IMF, maturity of loans and interest rate structure. However, noting that some of the problems with balance of payments stem from problems that are structural in nature, the CMI still required countries entering into agreements totaling more than ten percent of their allotment, to have an IMF programme in place. ASEAN +3 members also recognized the importance of strengthening regional surveillance, and so agreed to exchange information on capital flows and established a network to facilitate regional surveillance in East Asia.

Between 2000 and 2004, ASEAN +3 established 16 bilateral swap agreements worth 36.5 billion. In a second phase, between 2004 and 2006, measures to enhance the CMI’s effectiveness were adopted,

including integrating the ASEAN +3 surveillance into the CMI framework, increasing the size of the two way swaps, and increasing the portion that could be withdrawn without an IMF linkage to 20 percent. By the end of the CMI's second phase in 2006, bilateral swap arrangements totaled \$75 billion. In addition, measures were adopted to enhance the effectiveness of the CMI, namely through the following: a collective decision making procedure to facilitate simultaneous activation and provision of liquidity support in the network; strengthened surveillance capacity through the establishment of a group of experts to provide independent economic assessment; and a working group on economic and financial monitoring to help develop an early warning system.

The third phase of the CMI will multilateralize the bilateral swap agreement network. This could take several forms. Each country might earmark a portion of its foreign reserves as a commitment to providing joint liquidity when called upon. A reserve pooling arrangement might place reserves with a third party or agent that will mediate the transactions. The CMI might also become a more formally institutionalized arrangement with its own staff along the lines of the IMF. Of these three options, ASEAN members agreed to a self-managed reserve pooling arrangement governed by a single contractual agreement. The size of commitments, borrowing quota, activation mechanisms and institutional arrangements for surveillance are all things to be discussed.

ASEAN +3 also recognized the importance of enhanced and regular regional dialogue on macroeconomic issues. Under the Economic Review and Policy Dialogue (ERPD), ASEAN + 3 Finance Ministers meet once a year to discuss economic and financial developments and emerging policy issues. Each country prepares their own economic reports, the Asian Development Bank and IMF provide an overview of regional economic matters, and views on policy matters are exchanged. A Group of Experts has been established to provide in-depth studies on economic and financial vulnerabilities and concerns for the region, and a technical Working Group has been set up to enhance the surveillance capacities of each member and to develop an early warning system. The goal has been to develop a framework that provides early detection and analysis of potential crises that can then be dealt with in an appropriate, independent and timely manner.

Looking forward, the CMI is likely to maintain its two core objectives of providing short term liquidity support and supplementing international financial arrangements. The multilateralization of the CMI will proceed on a step-by-step basis in working out the self-managed reserve pooling arrangement. One important element of this is an enhanced regional surveillance mechanism. This will likely become an institutionalized arrangement with an independent secretariat that provides independent and high quality economic analysis. As this develops, the relationship with the IMF will likely become more relaxed with the institution still playing an advisory role. In essence, it will become a new regional financial arrangement, whether or not we want to call it an Asian Monetary Fund.

## ***Discussion***

**Question:** Do large infrastructure projects, such as the South American Natural Gas Pipeline by the Venezuelan government, factor into the negotiations around the structure of the Bank of the South? And as a result, are there trade offs between a more ideal democratic Bank of the South and a more pragmatic interest from a country like Venezuela in trying to push forward this kind of a project?

**Response [Fabrina]:** Even though some of the countries involved in negotiations around the Bank of the South have questioned a few specific projects, the IIRSA model itself has not been. Venezuela's position with respect to the Bank is hard to analyze, but it certainly hasn't been pushing for a real democratic alternative, exemplified by its initial push for a governance model based on one dollar one vote. And while Ecuador is pushing for something different, if Argentina, Brazil and Venezuela have their way, then the Bank will simply replicate the model of the IFIs.

**Response [Jorge]:** Countries are using arguments about what is practical to undermine efforts to make these institutions more democratic. But making these institutions democratic *is* practical. If they were democratic, then the projects they fund would benefit a larger number of the population. So we need to challenge these notions, and social movements in Latin America are playing an important role to help shape these debates and make institutions like the Bank of the South more democratic and transparent.

**Question:** Based on what our speakers have said, it seems like the battleground has simply shifted from Washington to more regionally based initiatives that are replicating the same models and same mistakes. To that extent, they are new alternatives, but not that really different from existing agents. Now in the long struggle to improve the external accountability of the World Bank, the furthest we have ever gotten is better internal compliance for the Bank's own neoliberal policies. Now while the Bank of the South may be far from perfect, it is at least not "their" bank anymore, but as Fabrina says "our" bank. This means that faces on these new institutions are the faces of the political leaders that govern the countries of Latin America. Does this open up new opportunities for making these leaders and these institutions more accountable?

**Response [Worapot]:** The ASEAN +3 always had accountability in mind when they designed the CMI. These countries recognized that the IMF had superior surveillance capacity and that is why they pushed for the automatic IMF trigger. They have taken a well-studied and cautious approach to multilateralization, and accountability will always be an important factor in designing whatever multilateral form the CMI takes. Central bankers are the most conservative people in the world, and while they made a decision to pool all of these reserves, the money will still be managed by these central bankers.

**Question:** Fabrina, you presented an effective critique of the Bank of the South. Could you elaborate why it is that you feel your analysis does not amount to a total rejection of the Bank of the South? And how do we get to a point where the Bank of the South might strongly reflect the aspirations of civil society in Latin America?

**Response [Fabrina]:** We remain committed to the initiative, but how it is rolling out deeply worries us. In terms of accountability, when we realized that BNDES was turning out to be far worse than the Inter-American Development Bank and World Bank, we were quite dismayed. As a result, we set up a network of 23 groups, and developed a platform of demands for how we wanted to see BNDES reformed. We have met with the President of the BNDES, promised to incorporate the platform into the workings of the Bank and has published the 50 largest projects that the Bank has funded. It is still not we want, but progress is being made and it gave us an opportunity to think through what we wanted from the Bank.

## Theme two: New sources of aid and their challenges

### *China in Africa: Firoze Manji, Director, Fahamu and Pambazuka News*

*Firoze Manji encouraged participants to think twice about China's involvement in Africa. He argued that China's scaled-up FDI, trade and aid flows have been facilitated primarily by the West's drive to open Africa's markets and that, statistically speaking, China's new role is less significant than the Western media often portrays it to be.*

My talk is based on two recent books that my organization has been involved with publishing. The first - *African perspectives on China in Africa* - appeared last year at the Nairobi World Social Forum, and the second - *China's new role in Africa and the South* - is forthcoming and being co-published with Focus on the Global South.

There is a need to confront some of the mythologies around China's involvement in Africa and to present a much more nuanced approach from an African perspective that is neither rejectionist nor romantic about what China has to offer. We must consider all of the risks, threats and opportunities that this engagement presents. Trade between China and Africa has existed for 3000 years, with direct trade and political contact dating to the 15<sup>th</sup> century. But mythologies about China are not new. Napoleon Bonaparte once said that China is a sleeping giant, and when she awakes, she will astonish the world. Yet, open any newspaper and it will now seem that Africa is in the process of being devoured by China. One reads about the new scramble for Africa. One reads about China's voracious and insatiable appetite for natural resources that it is destroying Africa's industries, that it is causing massive job losses and that it is taking over the continent. In sharp contrast, Western capital is depicted as benign, using phrases such as development, investment and job creation. Is China indeed the voracious tiger it is so often portrayed to be? Are they offering an alternative paradigm of South-South engagement and a new model of development? Is it all of these, none of these or some of these?

On this front, it is important to reinforce the point Yao Graham made this morning: the conditions for China's entry into Africa were created precisely by those same institutions that are currently most hysterical about China's engagement. The liberalization trend that accompanied structural adjustment has enabled China's new engagement. The failed promises, the tightening of budgetary belts, the effective declines in real wages and the ongoing conditionality of aid, trade and investment are at the root of this new engagement. The Washington Consensus was the invitation card that China needed to enter. The conditions for China's entry were also very positive. China basically had no negative historical associations with the continent relative to Western government relations with Africa.

There are three dimensions to China's engagement with Africa: Foreign Direct Investment, trade, and aid. In each of these dimensions China's engagement is in fact dwarfed by that of the USA and Europe and is often smaller than those of other Asian economies.

First, FDI outflows from China have grown substantially in recent years, but they remain small to Africa in comparison with Chinese flows to South or South-East Asia or Latin America. Only about three percent of China's FDI flows are in fact going to Africa, while Asia receives 53 percent and Latin America 37 percent. China actually remains a net recipient of FDI from Africa - South

African companies and many Kenyan companies have made massive investments in China. Moreover, Chinese FDI in Africa (\$1.6 billion) is also small in comparison to investments from Singapore (\$3.4 billion), Malaysia and India (both \$1.9 billion). Canada's FDI stock in Sub-Saharan Africa is \$4 billion. This means that Canada has more invested in Africa than Singapore. And relative to the UK (\$30 billion), US (\$19 billion) and France (\$11.5 billion), China's FDI in Africa is miniscule. The myths nonetheless remain pervasive. While India has larger investments in both Sudan and Nigeria than does China, the latter is always criticized for its support of those governments. Of 126 Asian green field investments, 48 originated in India and 32 were from China. Finally, China sources more oil from Latin America than it does from Africa, however.

Regarding trade, total merchandise exports from Asia to Africa were \$35 billion, while exports from France alone were \$24 billion. China is now only Africa's third largest trading partner, lagging behind the United States and France. China's trade with Africa is certainly growing rapidly, though it is focused on a limited amount of products and only represents a small proportion of China's total trade. China imports five principal commodities from Africa: oil, iron ore, logs, cotton and diamonds. Sudan, Ghana, Tanzania, Ethiopia, Uganda and Kenya are the principal sources of demand for Chinese exports of manufactured products, including clothing and textiles. Much attention in the press has been drawn to the negative impact of cheap Chinese commodities on African economies, yet the relative size of Chinese imports remains small in comparison to imports from industrialized countries. The blame for declining industrial production in Africa can hardly be placed entirely on China's shoulders.

Through the 2006 China-Africa cooperation agreement China, like other Western governments, has used aid strategically to support its commercial interests in Africa. Its focus has been on investments in key infrastructure, training projects, technical assistance, debt relief and tariff exemptions from selected products. This is not dissimilar to the European Union's (EU) demands for tariff reduction and market access in African, Caribbean and Pacific countries contained in EU Economic Partnership Agreements. China aid to African governments is attractive as the terms are often favourable and it comes without conditions. The World Bank worries that China's unrestricted lending will undermine years of painstaking efforts to arrange debt relief, even though two decades of structural adjustment have worsened the conditions of the majority of Africa's poor. In fact, at the present rate of investment from the West it will require more than 100 years to realize all the Millennium Development Goals in some places. I must reinforce that the attraction of China for African government is its non-prescriptive engagement. China's development discourse presents its involvement as "no-strings attached" and of quality and mutual benefit.

Some argue that China's investment could have some positive impacts, but this is not a view that all in Africa would necessarily share. It does remain true that Chinese companies are involved in environmentally damaging activities, just as Western companies have been in the past. They are supporting repressive regimes. They are involved in logging in Mozambique and oil exploitation in Nigeria, but they are not alone in doing so. There is a great deal of hypocrisy in the West about China's engagement in Africa.

The evidence available shows that the needs of China's rapidly developing capitalism are similar to the West's historic needs. The relative scale of China's intervention in Africa remains small relative to the US and Europe. China's advantage is that it has no history of colonization, of financing or organizing coups against unfriendly regimes, or of using massive military forces to support of its foreign policies. China's engagement cannot be understood independently from the

imperial expansion of the US in the global economy. Chinese production and American consumption are inextricably chained together. The material distinction between China and others is not so much between Chinese capital and Western capital, but rather between the merely rapacious and the more sophisticated. Each of these are not two separate categories, but rather two different faces of capital each of which may now be presented as convenient.

### ***Discussion***

**Comment:** The comparisons you made are important, but we should also note a number of trends. We need to look at the amount of western outsourcing from China, and relocation of Western that is taking advantage of cheap Chinese labour, the absence of labour and environmental standards. There is a disjuncture between the amount of scorn poured upon China's involvement in Africa, and Western involvement in China. Additionally, we must highlight how the West is interested in issues like government procurement, and penetrating and building the service sectors of African economies, whereas China is entering Africa at the low technology, labour-intensive end of the market where African countries are potentially competitive. Coupled with the impact of Chinese imports, Chinese investments in some ways are disabling the capacity of African countries to export value-added products. China consequently might be reinforcing Africa's historic low value-added export basket. It is also worth looking at the disruptions in petty trading and informal markets that Chinese imports are causing. Chinese petty traders have scaled up their activities to a level that is challenging the viability of established local traders in places such as Ghana.

**Response:** The point about how western capital is penetrating into China is interesting. What exactly is meant by Chinese capital when 76 percent of Chinese companies are foreign owned with the US and France being the largest shareholder. In this context, what does it mean when Chinese capital is investing in Africa. The national origins of capital are increasingly dubious.

**Question:** Does so-called state-sponsored FDI differ significantly from 'entrepreneurial' transnational FDI? Big Canadian mining companies are looking for global standards to tame the voracious beast that is China, and are increasingly looking to the government - even through aid money - to get equivalent quantities of investment in mining projects from Canada to level the playing field with China.

**Response:** The point on global standards is important, but if China is the impetus for the standards, then we need to make sure in the end they are imposed on all forms of capital, be it Western or Chinese.

In terms of state-sponsored investment, development aid has always been about lubricating the wheels of private capital investment. It is a means by which it ensures that the South has always been supporting the North. The flow of wealth has always been to the North.

**Question:** What has the impact of Chinese and Indian investments in Africa been on the debt crisis? With the West having actually honoured some of its commitments to debt relief, is it possible that the Chinese are simply fuelling new obligations for repayment?

**Response:** Debt cancellation was a major component of the 2006 agreement, promising debt cancellation to 41 HIPC and lesser developed countries, totaling \$1.4 billion. African countries are accumulating additional debts through Chinese engagement, but because of the lack of

transparency around these arrangements, the figures are not clear.

**Comment:** Is China's development cooperation model better than the West's?

**Response:** There is a problem with the question. Better. Maybe. But better for whom? It is simply the oil that enables the wheels to turn. I don't believe in development. It is simply a euphemism for what has led to a decline in living standards for the majority of people. It has contributed to the eruption of serious social conflicts. It has been involved in imposing regimes on our people. That is what development cooperation is about, and I don't see why China will be any different. What is a better question is how African countries can play off against one another to improve outcomes.

**Question:** The Bank's debt sustainability framework only considers the cost of financing. It does not consider the rate of return on investments. Have you looked at the rate of return of China's investments as an aspect of debt sustainability?

**Response:** I haven't, but this is an important question, and beyond rate of return and cost of financing, we also need to consider the types of projects, like in social investments.

**Question:** The challenge of development in Africa is one of structural transformation, or in other words, industrial development. Ha-Joon Chang argues that the tools of development are disappearing. If effective aid is keeping Africa where it has been, exploiting primary commodities, is Chinese investment simply more of the same?

**Response:** In exchange for various concessions from China, many African governments are not imposing the types of controls that they ought to be exercising. In Mozambique, for example, China is being castigated for the destruction of the country's forests, but the Mozambican government has failed to set any environmental parameters around the exploitation of these resources. As a result, Chinese companies will operate to maximize their profit, like any type of capital. On the second question regarding the effectiveness of aid and development, development is a process that must contribute to social progress and the emancipation of Africa's peoples, and it is important not to get caught up in the syntax and jargon of aid and aid effectiveness. Effective for whom? To achieve what?

## Theme three: New emerging alternatives for financing development, including private and public vertical funds

***New sources of financing, the broader financing debate and its challenges: Roberto Bissio, Executive Director, Social Watch, Third World Institute***

*Roberto Bissio discussed the moral and financial bankruptcy of the IMF and the growing wealth of the South. He argued that growth is not leading to pro-poor development, but rather the building-up of hard currency reserves that reflect a vote of no-confidence in the international financial system. A key challenge for poverty eradication is for governments to be truly pro-poor and invest in development, while challenging the new conditionalities contained in the World Bank's Joint Assistance Strategies.*

Financing for development is a key issue. Many of us have been working on this topic for many years and were at Monterrey. But focusing on this issue requires looking at the entire field of development finance, from the flows of the aid system and making it more effective, to the leaks of capital flight and corporate transfer pricing, and determining how to plug those leaks. It also means thinking about the current financial architecture and thinking about how we can redesign it for the poor so it works for equity and development.

We heard good news from Amar this morning about sustained economic growth in parts of Africa, how commodity prices are up and inflation is down. This means that money is more readily available in the South. In fact, many countries are now not approaching the World Bank or the IMF for funds. This has thrown the IMF into a financial tail spin. As an increasing number of countries are repaying their IMF debts ahead of schedule, the Fund's loan portfolio and income stream (from interest payments) has shrunk dramatically. To cover the growing annual deficit, the Fund is proposing to fire 15 percent of its staff and to sell a third of its gold stocks - something they long refused to do when civil society argued that the Fund use this gold to pay for debt cancellation. If the Bank and the Fund are increasingly close to financial bankruptcy and morally bankrupt, then they need to close.

There has been some progress in the South in terms of higher headline growth rates, but this has not led to development, to job creation or to poverty reduction. What's more, this growth is highly concentrated in the hands of a few, illustrated by the appearance of more and more southern firms in the Fortune 500 list. And many southern elites fail to pay taxes and do not engage in philanthropic giving. So while the South's economic power has grown to the point where many countries can distance themselves from Washington, poverty reduction, equity and development have yet to be substantively tackled by this growth. Countries are not meeting the MDGs and social indicators.

Instead this growth has been matched by a culture of savings. Developing countries are building up record high reserves in their central banks, buying up US or European bonds, to protect themselves against market volatility. Similarly, in the aid system, the Independent Evaluation Office of the IMF found that in 29 countries in sub-Saharan Africa, seven out of ten dollars are not spent on development-related investments, but rather on domestic and external debt repayments and building up reserves. This represents a vote of non-confidence in the global financial system, but it also precludes investments in development. After urging northern governments to increase aid

levels, the aid does not get spent. Schools and roads are not built. And instead the money sits with governments.

The Monterrey Consensus is significant as it represents a global approach to rectifying these issues - in the wake of the Asian financial crisis and the collapse of Russia's economy - and to putting all these issues together in one agenda. It also opened the floor to civil society working on these issues. So it is encouraging that later this year the parties to Monterrey have agreed to meet again in Doha, and the current banking crisis might give the same impetus to act in Doha that the Asian financial crisis once did in Monterrey. All the issues will be on the agenda again. There will be a negotiated outcome document on the issues and civil society can play a role. The problem, however, is that civil society is not looking. Instead, it is focused on other fora, such as the High-Level Forum on Aid Effectiveness and the Paris Declaration in Accra in September. But while the Paris Declaration represents wonderful principles, the indicators and how they are implemented can work to undermine development and erode national democratic processes.

So what does civil society want to propose looking forward to Doha? How do we understand poverty eradication and how to achieve it? Is it principally about a lack of money or a weak financial architecture, or is it about a lack of economic, social and cultural rights? In my view it is a question of mobilizing domestic resources and redirecting government regulation and intervention towards development, and away from a sole focus on market creation and facilitation. Development is about choices and political processes. To have pro-poor development, you must have pro-poor governments. Yet, while the World Bank's new Joint Assistance Strategies (JAS) have altered the face of conditionality, they have not changed the content. Many of the conditionalities embedded in the JAS are more comprehensive than during the days of structural adjustment. Developing countries can not change these strategies once they are undertaken. In Honduras, the country's Parliament has not been able to pass certain laws because they violate certain conditions in the JAS or could be construed as doing so. This is anti-democratic and anti-participatory and could lead to the further emasculating parliaments. It is time to remind ourselves what we are fighting for.

***John Foster, Principal Researcher, The North-South Institute***

*John Foster discussed the global political context for innovative finance and focused in particular on activities of the Leading Group on Solidarity Levies for Development, the prospects for the Currency Transaction Tax and the need for governmental and civil society mobilization on this topic on the road to Doha.*

Eight years ago, at the Geneva 2000 follow-up to the Copenhagen Summit on Social Development, there was a lot of momentum on innovative financing initiatives and mechanisms. Canadian Parliament had passed a resolution on the currency transaction tax (CTT), often referred to as the Tobin tax. France and Belgium had acted in a similar fashion due in large measure to a very strong campaign by the civil society group ATTAC. And at that Geneva conference, there was a strong civil society push to get the UN to endorse the Tobin tax and set about to implement it. However, the US was totally opposed, forbidding any discussion of global taxation in the UN context. While no call was made for a global tax in the final resolution, the Canadian and Norwegian governments managed to get approval for further studies to be done on a CTT in the context of innovative sources of financing. This made it possible for the UN at Monterrey to agree

to further research the idea of a CTT.

Two years ago, the declarations on hunger and poverty made by Brazilian President Lula and former French President Chirac gave this issue a kick start, along with their decision to support means for financing development. In Chirac's view, the profits of globalization should be taxed and used for the benefit of the people that help generate those profits. In addition, since aid is in flux, we need to generate sustainable and predictable resources for development that will grow independently of the whims of the next finance minister. The outcome of that conference was the formation of the Leading Group on Solidarity Levies for Development, now 50 plus countries.

Innovative financing for development is taking on many forms, looking at issues like taxation, tax evasion, levies, advanced market commitments (AMCs), international financing facilities, remittances, etc.. Some of these are quite positive while others, such as AMCs, remain questionable. In a very short time period, the Leading Group developed a new levy on airline tickets and a new drug purchasing agency, UNITAID, to lower the costs of AIDS, TB and malaria drugs for citizens in the developing world. This development marked the move from concept to implementation thanks to research that had been done earlier. Secondly, by linking to a secondary issue - funding for AIDS, TB and malaria through UNITAID - this new levy was implemented with very little resistance. Thirdly, it was graduated with respect to domestic and international flights. Importantly, it also took on the methodology of a tax with global focus, but being implemented nationally, which meant it could move forward rapidly. Hence, all countries do not necessarily need to implement a tax for one to become effective. The levy has raised \$200 -300 million dollars per year and the growth potential continues.

The Leading Group is also of interest since it is quite open to civil society inputs and discussion. Its discussions typically involve development, finance, health and other relevant ministries. Its presidency migrates every six months, with Brazil, Norway, South Korea and Senegal all having played roles. And finally, each six month period also has a plenary session on a specific topic. A working group on tax evasion and capital flight was established a year ago.

Regarding the CTT specifically, The North-South Institute has carried out technical research on what kinds of revenue might be expected from the CTT at various rates. This work by Rodney Schmidt is based on conservative assumptions, includes contemporary management of the CTT by central banks using their swift central messaging net income system (setting aside some of the objections to the technical feasibility of the tax) and projects a yield of \$33.41 billion per annum on a 0.005 percent levy on all currency transactions - a significant leap from what is currently generated through the airline levy.

So, what would happen if we succeeded? How might it be governed? If these resources came through existing channels, with the same conditions as before, what would be different? Alternatively, how would we as civil society design things so that they were different? The only study done on this by John Langmore and Anthony Clunies-Ross suggests using the General Assembly to set the priorities and the Bank to administer and deliver it.

Looking back at Geneva 2000, a tiny seed was planted that has grown into a substantial innovation in the Leading Group. Just as civil society helped put these ideas on the agenda and implement them, we now need to move the Group and the FfD process forward. This means a number of things: unfreezing the Canadian government's position on these matters; encouraging

the government's participation in the Leading Group; strengthening civil society participation in it; enlarging participation in the existing airline levy; designing mechanisms that could be used to ensure accountability and the effectiveness of new forms of finance; supporting and encouraging the existing working group on tax evasion; finding a Finance Ministry interested in defending the CTT; ensuring that references to these initiatives appear in the final output document at Doha; and energizing a similar discussion on a new carbon tax. Canada stood at the fore of pushing these issues back in Geneva. Eight years later, when will Canada be willing to do this again?

### ***Discussion***

**Question:** The 0.7 percent target for Official Development Assistance was agreed decades ago. But we are still a far measure from fulfilling these commitments. How do you balance meeting these commitments with the other sources of finance you are suggesting?

**Response [John Foster]:** A government that is strongly committed to the Leading Group is probably also falling short of meeting its aid commitments, and is perhaps using its involvement as a distraction from that. But fundamentally, aid budgets are unpredictable, so an attempt to fund development from an incredibly large untapped source could enable less flux and more predictability. These funds were also linked to funding for AIDS and malaria, so as a package, it made a very attractive argument. I don't think this takes away from countries' commitments to meeting their 0.7 percent, and Chirac did say that this should be additional to ODA. But more importantly, we should be reminded by this example of what is possible with the commitment of just a few countries - like France, Norway and Brazil - to also move the debate forward on new issues. It doesn't help meet 0.7, but it is still important.

**Question:** Are additional resources through vertical funds a good thing if they keep coming through the same channels?

**Response [Christina Dendys]:** This is a hot topic. The advantage of vertical funds, relative to sector-wide approaches, is that it is easier to measure their impacts on the ground. There are a few emerging proposals now for diagonal schemes (that would both strengthen health care systems, and target specific diseases). This isn't a black or white issue.

**Response [John Foster]:** The CTT would not be a vertical fund for the straightforward reason that it would involve incredibly sums of money.

## Reflections on emerging themes, issues and challenges

*Speaker: Tony Tujan, Chair, Reality of Aid Network*

We are in a time of change in terms of development finance. The international financial system is increasingly anarchical and aid is fragmented. With that anarchy comes greater financial market instability. And this in turn points to a loss of credibility among older institutions like the Bank and Fund and the OECD Development Assistance Committee.

Together this presents a number of opportunities, threats and risks. While it presents opportunities for flexibility in development finance - countries can pick and choose from a number of financing sources - it also presents greater risks because the rules of the game are changing. For countries with stronger economies and government capacity, this presents a lot of opportunities. But for aid dependent countries, it only presents risks. In the context of aid and aid effectiveness, there are many civil society groups talking about the need to move beyond aid. There is focus on remittances as a new source of financing. There is also the question of China and the threats and opportunities it presents.

Within this, there are no longer two competing views on development - the Washington Consensus vs. the social justice perspective. To this, there is a third middle view, by which governments define their own macro-economic policies, often independently from social justice values. Our challenge now is to present a stronger perspective on our issues to our own governments so that they deal with trade and growth responsibly. Our challenge is to determine how we can elect these governments to achieve the same goals we are seeking to advance?

In terms of opportunities for civil society participation and influence, there are increasing openings at all levels. But sometimes, I wonder whether this participation isn't a ruse, because there is still no new aid beyond what is being provided through debt relief. If aid doesn't increase, then many countries will struggle with finding new sources of financing.

Beyond Accra and Doha, we also need to focus more on the Development Cooperation Forum where there are both opportunities for an intersection of positions on issues, and with buy-in from the World Bank and the DAC.

There are four areas that CSOs need to address: i) how to push for actionable targets for aid; ii) how to achieve further debt cancellation; iii) how to develop innovative financing mechanisms; and, iv) how to achieve aid reform (not effectiveness).

On the latter point, civil society is not looking for aid effectiveness, but development effectiveness, of which aid is only a single part. Aid effectiveness is a technical issue about aid management and delivery. Development effectiveness also isn't about the Paris Declaration. The latter includes commitments for harmonization (that bundles progressive governments like Norway in with the less progressive World Bank) and for alignment (where the Bank whips governments into line with a multi-donor program), but not for reducing conditionality. The Paris Declaration, therefore, represents a risk. Instead, we need an effective aid architecture premised on power from the south.

## Theme four: What will make aid more effective?

### *Country perspectives on ODA and aid effectiveness: Charles Mutasa, Executive Director, Afrodad*

*Charles Mutasa discussed the main principles of the Paris declaration. Using the case of Mozambique he revealed some of the key problems with this framework. To conclude he discussed several steps that can be taken to improve aid effectiveness.*

What are the key events that have led up to exploring the effectiveness of development aid? In 2000, the Millennium Declaration spelled out the Millennium Development Goals (MDGs) and how aid would help poor countries to meet the MDGs. Two years later, the Monterrey Consensus focused the international community on six key areas to development financing, including domestic financial resource mobilization, international trade, financial and technical cooperation and external debt. Since then, there have been discussions around harmonization of donor policies and procedures in Rome in 2003, and then in 2004 on managing for results in Marrakesh. Finally, in 2005, there was a second High Level Forum which produced the Paris Declaration on Aid Effectiveness. Its principles sought to enhance aid effectiveness through country ownership, donor alignment and harmonization, managing for results and mutual accountability of donors and recipients. These efforts were also boosted by the promises of more aid from the Group of Eight in 2005, and by the multilateral debt relief initiative (MDRI).

But what do the principles of the Paris Declaration mean? *Ownership* means looking at nationally-owned development strategies. This includes the adoption of Poverty Reduction Strategies Papers (PRSPs) and mid-term expenditure frameworks. But how “national” these are is debatable and varies from country to country? In a country like Mali or Rwanda, these were developed by external experts and are, at best, donor-designed and driven, but locally “owned”. In countries like Tanzania, Malawi, and Kenya, governments have come up with their own strategies. In terms of *alignment*, donors act through Joint Assistance Strategies (JAS) to match their priorities with the government’s financial management and procurement systems. However, some big donors, like Japan and the US, don’t actually use the JAS. *Harmonization* is an effort to make donors less burdensome to recipient countries by harmonizing their policies, sharing analysis of field missions and conducting joint diagnostic work. However, there hasn’t really been a mechanism to solve the differences donors might have, in say, the JAS. In terms of *managing for results*, this requires both donors and recipients to adopt a results-oriented or measurable development strategy, and develop data and indicators for measuring those results. This is a principle that is hard to realize in practice in the Least Developed Countries where there is a general lack of reliable data. The final principle seeks to ensure that donors and recipients are transparent and accountable for their respective actions in the management and delivery of aid.

How does this play out in practice? Mozambique is a democratic post-conflict state with a population of 20 million and a GDP per capita of \$350. Mozambique has a mid-term expenditure framework and a PRSP. A lot of its aid comes through budget support from 19 donors. In terms of the Paris Declaration, the government is driving the process. It has a national plan to reduce poverty and has hammered out a memorandum of agreement with a large group of donors that covers all aid modalities, regular government-donor dialogue, and annual performance assessments with clear indicators. Independent consultants also come in periodically to review the process.

Unfortunately, the development program continues to be plagued with problems that actually are the result of aid dependence. There are big gaps in terms of capacity. Aid continues to be unpredictable. There are still cases of project funding in agriculture and health, which undermines the budget-based approach difficult. There is also a big donor grouping, but the government still doesn't have a coherent development strategy to determine what it wants to do with the resources when they come in. This poses a challenge to the issue of national ownership and direction. The performance assessments discipline the government when it falls short of meeting its commitment, but not the donors when they fail to meet theirs. Civil society organizations have unclear roles in this policy milieu and the generally low quality data makes results measurement difficult.

Can the Paris Declaration make aid more effective? The case of Mozambique has some important lessons. Public expenditure financing and financial management is a donor-driven idea, but has yet to be internalized within the government. There is limited capacity within the government and limited ability to retain experienced staff due to poor salaries. Mozambique must consolidate systems and strengthen its legal systems. Parliamentarians need to be more actively involved in creating national development strategies.

Consequently, a number of issues are missing from the Paris Declaration. This includes the following: i) shifting the focus on donor-state relationships, to partnerships that involve non-state actors; ii) addressing the issue of politics and how change happens; iii) generating greater coherence by aligning aid-related issues to non-aid issues; iv) truly nationalizing development strategies; v) building capacity for addressing good governance, gender and human rights at all levels of government and locally; vi) better engaging civil society, including in independently assessing results; vii) bringing an end to conditionality and tied aid; and viii) ensuring that more than lip-service is paid to the idea of mutual accountability and participation; ix) addressing aid effectiveness under the auspices of the UN, not the OECD; x) following a rights-based approach to development.

Looking forward to Accra and Doha, we need to look at how civil society can more readily be involved in the Paris Declaration, how local and national capacity can be developed and development strategies nationalized. We need to revisit aid conditionality and look at aid exit strategies in the context of domestic resource mobilization.

***Official Development Assistance as if gender mattered: Lydia Alpizar Durán, Executive Director, Association for Women's Rights in Development***

*Lydia Durán discussed the marginalization of gender in the Paris Declaration and development strategies more generally. She emphasized the need to take gender into account in the creation and implementation of development strategies. She concluded by providing specific suggestions on how the international community can improve aid effectiveness both in terms of gender and development.*

What are the implications of the Paris Declaration on gender equality and women's rights? Disappointingly, gender has been increasingly marginalized in the development agenda. In terms of money, approximately 0.01-0.02 percent of total ODA is allocated towards women in development, and most of those funds have gone to conference seminars and training or towards social sector programmes on education and health. But because of poor donor tracking of aid

allocations, even this amount is approximate. What's more, of total ODA, only 2.4 percent or less than \$400 million went to NGOs in the South. This has an impact on the capacity of civil society to engage in these processes and feel ownership over them.

In terms of efforts within bilateral and multilateral agencies to advance these issues, there have been some significant challenges. The primary focus of women in development has been gender mainstreaming. This is a two-prong strategy that involves the investment in, and strengthening of, development work that explicitly targets women, alongside the mainstreaming of gender equality and perspectives into the policies of bilateral agencies and ministries. In practice, women-specific investments and gender units have disappeared or been cut, national machineries are under-resourced, and the mainstreaming agenda has become a technical box-ticking exercise. The Millennium Development Goals, with a very limited focus on gender, have replaced important frameworks like the Beijing Declaration and the Convention on the Elimination of All Forms of Discrimination against Women.

So we come to the Paris Declaration with weak structures in place for addressing gender issues, and with donors saying they have already "done" gender. The Paris Declaration in fact is "gender blind", referring to gender only once. Clearly the issue was simply added on - like sustainable development and human rights - without any substantive discussions around gender in the process. But gender equality, human rights and sustainable development are central to development. Instead, the Paris Declaration is touted as a technocratic document that would lower transactions costs if implemented and consequently lead to the establishment of a more effective aid system for aid. However, the reality is that the Paris Declaration is highly political. To cite just one example, including the World Bank in the negotiations is cause for concern, because it will use the implementation of the principles to advance its own agenda and vision for development.

We must move beyond "government ownership" to "democratic ownership", which includes civil society groups and national women's machineries in the process. We need to improve mechanisms for meaningful participation throughout the process and for determining how our input feeds into the final outcomes. We need to better resource women's groups and programmes in the South to ensure their participation in these processes. Existing and new ODA management review and performance assessment tools and measures must reflect results-based management monitoring and evaluation, including specific gender equality targets. They must also include consistent and predictable gender disaggregated data. This is an ambitious agenda, but without ambition, we know that many of these issues won't be addressed.

***Aid and parliamentary accountability - a missing link? Rasheed Draman, Director, Africa Programs, Parliamentary Centre***

*Rasheed Draman discussed the important role that parliament can play in creating accountability and informing nationally owned, democratic development strategies.*

Parliament is a key and neglected link in the chain of accountability when discussing aid and development. More aid won't work unless accountability, ownership and democratic participation are at the heart of development. But to ensure this, there also needs to be clear and transparent information relayed from donors, the Bank and Fund, and the executive to parliaments as the basis on which to hold these entities to account. In this vein, Parliament is key player to ensuring

greater accountability.

The exclusion of parliaments from discussions on aid architecture is rooted in the early history of how many of these institutions operated in developing countries. World Bank and IMF officials and donors deal exclusively with executive institutions, and keep parliaments at a distance. In the case of Mozambique, there were even two different versions of the same document being discussed - one by the executive, and one by parliament. Even if they were included, parliaments in many developing also suffer from issues of capacity. They have very few resources, are overwhelmed by the technical and technocratic nature of the discussions, and are often unable to participate in policy formulation.

On the Paris Declaration, despite principles of ownership and accountability, and an OECD DAC survey of developing countries that acknowledged the importance of parliaments in development, parliamentarians have not been given any role in the process. Many are still poorly informed about the Paris Declaration and are simply watching from the sidelines.

While ownership is clearly key, it is still clearly absent. We did a study looking at nine African countries and how involved citizens and parliaments were in designing Poverty Reduction Strategy Papers (PRSPs) and nationally-owned development plans. We found that there was next to no involvement of these groups in the process and that, in many cases, parliamentarians even had very limited access to and knowledge of documents that were supposedly guiding their national agenda. This was also the case in Tanzania. So when the government was working to put together its second PRSP, we worked with parliament and civil society to help develop a strategy for involving them in the process. The government subsequently recognized the role that Parliament could play in developing this strategy. Similarly, in Ghana we helped develop a parliamentary committee modeled after the Canadian public accounts committee. It resulted in Ghana's first ever public accounts hearing. It was broadcast live on television and ministers were required to answer questions posed by the committee. Actions like these represent progress in empowering parliaments *vis-à-vis* executives.

In conclusion, it is important to strengthen parliaments to ensure they oversee the actions of the executive and to allocate them a key role in creating development strategies. There is a real opportunity to make development strategies more democratic and country owned by including parliaments. However, there are also challenges: parliaments generally do not have independent research units, are severely under-funded, are sometimes mired in partisan politics and often cannot muster the political will for change. Despite these challenges parliaments are responsible to the people of the country, and therefore, their inclusion is necessary for the creation of democratic development strategies.

## ***Discussion***

**Question:** A layer of accountability that did not feature much in this discussion is that of donors to recipients. In Tanzania, Rwanda and Mozambique, there have been a number of initiatives to monitor and account for donor activities and obligations. Any thoughts?

**Response [Charles Mutasa]:** As regards mutual accountability, a lot of promises have been made (for example, the 0.7 percent aid target), a lot of promises broken. We brought eight parliamentarians here a year ago to talk with Canadian MPs about mutual accountability and talk in

the Committee on Foreign Affairs about Canada's aid obligations. But often politics gets in the way.

**Answer [Lydia Alp'zar Durán]:** In terms of donor accountability, we need to think as well about the commitments that donors have already made through international agreements that they have signed on principles of gender equality and human rights. Donors still want to include gender equality as a condition, but it is a right. And we need to explore how to build on existing UN and human rights mechanisms to hold donors to account. In this respect, the new document before the Human Rights Council on the Right to Development and the Paris Declaration should be very interesting.

**Question:** Finally we are having a discussion about development which talks about how citizens and their elected representatives hold people accountable. The development debate suffers from a deep democratic deficit. There is an assumption running throughout our discussion that democratic accountability is equivalent to civil society involvement. However, who are CSOs really accountable to? When you talk about involving parliamentarians it shifts the locus of the whole debate from policies - which anyone can develop - to politics. And politics is about power. So what role can development play in enhancing the power of citizens to control their own destiny?

**Response [Charles Mutasa]:** Politics/political will is the invisible hand that guides everything.

**Question:** In the context of dealing with parliament, how do you work with different political parties and civil society?

**Response [Rasheed Draman]:** Many donors shy away from political parties because they are afraid of being seen as partisan. At the parliamentary centre we have started investigating how to involve political parties. This process is challenging because one misstep and you can ruin your reputation and be labeled partisan. There are also challenges with corrupt political parties, where members are busy towing the party line, instead of fulfilling their legislative duties.

**Response [Lydia Alp'zar Durán]:** The accountability of the executive branch to parliament is key, but including civil society is also integral to building democracies.

## Theme five: Beyond the aid box

### ***Taking the bull by its horns: Beyond aid dependency: Roy Culpeper, President and CEO, The North-South Institute***

*Roy Culpeper outlined the merits of domestic resource mobilization relative to the status quo of dependence upon external sources of development finance.*

It is time to think outside the aid box. The North-South Institute's (NSI) thinking on this has been informed by a NSI project on "*Southern Perspectives on Reform of the International Development Architecture*". Research for this project found that issues of legitimacy, ownership and effectiveness were identified as key weaknesses of the current system. It also found that the development paradigm, rather than the architecture *per se*, was seen as highly problematic. So how do we get out of the aid box, as well as the other economic relationships that make up part of the current paradigmatic structure?

Domestic resource mobilization (DRM) is a key element in development financing strategies that would be more consistent with enabling country ownership and widening country policy space. Currently NSI is working with the Financing for Development office in New York in the lead-up to the Monterrey Consensus review in Doha, as well as conducting research with the African Economic Research Consortium and African Development Bank, to chart opportunities for, and constraints to, DRM in Sub-Saharan Africa.

Structural transformation either occurs, or does not, largely due to the efforts of people - civil society, governments and citizens - in developing countries themselves. No amount of aid, foreign direct investment (FDI) or trade will achieve this. While these three things can play a supporting role in developing countries' efforts to promote growth, they can also be a part of the problem. DRM has a number of advantages over these three, and as such should get much more attention in the follow up to Monterrey in Doha.

What were the different channels of financing for development laid out in Monterrey, and what are their shortcomings? International resources, FDI and other private flows can enable access to technology and markets. However, poorer countries have little to offer FDI other than lightly regulated natural resource extraction and cheap labour. These countries also often suffer from weak infrastructure. Trade can act as an engine for development insofar as it facilitates productivity gains, but as Adam Smith argued, the division of labour is limited by the extent of the market. Poor countries often have small markets, so increasing access to trade raises the possibility for increasing market size, incomes and employment in the South. However, the global market is very competitive, markets for commodities and light manufactures - where these countries may have a comparative advantage - are already saturated, and terms of trade tend to worsen over time. This also locks developing countries into a dependence on commodity production and exports. Regarding aid, external resources in the form of grants or concessional lending are desirable for countries. However, aid is still tied to the source (procurement or provision of technical assistance that benefits donor country nationals) or to its use (policy conditionality). Debt forgiveness can staunch the bleeding of resources to creditor countries and can be used to support domestic objectives. But, as with aid, debt relief is tied to a whole series of external conditions. One issue that is missing from this list is remittances. These are an

increasing source of development finance not highlighted at Monterrey. We need to know more about the strengths, opportunities, risks and threats that arise from ever-greater reliance on these private and highly concentrated flows, and the associated skills loss in the South.

In terms of the first issue - domestic resource mobilization - DRM comes about through tax and revenue generation by governments, and investments that governments must make in social and economic infrastructure. In the private sector, DRM also comes through the private savings of households and firms, their intermediation through the financial sector, and their investment in productive activities. The discussion in Monterrey also highlighted the social dimension of DRM - human, not just financial, resources - and the need for investments in human capital to further development. Countries that save and invest more grow faster and reduce poverty more quickly than other countries.

I believe that DRM is more congruent with achieving domestic ownership and leadership, and with developing individual country's own challenges and needs for financing domestic strategies. DRM can be more predictable and less volatile than offshore resources like aid, FDI and trade. It is critical to greater domestic integration, tying together the different sectors and needs of the economy. In contrast, aid and FDI make you more dependent on the choices and priorities of the purveyors of these resources. It also helps build and strengthen domestic markets before countries enter global markets. And if the current international financial crisis has helped illustrate how prone the global economy is to recurring crises, it has also shown that countries that are more dependent on foreign resources are more vulnerable to these crises. DRM can offer some insulation against increasing economic turbulence and uncertainty. DRM offers some encouraging examples, including in Ghana's and Tanzania's tax reform.

In terms of the Monterrey Consensus, DRM is unfortunately undercut by many of the other chapters. Countries are asked to liberalize trade, and do so by cutting tariffs; but tariffs constitute an important source of public revenues, and there are not many available substitutes at play. Similarly, tax incentives to encourage FDI in turn reduce corporate tax revenues. Countries that look to donors for aid revenue may be less inclined to emphasize the importance of domestic tax generation and collection. And finally, in terms of promoting an enabling environment, countries whose monetary and fiscal policies are constrained by the IMF, tend to have high interest rates and no fiscal space in which to undertake social and economic investment. If country-led priorities and ownership are pre-eminent, DRM should be central to developing countries' efforts to implement their goals, Trade -offs and inconsistencies between these should be reconciled.

***A new development paradigm? Alejandro Bendaña, Director, Centro de Estudios Internacionales, Nicaragua and the International South Group Network***

*Alejandro Bendaña argued that to be successful in transforming the current system -and not just thinking outside the box but creating a whole new paradigm - we need to raise consciousness about development issues North and South, to build solidarity and mobilize internationally, to engage critically, and to shift the locus of power.*

Thinking outside the aid box is not enough, because the problem is not the box itself: the problem is the system. In this context, it is question of making aid less, not more effective, and of ending aid altogether, because on the whole aid does more harm than good. We need to be

thinking how development can be more democratic and sovereign. We need to be more political and less technical. We need to talk more about development and less about aid. We need to think more about structurally transforming the system, than about making a more effective band-aid to patch it up.

How do we do these things? We must think less about inflows into our countries and more about outflows from our countries. For every \$1 of aid that goes in, \$10 go out in the form of capital flight. There is at least \$500 billion every year in illegal outflows to foreign banks that have no incentive to collect taxes for our governments. Some scholars even estimate that there is as much as \$950 billion in those banks from Latin America alone. The problems associated with grants, loans, and remittances are miniscule compared to the profits being made by national and multinational firms from asymmetrical trade, the exploitation of cheap labour and the absence of regulation, concentrated land holdings, the domination of markets, tax break privileges, transfer pricing and capital flight. It is not so much about pressing for more investment to go into these countries, than stemming the flow that is coming out from them. We should be thinking about the past 500 years and focus on how rich countries became rich and ask what resources fueled the industrial revolution.

There are plenty of problems, but what I want to talk about today is a new form of debt emerging in Latin America: not sovereign debt, but solidarity debt. It is tied to the emergence of an alternative development model. Some are saying that we need to think more technically and less politically. However, from the experience of the Jubilee South coalition on the debt question we know that rich countries only shifted their views on debt after millions of people mobilized. Mobilization - solidarity - will be required for these alternatives to materialize in a form that is truly "alternative."

How do you build such an alternative? Neo-liberalism is founded on the principle that there is no alternative to it. So the first thing we must do is conceive of an alternative. We have to work together to bury the aid system, not to praise it, and develop the alternatives on those grounds. Secondly, we need to reconceptualize and change the role of the market. Markets (and aid) must be subordinated to democracy and must no longer be the supreme arbiters of social outcomes. This is not a state vs. market proposition, but a fundamentally democratic one. Thirdly, you must be clear about your indicators. In this case, the living conditions and dignity of people living 50 miles from Maputo, Managua or Manila must have changed, or there is no alternative.

I am happy to report that this combination of ideas and political shifts is emerging in Latin American in an initiative that exemplifies a new era of cooperation: the Bolivarian Alternative for the Americas (ALBA). ALBA is basically the product of an unprecedented political decision to place an extraordinary concentration of oil resources and deposits in Venezuela and use them to strengthen regional integration and political unity, and to lessen the dependence of the region on the dominant international trade and financial system. The proposition is that oil wealth can be used to improve peoples' lives and also to reinforce the independence and sovereignty of the region in a collective way. It entails new rules of exchange and cooperation between and among countries. In 2007 alone, Venezuela signed 18 cooperation agreements that totaled \$4.747 billion with countries of the region, chiefly for oil deliveries, for refineries, infrastructure development, housing, agricultural technology transfers, debt cancellations, medical support and aluminum plants. Dominica recently joined the group. For geopolitical and ideological reasons leaders are thinking beyond their national boundaries and looking towards regional solidarity and autonomy

to support processes of profound democratic change, such as those in Bolivia and Ecuador.

Three weeks ago the ALBA bank was created. Though the constituent documents are still being worked out, this new mechanism will help integrate ALBA members through an initial capital base of \$1.5 billion. Its stated aim is to boost industrial and agricultural production and support social projects, as well as multilateral cooperation agreements, among its members. Social and energy projects of the ALBA Bank will address the structural weaknesses in the different economies. Beyond this, Venezuela has agreed to guarantee oil supplies, through Petrocaribe, for 14 countries of the Caribbean and Central America, effectively guaranteeing their energy sovereignty. Instead of paying \$100 per barrel these countries will pay for 50 percent of their oil costs within 90 days. The other 50 percent will become a 25-year loan for governments to invest in infrastructure and social programs at home.

What are the concerns around ALBA? First, it is dependent upon oil extraction, perpetuating a dependence on oil as a source of energy. Secondly, it entails the development of a number of large-scale infrastructure projects that are of concern to indigenous groups and environmentalists, not to mention that the revenue for ALBA is generated from oil extraction. Finally, the constituent documents, agreements and terms of reference for ALBA must be transparent, their development participatory and inclusive, and their processes and decision-making accountable.

Now, on the financing for development and aid effectiveness conferences to be held in Doha and Accra later this year, there are a number of issues Jubilee South and the International South Group Network is keen to raise. Aid is non-starter from our perspective. It is an instrument of domination and for pursuing foreign policy goals. On financing development, emphasis needs to be placed on identifying international impediments (including aid) to domestic accumulation and the domestic mobilization of resources. We need to discuss reparations and restitution owed to the South from the North on account of centuries of looting and exploitation of societies, economies and the environment.

To conclude, to be successful in transforming the current system, we need to raise consciousness about these issues North and South, to build solidarity and mobilize internationally, to engage critically, and to shift the locus of power. Ultimately we need to move beyond discussing the Paris Declaration, to discussing another declaration: the Universal Declaration of Human Rights. And in Latin America we are convinced that there is a new political dawn of certainty and decision that must be supported and extended.

## ***Discussion***

**Question:** Were the debt cancellations a civil society success or were they limited in that they failed to assume the responsibility of the North for centuries of historical, ecological, social and economic debt? Secondly, is ALBA a plan B for Chavez since Brazil has dominated the development of the Bank of the South?

**Response [Alejandro Bendaña]:** Debt cancellation is a paper exercise. It is an intellectual construct that does not really exist. As a mathematical proposition, the amount of resources and blood that has flowed from South-North far overshadows the flows of dollars that have gone North-South. So debt cancellation can be seen as an end to debt domination. But the World Bank

also sees it in terms of debt sustainability, and a process of bringing countries back down to a level where they can continue to borrow and to pay.

ALBA is seen primarily as a political proposition than as a Bank. It is to reinforce intra-regional linkages, to promote import substitution on a sub-regional basis, and to challenge the notion of the private sector and transnationals as a primary driver of development.

**Comment:** If we are talking about a new vision for development, it seems to me that domestic resource mobilization, in the form of new taxation systems in Ghana and Tanzania, has been imbued with the old model of development. Domestic resource mobilization has two sides to it: a quantitative side (how much tax you generate) and a qualitative side (what you do with it to achieve development outcomes). Economic growth has taken place in Ghana and Tanzania, and domestic resources have expanded. But new taxes in these countries are increasingly consumption taxes, while corporate taxes have been reduced. In both countries, however, there are massive natural resources being extracted, which could be a significant source of domestic revenue generation, but are outside of the purview of domestic policy control. And within this is a certain perception of development that does not address the fundamental issue of economic sovereignty of natural resources for development. In both countries, there is growth, but also deepening inequality. Is this type of resource mobilization any better than external sources? The vision Alejandro mentions is important for us in Africa, but right now regional economic communities are primarily being used as platforms for negotiating free trade agreements, rather than as strategies to increase autonomous development.

**Response [Roy Culpeper]:** It is not a question of whether domestic resources should be mobilized, but how, what should be tapped and how can you do it in a progressive way. On the expenditure side, just because you resources domestically doesn't mean you will spend them on sustainable and equitable development. It is a work in progress.

**Question:** The focus on DRM is unquestionable historically and theoretically. But how do we create structures that allow that to happen and focus on the national project?

**Response [Alejandro Bendaña]:** DRM requires three things: a state in favour of it; an environment that allows for it; and a strong social majority mobilized behind it. But there is still a debt owed from the North to the South and a necessary transfer of resources mobilized in a way that people decide who benefits, what gets mobilized where and when.

**Response [Roy Culpeper]:** What we need is alternative ideas. When we reject free trade agreements, we shouldn't reject trade. We should promote, for example, trade that isn't reciprocal, but asymmetrical and more favourable to poorer countries. We need structures that allow for both domestic resource mobilization and FDI, and this is a work in progress.

## Concluding remarks

*Gerry Barr, President and CEO, Canadian Council for International Co-operation*

The past two days have allowed us to map the terrain of development financing and foreign aid, new actors and key themes, and to canvas development financing as a system articulated now through institutions old and new - the Fund, the Bank, new emerging institutions like the Bank of the South, new funds like the BRICs countries, and new and innovative mechanisms for financing development. We have also been prompted to take a critical review of the concept of aid effectiveness, to push beyond aid and to think about development and the politics of development. This all occurs within the context of a heightened discussion around the Paris Declaration, its opportunities and risks, just as donors track towards a review of the Declaration.

The way forward is challenging. We need to make aid less eccentric, more predictable and coherent, and frame ownership in terms of democratic ownership. But how do we move from the plumping of aid to the politics of development? How do we deconstruct the banal and technical language of the dominant discourse around development, and unpack the ways in which that language continues to be freighted with political consequences - through vectors like Joint Assistance Strategies? How do we add the positive politics of citizen engagement? How do we manage aid flows to enable effective and accountable relations between governments and citizens so that the democratic ownership of development plans is increasingly reflective of the agendas of communities, regions and countries? How do we have a development discourse that takes account of civil society organizations and social movements in their diversity as development actors in their own right? How do we invent a new measure of results and efficacy that accounts for the promotion of citizen agency, the realization of human rights, and the development of more autonomous and sustainable communities?

We have touched on many of these issues here, and we look forward to discussing them further on the road to Doha and Accra.

## **About the Halifax Initiative Coalition**

Canadian NGOs formed the Halifax Initiative Coalition in December 1994 to ensure that fundamental reform of the international financial institutions (IFIs), namely the World Bank and the International Monetary Fund, was high on the agenda of the Group of Seven's (G7) Halifax Summit. Today the Halifax Initiative is a coalition of 20 development, environment, faith-based, human rights and labour groups. It is the Canadian presence for public interest research and education on the IFIs.

Our members include:

Canadian Catholic Organization for Development and Peace  
Canadian Conference of Catholic Bishops, Social Affairs Office  
Canadian Council for International Co-operation  
Canadian Friends of Burma  
Canadian Labour Congress  
CAW-Canada Social Justice Fund  
CUSO  
Democracy Watch  
Falls Brook Centre  
Friends of the Earth Canada  
Kairos: Canadian Ecumenical Justice Initiatives  
MiningWatch Canada  
The North-South Institute  
Oxfam Canada  
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RESULTS Canada  
Rights & Democracy  
Social Justice Committee  
Steelworkers Humanity Fund  
World Interaction Mondiale



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