1

An Inquiry into the Nature and Causes of Poverty: By Way of Introduction

Jan Joost Teunissen

Political economy … proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or, more properly, to enable them to provide such a revenue o subsistence for themselves; and, secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.

The citation above is from Adam Smith's classical study *The Wealth of Nations*. The full title is *An Inquiry into the Nature and Causes of the Wealth of Nations*, but the words preceding the shorthand title are not usually mentioned. This is a pity because they nicely reflect the scientific rigour, curiosity and broad view of Adam Smith's writings – a rigour, curiosity and broadness of view I often miss in today's economic analyses of poverty.

Why do economists tend to inquire so little into "the nature and causes of poverty"? I will try to answer this question by looking, first, at the politics of poverty, second, at the economics of poverty, third, at the recent history of poverty, and fourth, at the likely future state of poverty.

Obviously, I cannot claim any originality of thinking in a bird's eye view of these important issues. And when I base my thoughts on experiences I have gained as a young student participating in agrarian reform processes or as a research-oriented journalist who came in direct contact with poor *and* rich people, I will most likely just repeat what

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

others have "discovered" or said before me. There is another reason that I have so little faith in my originality of thinking – as well as that of other social scientists - about poverty. Too often our thoughts are seen as our wisdom and geniality, instead of that of the poor themselves. And too often we, social scientists, are eager to tell the poor what they should do to emerge from poverty, when we should instead trust the capacity of the impoverished to take their fate into their own hands. Do we tell rich people what they should do? Perhaps we should, given Adam Smith's plea for high moral standards and "good behaviour" by the businessmen.

The Politics of Poverty

In my view, a good starting point for an analysis of poverty in a country or region is the notion that poverty is, generally speaking, a social and not an individual phenomenon – even though individual characteristics can explain why one person is rich and another poor in specific cases. Since poverty is a social phenomenon, it is the object of study of social scientists: political scientists, economists, historians, sociologists, cultural anthropologists, social psychologist, psychologists or whoever.

From a political point of view, poverty is, above all, determined by differences in power – both between individuals and groups. Therefore, differences in power are a major part of the political explanation of why some people are rich and others are poor.

Just like poverty, power is also a social phenomenon: a person or group can only be more (or less) powerful vis-à-vis another person or group. Power is not something you possess like a house, a farm, a company or intelligence; power is something you acquire by skills, perseverance, money, luck and/or relationships – the one characteristic often feeding upon the other. As a result, the battle against poverty is largely a question of creating the circumstances that enable an individual or a group to gain power and emerge from poverty on a long-term basis. In the case of a poor small farmer or rural labourer, this can be done by giving him or her access to land, water, fertiliser and credit and making sure he or she will not be forced to sell the land or be deprived from water or credit within a few years. Only then one can expect the poor farmer to grow out of poverty and not fall back into the previous state of deprivation from these valuable and crucial assets necessary for overcoming poverty.

Usually, the creation of enabling circumstances will be the result of

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

both individual and collective actions and, usually, such action will lead to social conflicts – ranging from petitions for better labour conditions and the right to work the land to nation-wide social revolutions or societal transformations. An important characteristic of such struggles is that some people try to improve the situation of the poor by changing the existing power structures while others try to maintain the power structures.

As an observer of political processes in poor areas and countries in various parts of Latin America, Spain, Italy and Portugal, I have noticed that political struggles are often preceded and accompanied by an interesting body of social scientific literature – essays, studies, articles, books, pamphlets, whatever. Quite often, this literature helps political activists (ranging from peasant and union or community leaders to campaigning presidential candidates) in formulating their visions and demands. In doing so, social scientists have had a remarkable impact on the shaping of society. For many political scientists, this may be considered normal; but for most economists it is not – they rather prefer to believe that their analyses are independent from politics. But when it comes to the divide between rich and poor in society, the impact of economists is as, or even more, remarkable than that of political scientists.

The Economics of Poverty

Many economists prefer to *interpret* society rather than *change* or shape it – at least, that is what they claim. In reality, however, economists contribute more than any other social scientists to how society is shaped, particularly in these days of the dominance of economic ideas, practices and ideologies. This puts them in a paradoxical situation. On the one hand, they want their analyses to be independent from society, but on the other hand, they want society to act according to their insights – as they usually believe strongly in the "scientific" character of their analyses. This paradox may also put them in a painful situation. Because, even if they do not feel responsible for the economic policies pursued by governments and companies and argue that it was not them but the policymakers and managers who decided which course they wanted to follow, they cannot prevent attracting the blame as the intellectual masters of the policies pursued. Civilians in many developing countries have accused the IMF for the austerity policies applied by their governments. Or, to give another example I vividly remember:

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

Milton Friedman was blamed by many observers of Chile's dictatorship (1973-90) for the economic shock therapy applied in Chile after the bloody coup d'état of September 11th, 1973, which brought so much misery and social suffering.

In economic theories about poverty, a fundamental concept is economic growth. That is where the agreement usually ends and the dispute begins because there are almost as many theories of poverty as there are views about how economic growth occurs. To mention a few of the growth theories by their key concept: division of labour (Adam Smith), international trade based on comparative advantage (David Ricardo), protestant ethic (Max Weber), capital accumulation (Robert Solow), innovation and creative destruction (Joseph Schumpeter), free markets (Friedrich von Hayek), "sound" macroeconomic policies (but who determines what is "sound"?), "good" governance (but who determines what is "good"?), well-functioning capital markets (but what does "well-functioning" mean, and isn't a broader definition needed than the usual one?), export diversification, appropriate technology development, flexible labour laws, balanced budgets (except the United States, which is still widely considered a special case which is allowed to escape the rule), low level of foreign debt (again, with the United States dramatically escaping the rule), good industrial policies, and so forth. In brief, there are almost as many economic theories of growth as there are common sense notions of how wealth is created.

Another basic concept in economic thinking is "the market" – often (wrongly) opposed to the state. Most economists strongly believe in the beneficial effects of "free" markets. In practice, however, markets are often less free than imagined and, moreover, less beneficial than believed – or they are so for only certain segments of society. Therefore, it is not surprising that the debate about the role of the market and the state in overcoming poverty still lingers on. Nor is it surprising that in these days of the supremacy of capitalist ideology, most economists defend the superiority of markets over governments. In my view, and that of many others, however, the dichotomy of the market versus the state is wrong. The two should work nicely together.

The History of Poverty

Ever since human beings have joined forces to hunt animals or raise cattle or – jumping to present day – to set up a car or computer company, some people have become rich while others have remained or

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

become poor. Does this mean that poverty is, just like war, a sad state of affairs we cannot do much about? Does history "show" that any effort at alleviating poverty will be in vain and end in frustration?

No, history does not tell us that. It only tells us that, given certain historical experiences and circumstances, the fight against poverty is likely to be difficult.

True, some people are extremely poor, others are less poor and poor people will always remain simply because "we" define them as poor. However, did you ever ask a poor person whether he or she considers him/herself poor? Then you may have noticed that many of those whom we consider poor, don't see themselves that way because they know other people are poorer. Poverty is a relative concept.

Importantly, history tells us that poverty can be reduced and that poor countries can become rich or, at least, richer. Look at the recent history of South Korea! Look at (parts of) China! Look at Mauritius! However, history also tells us that rich countries can become poorer or less rich. Look at Argentina! And history tells us that there are different stages of economic development and different initial conditions – physical, geographical, political – that explain why some countries or regions are better suited for attaining richness than others. Finally, history also tells us that society is shaped by certain political and economic interests. It is possible to identify such interests as well as the initial conditions and stages of development, and they can be put to the scientific test by social scientists, including economists.

In brief, there is no "natural" state of affairs in society, and poverty is certainly not a natural state of affairs, nor is wealth. Both poverty and wealth in a country or a region are the product of natural endowments, human thoughts, and human activities. That is fortunate because it indicates that the fight against poverty is possible and winnable. And it indicates that if capitalism is seen as the sole viable economic model today, it was not considered the only model yesterday. As Europe shows, a social market economy, for example, is possible. There are alternatives; there is no "end of history".

The Future of Poverty

A scientific approach to poverty requires that there is "something", a given object or process that can be studied. Obviously, "the future" of poverty does not provide that "something", unless one believes that theoretical predictions or practical strategies suggested by economists

or other social scientist are a "reality" that can be studied scientifically.

Particularly with regard to "the future" social scientists tend to make statements that carry human values, beliefs and interests. They cannot but make value judgments about the future or, at best, predict trends. Therefore, I believe that the future of society (including the future of poverty) does not, or should not, lie in the exclusive hands of economists, sociologists, politicians or any technocrats. It must lie in the hands of all of us – the people of the world. Social scientists, technocrats and politicians have the important task of clarifying what alternative visions and policies are available and on what grounds they think some policies would work better than others. But the actual policies depend on the will of the people, or at least should depend on their will if we take democracy seriously.

Poverty is generally considered something that we, citizens, scientists, policymakers and business people, should be able to reduce substantially if not eradicate completely. The knowledge, physical means and human capacities to overcome poverty are available. So far the main obstacle has been a lack of political will. Fortunately, however, a few years ago consensus was reached that we should aim at at least halving extreme poverty – defined as living on less than one dollar per day – by the year 2015. This goal along with the other targets aimed at improving health, education and other important indicators for the poor are known as the Millennium Development Goals (MDGs) that were agreed upon by the international community.

So, if the future of poverty lies in all our hands, in the collective of mankind so to say, what is the role of economists? That is the question that this book implicitly answers. The economists who have written the chapters that follow make clear what role they and their fellow economists are playing. Before highlighting some of their insightful thoughts, let me first zoom in on Africa, the continent that has already been plagued by poverty for so many years.

Poverty in Africa

When focusing in on Africa, one is immediately confronted with a historical legacy: European countries took possession of Africa and arbitrarily divided the continent according to their interests and preferences. Or, to put it in tougher terms: for many years, Europe has exploited the poor in Africa and has shipped them, helped by Arab traders, overseas as slaves. Until after the Second World War, a large part of Africa was

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

under Europe's rule and in some African countries, colonialism even lasted up to the mid-1970s. And that other system of white man domination, Apartheid, came to an end even more recently – in 1991. It is therefore not surprising that one of the African contributors to this volume, William Lyakurwa, makes this historical legacy the starting point of his chapter when he observes: "Africa's historical experience of slavery and colonialism severely deformed, distorted, disarticulated and underdeveloped the region. This culminated in the marginalisation of the continent in the global capitalist system, with its hostile global market, and was compounded by domestic crises that have over time inhibited growth and development."

This is a useful reminder by William Lyakurwa, professor of economics and executive director of the highly esteemed African Economic Research Consortium (AERC). Indeed, Europe is to blame for the bad starting point of African countries after their independence. Reminding ourselves of this European responsibility puts today's discussions about the development challenges of poor African countries, and the role that the IMF and World Bank can play, in a proper historical perspective.

Two other African economists contributing to this book, Ernest Aryeetey, a Ghanaian professor of economics and Louis Kasekende, deputy governor of Uganda's central bank, stress the deplorable stage of development in which most African countries still find themselves.

Aryeetey observes that despite the significant progress some African states have made over the last few decades in terms of human resource development, industrialisation, global trade, production and institution building, the continent's overall record has been disappointing. "Africa is still considered the most vulnerable, poverty-stricken, debt-distressed, technically backward and marginalised continent," he says. According to Aryeetey, the main development challenge facing Africa now is how to significantly reduce the extent and depth of poverty in the region while transforming the structure of its economies. He believes that making poverty reduction the focus of current development initiatives – as both the IMF and World Bank have been doing since 1999 – is justified "by the extent and depth of poverty in the region and also by the fact that such poverty slows down all manner of social and economic progress."

Kasekende observes that a very large proportion of the population in Africa is living on less than one dollar a day while absolute poverty is on the rise. He observes that most African economies remain very

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

fragile, show little export diversification, and markets are largely dysfunctional. Africa also remains highly vulnerable to climatic shocks and terms of trade shocks. On top of all this, there are the issues of development assistance shortfalls and AIDS. "This is the stark reality that one has to take into consideration when one looks at the role of development assistance, in general, and the role of the IMF and World Bank in particular," says Kasekende.

Amar Bhattacharya, an Indian economist working for more than twenty-five years with World Bank, nuances this sombre picture of Africa. In his chapter, he argues that since the mid-1990s, there has been both an improvement and a differentiation in performance in sub-Saharan Africa. "In the last seven years," he says, "some 12 countries recorded growth rates in excess of 5 percent per annum and some 18 countries had sustained growth in excess of 4 percent per annum. There has been a strong improvement compared to the 1980s in the growth performance of African countries. This is most evident from the increase in investments, which is even more encouraging than the improvement in growth."

Have the IMF and World Bank Failed?

Development assistance shifted in the 1980s from financing investment to promoting policy reform, a reorientation occasioned by the growing belief that developing countries were held back more by poor policies than by lack of finance for investment. However, the reforms of the 1980s and 1990s have not brought the results that were expected. The performance of Africa still does not live up to the expectations of the western donors and the IMF and World Bank, nor does it live up to the hopes of most people in African countries – which is an even more serious problem.

Graham Bird, a long-time observer of IMF policies, explains in his chapter why the recipes of the IMF (and World Bank) have not lived up to the expectations. "Because of the structure of their economies, poor countries face frequent balance of payments difficulties. Low holdings of reserves, little access to private capital and unpredictable aid flows imply that they will be constrained in financing balance of payments deficits. The imperative will then be to achieve rapid adjustment and this in turn is likely to mean compressing aggregate domestic demand; a strategy that will bring with it associated economic and political costs. In principle, the IMF can help by providing liquidity

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

that reduces the need for short-term demand-based adjustment. It can assist with both stabilisation and longer-term adjustment. It is then a matter of how well or how badly the Fund fulfils these functions in practice. Objective examination of the evidence suggests a nuanced conclusion. However, the rhetoric involved in the debate sometimes departs from the reality."

Amar Bhattacharya gives another explanation for the failure of the reform programmes of the IMF and the World Bank. In his view, there are three possible hypotheses. The first is that the strategies suggested by the IMF and World Bank were not fully implemented. The second is that there were important errors in the design of those strategies. And the third is that there were important missing elements. Even though the first hypothesis might be valid, the twin Washington institutions decided to do some self-criticism and developed a new framework for their support to low-income countries in Africa and elsewhere. The framework adopted at the end of 1999 comprised two key elements: country-authored Poverty Reduction Strategy Papers (PRSPs), which were expected to draw on broad-based consultation with key stakeholders, and the Poverty Reduction and Growth Facility (PRGF). The core aim of the PRGF was to arrive at policies that were more clearly focused on economic growth and poverty reduction, and as a result, would enjoy better national ownership. As Bhattacharya and Lyakurwa observe, the underlying principles of the PRSP process were that it would be country-driven and involving broad-based participation; results oriented and focused on outcomes that are pro-poor; comprehensive in recognising the multi-dimensional nature of poverty and the proposed policy response; partnership oriented involving coordinated participation of development partners; and grounded in a long-term perspective for poverty reduction.

Is the New IMF Strategy More Successful?

Has the new IMF strategy been more successful? According to Matthew Martin and Hannah Bargawi, both close followers of IMF policies in Africa, the success is mixed at the most. Even though the IMF "has a very strong capacity to play a long-term role in low-income countries," the amounts of financing provided have not been sufficient, nor have the terms of lending been sufficiently soft. Although the PRGF lending is provided on a longer-term basis and somewhat softer terms, it is still short of what is needed. When it comes to the catalytic

role of the IMF in mobilising financing from private sources, Martin and Bargawi are even more critical. "Even though it [the IMF] has clearly facilitated large amounts of debt relief, and helped to mobilise some official financing, its role in promoting private financing has been much less positive."

But Martin and Bargawi are the most critical about the IMF's conditionality in low-income countries. "Though the PRGF has brought some major steps in the right direction, through a little more macro-flexibility, some streamlining of structural conditions, and a little more realism in forecasts, Fund conditionality remains fundamentally ill-adapted to low-income countries. The Fund's conditionality links to PRSPs and the MDGs are very unsatisfactory and its analysis of poverty and social impact has until now been cursory. In addition, the logic and effectiveness of ex ante conditionality is highly questionable. Without the fundamental reforms of its conditionality … it is questionable whether the Fund should continue to be so prominent in low-income countries."

Ron Keller, a high-level development cooperation official in the Netherlands, agrees with most of Martin and Bargawi's criticism of IMF conditionality. "The IMF has moved too far into the governance, transparency, and corruption-related conditions. I am not saying that these are unimportant issues, but in the spirit of division of labour, other institutions – and primarily the recipient – should take these up. … I would call upon our executive directors and the management of the IMF to go back to the original intention of a couple of years ago to simplify conditionality."

Louis Kasekende sees possibilities for enhancing the credibility of the IMF. In his chapter, he begins by illustrating how difficult it is for the IMF to make the right assessment in its programme design by enumerating a whole range of difficulties: "What targets for the monetary anchors are appropriate for inflation control, economic growth and poverty reduction? What level of inflation is appropriate for sustainable growth? Can we talk about fiscal flexibility when most of the spending is committed to civil service, defense, wages and social spending? When we talk about fiscal flexibility and demand management, how can we expect re-adjustments when most of the expenditure is on priority areas or areas that are difficult to cut? … The list of questions is endless and the answers are largely elusive. The chances of getting it wrong are quite high. Maybe this explains the over-optimism reflected in the IMF programmes."

Kasekende suggests some concrete ways in which the IMF could enhance its credibility in programme design. Supporting the idea that the PRSPs should be the basis in programme design, he advocates that efforts be made to make the PRSP itself more realistic and broad enough to encompass the development challenges facing a country. "This leads me [back] to the issue of the role the IMF can play if the PRSP is the basis. The IMF could ease the conditions necessary for absorbing external assistance, especially grants, and the fiscal space required for increasing investments in physical infrastructure. The problem most of the countries face is a tendency to place over-reliance on the private sector to take up investments in physical infrastructure. This rarely happens. Therefore, if you present a very tight programme, you will frustrate the government because the government cannot improve the infrastructure, which is required for supporting private sector-led growth. The IMF could assist governments and provide that fiscal space, so that governments can make investments in the public sector."

So here we are back at the issue of the role of the state. Just like the quote of Adam Smith at the beginning of this chapter asserts, there should be a nice cooperation between the market and the state. The one cannot function without the other.

Kasekende makes more suggestions as to how the IMF might improve its credibility. Let me cite one more. "Another big issue in programme design is the tension between short-term stabilisation and medium to long-term growth. I think this issue will continue to bog our minds; it will also be complicated by the tension between the financing needs for Millennium Development Goals and the objective of obtaining debt sustainability. This is one of the issues that we have been talking about in the World Bank. Once you bring in debt sustainability, especially as both the IMF and the World Bank have proposed it, you end up constraining the resource envelope or the type of resources that countries can assume. For those countries with a very low debt-carrying capacity, you start talking about grants as the only source of financing. … The IMF should be more flexible in programme design and react as problems reveal themselves, as opposed to setting unrealistic monetary and inflation targets as a means to deliver short-term stabilisation requirements. This will push the IMF in the direction of designing programmes on a case-by-case basis. Even though this is something we always talk about, I am bringing it back again: the need for a case-by-case approach."

In his chapter, Mark Plant of the IMF summarises the many problems low-income countries are facing and argues that if there is one thing made clear from all these problems, it is that "the Fund has a role in helping its low-income members confront these problems, many of which are macroeconomic in nature." He does not think the IMF has all the answers. On the contrary, "the answers to these questions also need the expertise of others." After having discussed several of the issues raised by Graham Bird, Matthew Martin and Hannah Bargawi, Mark Plant observes that these problems cannot be solved overnight. For example, low-income countries will continue to be vulnerable to external shocks. Plant endorses proposals that the IMF would help overcome the immediate negative effects of such shocks by disbursing quickly the sums needed. "As its lending is rather expensive, then it can be bought out overtime by donors with more concessional money. This is an idea that the donor community should pursue."

Plant concludes that a "continued discussion with people outside the institution" is needed to get the right solution so that the Fund can play its part in helping its low-income members make progress toward the Millennium Development Goals.

The Washington Consensus, the MDGs and the Financing of Development

In his chapter, Ernest Aryeetey argues that growth in Africa can only be financed if African countries take steps to reduce the risks associated with rural production, stabilise the macroeconomic environment (to ensure that the returns on financial assets are relatively stable and predictable), and initiate policies that reduce the transaction costs of holding financial assets through the development of appropriate institutions, including micro-finance institutions. Aryeetey further argues that faster longer-term growth and development in Africa require increasing foreign direct investment and the inflow of other private capital. According to Aryeetey, the objective should be to make private capital provide 70 percent of external finance in the medium term and 100 percent in the long term. "Africa has to tap private foreign capital in order to raise the productivity levels necessary for sustained increases in living standards. For this, countries will need to take concerted action on many fronts including improving infrastructure, strengthening banking systems, developing capital markets by accelerating the pace of privatisation and broadening the domestic investor base, developing an appropriate regulatory

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

framework and a more liberal investment regime, introducing competitive labour market policies while creating and maintaining institutions for upgrading human capital, reforming the judiciary system and containing corruption."

In his comment on Aryeetey, Roy Culpeper, president of the North-South Institute in Ottawa, says that he is surprised to see that Aryeetey embraces the Washington Consensus, just as most African leaders and economists are doing, since the Washington Consensus has not worked in Latin America and the Latin Americans have moved on, albeit with some uncertainty, beyond the Washington Consensus. "[Aryeetey's] frame of reference for the policy environment is very much that of the Washington Consensus: the need for internal and external reforms, greater openness and liberalisation to the rest of the world, and so forth," says Culpeper.

One explanation for this embrace of the Washington Consensus that I heard from an African economist is that the post-war structuralism and dependency thinking of progressive academics and policymakers was considerably less successful in promoting development in Africa when applied during the 1970s than its Latin American version was from the 1940s and 1950s on. So alternative thinking became more discredited in Africa, and most economists who wanted to be inside the policy debates abandoned it to subscribe to the Washington Consensus, which was "the only game in town" in Africa from the beginning of the 1980s.

Culpeper is also "quite intrigued" by Aryeetey's focus on the target of achieving the Millennium Development Goals and raises the question of whether the MDGs should be the target. "The MDGs are in a sense not adequate as a development target. There are broader and deeper goals such as achieving long-term sustainable growth at rates of 6 to 8 percent and related to that, a process of economic and social transformation which adds up to a much more profound agenda of change. I would even go further to say that the MDGs are at once both too ambitious and not ambitious enough. They are too ambitious in that they may not be achieved by many countries in Africa by 2015. The problem is that the costs of not achieving them may come in the form of disillusionment, accusations of failure and the withdrawal of donors from the development struggle."

Culpeper goes on to argue that the MDGs are neither ambitious enough and that the problems of development will not go away by year 2015. The MDGs address the symptoms of development failure, he

observes, whereas the real challenge is to tackle the underlying root causes. "The real challenge is not only to achieve the MDGs up to 2015, but go beyond them to the issues of transformation in the productive structure. In Africa, the discussion must come around to the centrality of agricultural transformation, because how can one presume any progress on the MDGs, most of all in poverty reduction, without a focus on agriculture?" And Culpeper adds: "There has to be pro-poor growth, there has to be quality of growth, otherwise again we will be falling short of what needs to be done."

A New Approach to Debt Sustainability and Policy Reform of Low-Income Countries

In his chapter, Stijn Claessens, who returned to the World Bank at the end of 2004 after a brief hiatus as a professor of economics in Amsterdam, presents a refreshing analysis of and solution to the debt problem of poor countries. In his view, the recurrent debt problems of low-income countries do not so much reflect economic causes but, rather, the failure to reform the international institutional structure for decision-making related to low-income countries' debt, external financing and debt sustainability. "The recurrent nature of the debt problems, the ongoing debates, and the limited and poor resource transfers are but signs of the need for deeper reforms to the institutional framework for dealing with the financing problems of low-income countries." He therefore suggests reforming the design, institutions, and governance of the international system governing low-income countries' debt, financing and debt sustainability. Institutional changes will not be easy, he observes, "and will require answering – implicitly or explicitly – fundamental questions regarding the nature of the governance framework of the international financial system."

William Lyakurwa also believes that the international financial institutions need to adapt their functioning to the needs of poor countries. In his chapter, he argues that the evolution of the role of the Bank and the IMF in helping countries meet their development strategies clearly indicates that the Bretton Woods Institutions should give more attention to the importance of country ownership. There is no single blueprint for policy programmes that will work in all countries, he stresses. "Any country's policy programme must be designed with country ownership to fit that country's specific circumstances."

From: Helping the Poor? The IMF and Low-Income Countries
FONDAD, The Hague, June 2005, www.fondad.org

Lyakurwa observes that the most fundamental component in the success of policy programmes has been domestic political economy factors, implying that the main way of enhancing ownership is by genuinely involving citizens and policymakers in the design and implementation of macroeconomic and structural reforms. In his view, government ownership and political will have a greater influence on the success of reform programmes than the amount of aid flows.

Lyakurwa concludes: "The Bank's and the IMF's future role in low-income countries thus involves a great need to adapt their conditionality to the needs of the low-income countries, to improve capacity building through greater empowerment of the borrowing governments and to base lending decisions on longer-term planning. There is also need to move from stabilisation to more pro-poor macroeconomic frameworks."

Adam Smith would have agreed, I think.