Financing For Development

by

Sir K Dwight Venner, Governor, ECCB

(3 August 2001)

The Caribbean countries now find themselves having to make fundamental adjustments to the structure of their economies and financial systems in response to changes at the global level. The region is not alone, as all countries, whether developed or developing, are having to adjust and adapt to the phenomenon we call globalisation. The fundamental question which we have to answer is, what degrees of freedom do we have in making changes? Change is constrained by the social and political environment in which we live as well as the stage of economic development we have attained.

The United Nations Conference on Financing for Development gives us a chance to highlight several fundamental issues, not only in the financial sphere, but in areas such as governance and the reduction of poverty which have a direct bearing on our development prospects.

The United Nations as the instrument of the international community is in the forefront of the fight to create a world in which poverty is eradicated and the rights of people, particularly to social and economic progress as well as political freedoms, is assured.

The Millennium Summit was the culmination of a decade of critical conferences over the preceding decade to address the fundamental problems facing humanity. The summit set very specific international development goals to be achieved by the year 2015. The goals are to:

(a) Halve the proportion of people with income of less than one dollar a day.
(b) Halve the proportion of people suffering from hunger.
(c) Halve the proportion of people without safe drinking water.
(d) Ensure equal access to all levels.
(e) Ensure access to all levels of education for girls and boys.
(f) Provide universal primary education.
(g) Reduce maternal mortality by three fourths, and mortality among children under five by two-thirds.
(h) Begin to reverse the spread of HIV/AIDS, malaria, and other major diseases.
(i) To improve the lives of 100 million slum dwellers.

The Millennium Declaration from the summit, in contrast to other such events, addressed the question of mobilising the financial resources required to achieve the international development goals as laid out above.

The Conference on Financing for Development would be the key event in addressing this very critical issue of resource mobilisation for development. It must be noted at this point that goals have been set in the past of 0.7% of GDP in the provision of aid to developing countries. However, apart from the Nordic countries, none of the largest and most developed countries has come anywhere near this target. One can only assume that with the goals stated up front, there will be an attempt to link these to the contribution of those countries which are described as developed and which must be persuaded to participate meaningfully in the programme.

The high level panel on financing for development posed the following questions:

"What policies must developing countries adopt?"
"What kind of help from the industrialised world would be most helpful to them?
"Does the world have the right international institutions?"
"And if so, how to ensure they play their proper role?"

The report divides responsibilities for addressing these issues between developing countries and the international community. The critical issue here would be the balance of responsibilities between the two in a given time and under given circumstances. One could posit that three major institutions in the international community should collectively review this balance, namely, the United Nations, the Bretton Woods institutions and the WTO.

The United Nations and its associated agencies have a responsibility for general developmental and humanitarian issues; thus setting the general environment for addressing the major issues. For example, the FAO has responsibility for agricultural development and the nutritional requirements of the developing countries. A complementary role is played by the WHO in addressing health issues which impact on poverty and productivity. UNESCO plays an overriding role in addressing the insertion of education, science and technology into raising standards of living. Mention should also be made of the peacekeeping and refugee programmes of the United Nations which provide significant public international goods.

The Bretton Woods institutions operate in the arena of finance. They too provide international public goods in the prevention and management of financial crisis as well as the provision of finance on reasonable terms (IDA) to lift countries out of poverty.

The WTO functions to address the question of a more liberalised international trading system that should allow for developing countries to benefit from trade so as to raise incomes.

These three institutions have adjudicating responsibilities in determining the conception and implementation of the development agenda and should be held to a high level of accountability.

The developing countries must play their part as, in the final analysis, their development will depend on their own efforts. Their responsibility lies in creating the correct environment for growth and development. This can be specifically identified in the conception and implementation of the appropriate policies. These would comprise for instance, the state of governance, macro and micro economic policies, the public finances, the condition of the financial system, and other basic elements of a country's economic environment.

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The ability to put such policies in place is clearly a function of the capacity of the policy-making institutions in countries. This varies between countries at various stages of development. This is where the role of the three institutions listed above are crucial in determining the level of institutional capacity and providing assistance for upgrading it. This is where the entire international community both directly and in collaboration with the three international institutions need to play a major role. More funding without the building of capacity will essentially be non-productive.

This brings us to a critical element to which the international community, and increasingly the developing countries, are giving high priority, namely governance. The establishment of systems based on democratic principles, constitutional safeguards and the rule of law are the platform on which sustainable economic and social development is built.

Macro economic and fiscal policies are next in line as without economic and fiscal stability the possibilities for both domestic and foreign investment to fuel growth and development are fairly limited. In fact, it is fair to say that these represent self-imposed conditionalities which every country must impose on itself.

In the country's fiscal stance however, it must provide for a balance between economic and social expenditure. This is the function of a properly conceived and executed public sector investment programme aimed at providing the infrastructure, both physical and social, to facilitate economic growth and development.

The capacity to finance such programmes must involve both public domestic savings and a variety of external resources, ranging from grant funding for the much needed social programmes and concessional funding for those countries which need economic infrastructure which have long gestation periods.

The financial systems in developing countries vary depending on the stage of economic growth. Some are therefore quite rudimentary and dominated by commercial bank financing. There is a need in such cases for a diversification of the financial system to ensure that there is equity capital which is, other things equal, more appropriate for long term financing. Along with diversification, there should be an appropriate and effective regulatory regime which can provide for the stability of the system.

In summary, the policies of the developing countries should aim at providing a stable environment to facilitate domestic and foreign investment and lay the platform for sustainable development.

The burden on the international community, or more specifically the developed countries, has to do not only with the transfer of resources in their own self intent, but also to generate the kind of economic growth that will relieve them of that burden or share it with countries which have developed.

The flow of resources from developed to developing countries usually takes two forms, concessional or commercial. The balance between the two varies with the stage of development of the recipient country and the political philosophy of the country where the resources reside.

The United Nations, and the World Bank have classifications of countries which distinguish between stages of development. However, classifications though useful, sometimes do not take into consideration such issues as size and its correlated vulnerability.

In the case of the Caribbean, apparently high per capita incomes do not take into consideration the size and vulnerability to both economic shocks and natural disasters of this region. The region requires access on concessional terms for social infrastructure and disaster mitigation without which economic growth and development would be sporadic and could not be sustained over long enough periods to eradicate poverty. Developing countries therefore need to increase their contributions to institutions which provide concessional funds, such as the World Bank and regional development banks like the Caribbean Development Bank (CDB), and/or make direct contributions to particularly needy countries or regions. In this regard, two significant issues need to be addressed, namely the quantum of concessional aid and, as a complement, aid coordination among donors to improve the delivery and effectiveness of such flows.

We have already alluded to the target of contributions of aid of the developed countries set by the Pearson Commission of 0.7% of GDP. It is critical that this should be bought to the attention of the international community once again. The high level committee estimates that if this target is achieved, it would result in an increase of some US$100 billion per year.

The committee posited that there were four vital roles which the international community had to play and for which this increased contribution by developing countries would make an impact:

(a) Helping to initiate development in countries and sectors that do not attract private investment and could not afford to borrow extensively from commercial sources.

(b) Coping with humanitarian crises.

(c) Providing or procuring the supply of global public goods.

(d) Confronting and accelerating recovery from financial crises.

Recent experience shows serious under-funding in all of these areas as well as a disproportionate distribution in case (d) to countries which have geographical significance.

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The issue of debt looms large in this discourse on financing for development as despite the HIPC initiative, the quantum of debt relief for very poor countries and some middle income countries have been grossly inadequate. Countries cannot grow out of debt, as some assume, with such a heavy encumbrance of debt. The international community must adopt a more meaningful approach to this issue if growth is to resume in these countries at levels which would have an impact on the levels of poverty.

The high level committee has made a significant contribution on what they term systemic issues encompassing global governance and the integration of international economic system. These are critical issues in a world in which, while liberalisation and globalisation have had marked effects on the transmission of both progress and crises, the distribution of decision-making powers remains concentrated in the hands of a few countries.

In an era in which financial crises can reverberate around the world because of the integration of markets and/or the current situation of the major reserve currency, there is as yet no corresponding mechanism to effectively mitigate such events.

The search for the new financial architecture amounts to merely tinkering with the existing system. The urgency with which this was pursued during the Asian crisis is in marked contrast to the current situation as that crisis has abated. In fact, the interests of the OECD group of countries seem to have gone in a direction which was not particularly helpful to developing countries.

Despite the worldwide recognition of the dangers of money laundering and the need for good regulatory standards, there would seem to be a disproportionate insistence on the responsibilities of the developing world in this regard. Bearing in mind the lack of capacity in these countries, there is clearly a strong case for the transfer of technical assistance to facilitate the building-up of capacity in these areas.

However, the issue of harmful tax practices is of a different order implying the attempt to erode the fiscal sovereignty of countries in pursuing their development goals.

These actions by the OECD representing the industrialised countries are clearly counter productive to efforts being taken in other spheres to bring about sustainable development. The high level committee has omitted the issue in its report and this is a very serious omission. To the extent that countries are black listed and made the targets of advisories and warnings, the international financial community would not be likely in those circumstances to transfer capital either on concessionary or commercial terms to those countries. This issue clearly needs to be addressed by the high level committee and the conference on finance for development.

In conclusion, it is clear that new institutional arrangements, new sources of concessional financing and new financial products and markets to transfer financial resources from rich to poor countries is a critical issue which can only be resolved at the international level. There is a critical balance which must be kept between the efforts of poor and rich countries and a new global governance structure to ensure that this balance is arrived at and maintained. It is incumbent on the international community to ensure that the goals of the millennium declaration are met within the stated timeframe.