

Which Global Architecture to Redress World Inequalities?

Keynote Speech

Introduction

There are seven main challenges that face the system of global governance today. These are:

1. The erosion of moral authority and military effectiveness of the US.
2. Global systemic economic and financial crisis
3. Competition for global resources
4. The double paradox of development in the South - the emergence of the new rich nations and the recolonisation of the weaker nations.
5. The Crisis of Climate Change
6. Global Social Crises. This includes migration issues and population movements.
7. Intensified conflict on Innovation and Access to Knowledge

These are large issues all of which have profound implications for global governance. Any one of these would require much reflection and analysis. The second issue mentioned above - the global systemic economic and financial crisis -- for instance, is a marathon issue. The subprime mortgage crisis in the US is only a surface phenomenon of a deeper malaise in the entire financial architecture of the Bretton Woods system. The present effort to reform, for example, the IMF does not even begin to address the real issues. There is a fundamental shift of power and wealth in favour of the South, and the palliatives offered by the North to reform the IMF-World Bank are likely to simply prolong the day of reckoning.

In the meantime, an important aspect of the economic and financial crisis is related to the attempts being made to redesign the instruments of *aid architecture* with the initiative taken by the OED in the Paris Declaration. It is this issue on which I shall focus in this presentation.

Towards the end I would dip into the question of the “*ethic of responsibility*”, because one cannot talk about reforming global governance unless there is some agreement on shared values. These presently are values that come from the dominant northern discourse. Although many in the South do share some of these values, there is lack of adequate participation from the South, and therefore lack of a sense of ownership. We need to address the question: what does “responsibility” mean in the present evolving global context?

How the issue of aid effectiveness got onto the agenda of global discourse

This issue was put on the global agenda primarily for two reasons. One was the need to simplify the complex system of aid administration and to reduce transaction costs. Yesterday someone had said at this meeting (I think it was the EU Commissioner, Louis Michel) that in 2005, Tanzania hosted 541 donor missions, and had to account to the donors for 700 projects managed by 56 parallel implementation units. Clearly, there is a need to simplify the system of aid administration to make it more “effective”. The second reason for putting the “aid effectiveness” on the global agenda comes from demands from the citizens of countries providing aid finance to account for the spending of “aid” funds. They are asking their governments: why are they giving “so much money” to Africa while there is corruption and violation of human rights in these countries? Moreover, aid does not seem to have taken Africa out of poverty. So “donor” citizens are asking for more discipline and accountability in the administration of aid.

What is the new aid architecture proposed by the OECD?

Because of time, I shall be brief and draw attention to some of the highlights of the aid architecture proposed by the OECD in collaboration with the World Bank – the Paris Declaration. (For those who would like more in-depth analysis may want to read the Report by Roberto Bissio, “Paris Declaration on Aid Effectiveness”, Human Rights Council, Eighth session Working Group on the Right to Development, High Level Task Force on the implementation of the right to development Fourth session, Geneva, 7-15 January 2008 A/HRC/8/WG.2/TF/CRP.7).

The Paris Declaration (PD) on Aid Effectiveness was adopted in March 2005 by an intergovernmental High Level Forum convened by the Organization for Economic Cooperation and Development (OECD). It aims at taking "far-reaching and monitorable actions to reform the ways we deliver and manage aid". By mid-December 2007, 115 countries are listed in the OECD website as having endorsed the declaration. The PD is a non-binding declaration and does not establish a partnership as such, in that it does not constitute a freely negotiated contractual relation between the signatories. And yet it is expected that at the High Level Forum to be held in Accra, Ghana, in September 2008, a “text” based on the PD will be “negotiated” and endorsed by Ministers from developing countries, and the outcome fed into the FFD (Finance for Development) process in Doha towards the end of the year.

In the words of Bissio, the Paris Declaration “creates a new level of supranational economic governance above the World Bank and the regional development banks.”

What, then, are the highlights of the Paris Declaration? In the following presentation, I shall put the term “donors” and “recipients” into inverted commas, for these are highly contentious terms to describe what is in fact an extremely complex relationship.

First, there is a *shift from project lending to programme based lending*. There are three inter-related issues here:

- a) A pooling of donor resources;
- b) An injection of this pool into the national budget -- direct budget support (DBS). The “donor” countries pool the resources into one Joint Assistance Strategy (JAS) for each country. The “recipient” countries will need to discuss their strategies with the “donors” and the World Bank.
- c) Provision of scaling up activities and funding, based on collective donor assessment of good or bad policies. The assessment will depend on whether the recipient countries engage in policies that are acceptable to the “donors”, for example, regarding health matters, (AIDS programme, for instance), and the achievement of the Millennium Development Goals (MDGs), etc.

A second aspect is *the rating system*, a methodology that is provided by the OECD /DAC and the World Bank in order to test the “effectiveness” of aid in relation to both public finance management and procurement system. There are twelve criteria or “indicators” by which to measure the performance and progress of “recipient” countries. These tests are graded on a scale from A to E. They will use the recipient country systems to evaluate if they meet agreed donor and other standards criteria. If they do not meet the criteria, then the budget execution and procurement will use the tests provided by the OECD DAC and the World Bank. For example, if the national procurement system is not good enough, they will use an open tender

system in order to undertake international procurement, something that the developing countries have already rejected in the context of the WTO negotiations. In other words, PD brings from the back door what the developing countries have rejected in the WTO.

What are the implications of the new aid architecture?

Some of these are:

First: the *UN is excluded from the system* and it therefore lacks any leverage to promote its priorities. For example, the ILO's internationally recognised concept of "decent work", does not appear as one of the objectives in aid evaluation. Also many of the MDG related objectives do not feature into the performance criteria, especially MDG 8 that deals with North-South relations.

Second: the *performance conditionalities* are prepared by donors. In the case of Tanzania, for example, there is a 12 pages matrix, plus 49 pages on accounting on good progress. The matrix is done from outside. There is no real mutual accountability, contrary to the stated objective of the Paris Declaration. If the "recipient" countries do not perform, they are subject to penalties. On the opposite side, however, if the "donor" countries do not perform, there are no penalties. On the issue of loan risk, for example, in normal business transactions, banks that lend money take risks as well as the borrowers. If the borrowers do not pay, the banks also have to pay a price. Indeed, that is what is happening with the subprime mortgage crisis in the US and Europe; the banks are paying the price for it as well as the borrowers. But in the aid architecture proposed by the OECD, the risks are all taken by the "recipient" countries only.

Third: the *compliance tests* are administered by the World Bank (on for example procurement) that do not use the economic and social policies of the "recipient" countries. These are externally imposed tests based on World Bank-devised procurement assessment methodology. There is no recipient country ownership of these tests.

Four: on the *governance aspects*, it is once again the "donor" procedures that are the ones that determine the method of harmonization. These are procedures obtained from outside of the realities of the "recipient" countries. Although the Paris Declaration talks about "ownership", in reality it is the opposite. The harmonization processes are externally set.

Five: there is a danger that if the performance of the "recipients" falls short of the "indicators", then the *direct budget support* can become the instrument for stopping flow of aid when a country fails to meet the targets set by the "donors" and the World Bank. Recent World Bank data (World Bank Comprehensive Development Strategies and Aid Effectiveness Reviews – AERs) shows that in the Poverty Reduction Strategies (PRSs) assessment undertaken by the WB, "Few of them provide the level of operational detail that specifies how objectives are to be achieved through policy actions." Growth performance is apparently much lower than expected by the donor community. The implication is that if that is still the case by 2010, the donor countries will demand "better performance" from the "recipient" countries, or they could stop aid.

These are only some of the implications of the "aid effectiveness" project.

*The conclusion is unavoidable: under the pretext of making aid more effective and accountable to the citizens of the “donor” countries, the “Aid Effectiveness” project under the Paris Declaration is a **form of collective colonialism** by Northern “donors” of those countries in the South that (because of their weakness and vulnerability and psychology of “dependency”) allow themselves to be subjected to it.*

I could elaborate further if there was time, but I do want to spend a few minutes on the subject of “responsibility” which, in my view, is at the centre of the discourse on reforming global architecture, including the issue of “aid” effectiveness.

The concept of responsibility

The objective of responsibility is twofold: to promote social justice and to promote fairness.

Responsibility to promote social justice is based on the principle of distribution, the equitable allocation of resources, and the development of global and national productive forces, so that at all levels – global, regional, national and sub-national -- the resources are utilised for the benefit of the people.

Responsibility to promote fairness is related both to the *processes* by which decisions are taken, and the resultant *outcomes*. Decisions should be fair and taken in a fully participatory manner. A decision should be one where all stakeholders are involved, so that it is legitimate and “fair”. (There is no time to elaborate on the concept of “fairness”, but the nearest to what I have in mind is captured in the writings of the English philosopher, John Rawls). In the World Trade Organisation (WTO), for example, there is a persistent controversy on decision making processes, because despite being a “member-driven” organization, the WTO often takes decisions in “green rooms” or through procedures that are, often, conspiratorial and exclusive.

The concept of responsibility should be applied at five levels to be effective and fully meaningful: at a systemic or global level, at the level of South-South collaboration, at the regional level, at the national and at the sub-national level.

I will focus only on *responsibilities at the systemic level*, the responsibility to provide for “global public goods”, and I limit myself to giving a few illustrative examples.

- There are, above all, the *responsibilities arising out of international treaties and conventions*, such as the Montreal Convention, the various Human Rights conventions, the Right to Development, and the Kyoto Protocol.
- There is the global responsibility of *providing drugs and vaccines for the poor* of the world. This is not a part of “aid”; it is part of systemic responsibility of the international community to ensure that minimum health standards are maintained globally and medication is secured on fair prices, affordable by people from those that claim “proprietary rights” over these drugs.
- There is the internationally recognised *responsibility to build the capacity of weaker countries to negotiate in the global arena*. The weakest countries do not have the capacity to negotiate, for example, in the WTO. The principle of “reciprocity” between unequals that is applied in the WTO is simply “not fair”. In rulemaking

institutions like the WTO, it is important to remove the inequities arising out of asymmetric power relationships. This can be done through full participation of all stakeholders, through application of special and differential provisions in the entire system of global trading, and through providing the means by which weaker countries build their capacity to negotiate without this being classified as “aid”. This is not aid; it is part of systemic “responsibility”.

- In the current negotiations going on between the African, Caribbean and Pacific (ACP) countries and the European Union, many ACP countries do not have the capacity to negotiate in a manner that could be regarded as “fair”. There is an asymmetric power relationship. In this situation, there is a responsibility of the international community to ensure that the weaker members do not get exploited on account of the fact that they do not have the capacity to negotiate on equal terms. The relationship between Europe and Africa is based on a historically structured relationship that goes back to the colonial period. If African countries have to adjust to a new dispensation directed by the EU, then they should be paid compensation, or adjustment costs, and this must not be classified as “aid”, for it is not. Compensation is not aid in any dictionary.
- The same goes for *climate change*: African countries are not responsible for historically accumulated global warming, and therefore, the global community has responsibility to provide compensation to Africa. This is not “aid”; it is part of “public social goods” that comes with “systemic responsibility”.
- There is the systemic responsibility for the provision of *international liquidity* as a “global public good”. There is no global system of financing assets transfers and risk management. The IMF and the WB were not created for this purpose. The private companies that carry out risk management do so on speculative basis. This is one of the causes of the present financial crisis in the US and Europe. The Basel system on the other hand is anti-development; it must be restructured to make it development consistent.
- There is an international *responsibility to facilitate development strategies that are not aid dependent*. The 0.7% of GNP as ODA is a commitment made by the developed countries; it is a political demand that the Civil Society in the North must continue to make from their governments (as their ethical responsibility), but, by all evidence of the last 20 years and more, it is clear that very few countries in the North intend ever to fulfil this “responsibility”. The 0.7% is like the smile of the proverbial Cheshire cat: the cat has disappeared, but the smile lingers on. The “commitment” is reduced to mere rhetoric that is repeated at every global conference on aid and development. Time has come to accept this reality, and move away from “aid dependence” and this should now become the new “public good” at the global level, i.e. the responsibility to facilitate development strategies in the South (especially in Africa) that is not aid dependent.

Conclusion:

The world has moved on, but the system of global governance created at the end of World War II has got jammed by vested power interests unable to countenance change. The world has moved from bipolarity during the cold war to monopolarity after the collapse of the Soviet

Union, and now to multipolarity, but without an effective or legitimate global power to hold the system.

Two-thirds of humanity, in the meantime, have lifted themselves from colonial domination to political independence, but their development has been uneven. Some of the bigger countries, such as China, India, Brazil and the Gulf countries have become wealthy enough to provide finance to bail out banks in the North in a serious credit crunch. Others, especially in Africa, are now in the verge of being recolonized under the EU-ACP Economic Partnership Agreements.

The domineering attitude of the North, however, has not changed. The North seeks to co-opt the new rich of the South on a pre-determined agenda in a “project inclusion”, especially on matters related to trade, aid and human rights, whilst making no concessions on vital matters of trade, investments, technology transfer, climate change, and the reform of the UN system. Hence North’s “project inclusion” will fail. The only way forward is a genuine dialogue between the North and the South for a long term transformation of the global architecture (which could take twenty years or more), but, in the meantime, it is necessary to seriously address issues of altering the aid and finance for development architecture in 2008. Within the context of the UN’s “Finance for Development”, the OECD inspired and driven process of “Aid Effectiveness” of the Paris Declaration must be subjected to serious and critical scrutiny.

Only a “fair” global system arising out of an inclusive dialogue between various stakeholders from the global to the local levels, and based on a shared concept of “responsibility” to fulfil recognised and recognisable “global public goods” will steer the world away from what otherwise looms like catastrophe.

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