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A Development and Research Agenda for the Poorest Countries

Roy Culpeper

The title of the conference from which this volume emerges is about a search – a search for a new development agenda in the post-Washington Consensus period. My principal contention is that there are not many people who are engaging in such a search, and it is also my contention that Doha, Monterrey, Johannesburg, Cancún did not do much to advance the search. My colleague at the North-South Institute, John Foster, referring to the paucity of new thinking embodied in the Monterrey Consensus, called it “the Washington Consensus wearing a sombrero”. And as Brian Kahn observes in this volume, Monterrey has not really generated too much in the way of additional ODA flows to date either. The UN Millennium Summit of 2000 with its Millennium Declaration and the Millennium Development Goals is perhaps the most singular contribution that has been made towards a new development agenda among the whole list of meetings and activities that we have seen. I will return to this point shortly.

In these brief remarks I will argue that the absence of a search for a new development agenda is most evident when it comes to the poorest countries and the poorest people. What this suggests to me is the need for research: we don't really know enough in order to generate the solutions or the policy frameworks that we need to address the problems of the poorest countries. So I think that the place to start is with more, and more focused research on the particular problems of the poorest countries. This is not particularly surprising because, as has been pointed out, the Washington Consensus was born in the specifically Latin American context. Therefore, we should not be surprised that the

Washington Consensus was not really appropriate to be applied to the problems of the poorest people and the poorest countries.

Add to this the fact that the poorest people and the poorest countries have tended to be the least positively or the most negatively impacted by globalisation: Brian Kahn is referring in Chapter 17 in this volume to commodity shocks and these could cumulatively add up to some 20 percent of GDP in poor countries. Even though middle-income countries are also subject to such shocks, they are much smaller in relative terms.

What we are faced with particularly in the poorest countries is what Bill Easterley has called the “elusive quest for growth”. The reason that the quest is so elusive, it seems to me, is growth’s location specificity as well as its path dependency. Thus, if as some argue there are “poverty traps” inhibiting growth, these tend to be very specific to the geography and to the history of the people and the regions in question.

Furthermore, there is a need for more interdisciplinary approaches and research on growth and poverty beyond economics. Some economists seem to feel growth and poverty are primarily economic problems, but the fact is that economists really need the cooperation of political scientists, sociologists, geographers, historians, and anthropologists, if we are going to get anywhere in understanding and resolving the problems of the poorest countries.

What I would like to do next is to focus on a particular policy vehicle that has emerged in the context of the poorest countries, which offers both opportunities and challenges. What I am referring to is the Poverty Reduction Strategy Paper (PRSP), which was born as part of the HIPC Initiative of the late 1990s and early years of this century. Subsequently I will address the issue of policy coherence, and end by looking at the need for further research on some key issues.

The Challenges of PRSPs

It is important, first of all, to acknowledge the PRSP, which is now required of all low-income countries, as a significant innovation in the development policy dialogue. Here we have a vehicle in which government, civil society and the private sector are being challenged to engage in a process of planning. Now this is very interesting: planning is suddenly back on the agenda. It is not the command-and-control planning that got such a bad name, but it is planning all the same – an experiment in strategic planning for the poorest countries.

But is it an experiment that is likely to work?

If we look at the first generation of PRSPs, I think the probabilities are fairly low that they will get anywhere close to achieving their objectives. The first generation of PRSPs suffered, as have many middle-income countries, from the application of Washington Consensus types of conditions, based on the assumption that macroeconomic stability and an enabling business environment will lead somehow to spontaneous growth, particularly growth led by private sector investments. This approach has not worked well in the middle-income countries in Latin America; it has not worked at all or at least to a much lesser extent in the poorest countries.

In this respect, unfortunately, one is led to the conclusion that the PRSP is not that distinct from its immediate predecessor, structural adjustment lending, of the 1990s and 1980s. Additionally, the ambitiousness of the PRSPs is indicated by their target growth rates in the order of 6 to 8 percent, in comparison with actual recent growth rates ranging from 3 to 4 percent, which themselves are a huge improvement in Africa over growth rates of a decade ago. So we have gone from negative or zero percent growth rates to 3 or 4 percent, and suddenly we are aiming for something twice that order of magnitude.

It is difficult to see how these kind of targets could be met given the paucity of new ODA forthcoming from Monterrey, the continuing constraints on other kinds of official financing, and a huge shortfall of domestic savings and investment.

As mentioned, the economic core of PRSPs remains based on the objectives of stability and fiscal consolidation, which tend to militate against growth. Even though, as has been pointed out, inflation is still quite high in a couple of countries, in many African countries inflation has not been too bad. So a continual emphasis on monetary and fiscal stringency in the PRSP is not contributing to these very ambitious growth targets.

Add to that the fact that terms of trade and natural shocks present a huge challenge to the growth of most poor countries. Altogether the quest for growth in poor countries is not only "elusive," it is forbidding.

I would like to point out in passing that there are nonetheless some very important divergences from strict orthodoxy, in the first generation of PRSPs. For example, in the case of Uganda and Zambia, the possibility of some fiscal deficits has been allowed for. If you look at the PRSP in Mozambique and Tanzania, you have the planning for social safety nets. This is something new in the least-developed country context. And in the case of Mauritania there is the objective of "fiscal balance in the long term".

I think it is fair to say that both the IMF and the World Bank have recognised that there is a crying need for more research and more creative approaches when it comes to the macroeconomic core of the PRSP – if indeed the objective is pro-poor growth, with the particularly ambitious target range 6 to 8 percent.

A final and obvious comment is that PRSPs and the Millennium Declaration and the MDGs are on different institutional tracks. It is not hard to understand why. The PRSPs are a product of the HIPC debt relief initiative led by the Bretton Woods institutions. The MDGs are a product of the many international conferences of the 1990s, led by the UN. Yet there is the potential for great complementarity: the MDGs articulate the objectives, or “the what”, while the PRSPs articulate the means, or “the how”. Clearly, these two initiatives must be brought together, so that in each country, the PRSP is seen as the specific set of policies and action plans that will help to realise the Millennium Development Goals.

Policy Coherence, But Around the Right Objectives

Next, I would like to emphasise the need for greater policy coherence, both within individual donors at the bilateral level, and among multi-lateral agencies. The eighth MDGs call specifically on donors, to do their part in creating an international environment conducive for pro-poor growth, looking across the whole spectrum of their policies, not only their aid policy, but their trade policies, their investment policies, and so forth. We just could read from Zdeněk Drábek's chapter about the most egregious example of the lack of policy coherence, agricultural subsidies amounting to at least 360 billion dollars a year, juxtaposed with the relatively puny amount of ODA totalling 50 billion dollars. Policy is not coherent when the impact of the agricultural subsidies is to undermine the economic viability of the world's poorest people and countries – which, in the meantime, ODA from the same countries is trying to bolster. At Monterrey it was estimated that in order to achieve the MDGs at least double that amount of ODA is required; it is unlikely that this is going to happen. A perfectly rational but highly unlikely solution would be for donor countries to reallocate resources from agricultural subsidies to ODA. In our discussion on Asia I suggested that given the huge pool of reserves in East Asian countries of 1.8 trillion dollars, perhaps we should put on our thinking caps and reconsider recycling of the order that the world undertook in the 1970s, the last time we had such huge international disequilibria.

Back to the point of policy coherence, the challenge for donor countries is to ensure that their aid, trade and export credit insurance agencies, along with their investment promotion agencies, all sing from the same song sheet with respect to their policies toward developing countries, since they do not, as a rule. A very imaginative index has been created at the Centre for Global Development. Under the rubric of "Ranking the Rich" this index measures each industrial country's commitment to development by conflating into a single index all of their policies toward developing countries, including aid, export credits, immigration and so forth. But the fundamental issue here is that while it is good to have policy coherence, it is imperative to have policy coherence around the right set of objectives. Because if you do not have policy coherence around the right set of objectives, you might have a worse situation than policy incoherence.

One suggestion is that the Millennium Declaration and the MDGs provide just the kind of objective framework for donors around which to cohere their separate and individual policies towards developing countries. Let me say it bluntly: the big danger facing us at this historical conjuncture is that if we do not succeed in focusing policy coherence around a very clearly articulated development agenda, the default option is clear: we will have policy coherence around the war on terrorism, or around the security agenda.

I do not have to look beyond Canada to find an example of this. Just over the past year – despite the fact that Canada was not part of the coalition against Iraq – CIDA, the Canadian aid agency managed to find 650 million Canadian dollars for reconstruction in Afghanistan and Iraq in the wake of the wars in those countries. Contrast that to the amount of money allocated to Africa – CIDA's core bilateral partners in Africa are getting perhaps 20 million dollars per year. Debt forgiveness for Iraq will amount to 90 billion dollars. Do we see that kind of debt forgiveness being considered for Africa? No. My point is simply that the default option for policy coherence is going to be the security agenda, unless a compelling case is made instead for development.

I would argue that the question of coherence arises in the case of the multilateral organisations as well, the classic case in point being coherence across 19th street, between the World Bank and the IMF. But, one looks at the Poverty Reduction and Growth Facility (PRGF) and has to ask, what does this facility really contribute to poverty reduction? More generally, what in fact is the IMF's role in this area? My view is that it is better to have the IMF as part of the solution in

the fight against poverty than part of the problem. I am not one of those who believe that the IMF should simply get out and leave it all to the World Bank.

Then there is the issue of coherence between the WTO, the Bretton Woods Institutions and the UN agencies. Zdeněk Drábek addressed the issue of TRIMs and TRIPs in the previous chapter. I find it very interesting that in the case of the agreement on trade-related investment measures, Brazil and India are presently looking to open it up. They have good reason to do so, because if you look at what Canada did in the 1960s, as part of its industrial policy, it resorted to measures that are now impossible for developing countries because of TRIMS. Other industrialised countries also engaged in activities to build up their industrial sector – activities that are not permitted for developing countries today by the WTO.

A Research Agenda for the Poorest Countries

Finally, let me move quickly to the key elements of a research agenda for the poorest countries, bearing in mind the importance of diversity among developing country needs and ownership. First, how to stimulate investment in productive sectors and particularly agriculture? Here I would point to the need to open up issues such as land reform. The issue of land reform, having been avoided for decades because of its political sensitivity, is back on the agenda; that is a good thing. Second, how to increase investment in human capital and the social sectors, including the centrality of dealing with the scourges of HIV/AIDS and malaria in the poorest countries? It is hard to conceive of making any inroads for development in Africa without progress on this front. Third, how to deal with shocks in a very systematic way? Fourth and finally, we talked about good governance; in the case of much of Africa it is not just a question of *good* governance, it is more fundamentally a question of governance. That means helping to build from the bottom up a functioning state, the bureaucracies, the police, judiciary, the legal system etc. This is a capacity-building process that takes generations, not something that can be done to a Northern textbook or conjured up overnight; it takes long-term commitment going beyond 2015, which is currently the target date for the MDGs.

More research on capacity-building in the poorest countries is critically needed, and, as I suggested, such research ought to involve, in an interdisciplinary effort, political scientists, sociologists, geographers, anthropologists *and* economists.

A development agenda for the poorest countries critically depends on progress in two fronts: at the national level, on policies that promote economic growth and social equity; and at the international level, on policies that democratise international rules and institutions. Development economists involved in both types of endeavours should keep in mind that diversity comes before consensus since each developing country faces a specific set of opportunities and challenges.