

# 5

## International Measures to Promote Development and Democracy

135. Although action at the national level is essential to make democracy work for pro-poor development, some of the most significant obstacles to development exist at the international level and must be addressed in a co-ordinated fashion by the international community. This section explores, first, problems associated with the global economy, including the asymmetries of the international trade regime, unstable private capital flows, unsustainable debt repayments and ineffective international aid (Section 5.1). It then focuses on the policies and procedures of international institutions such as the International Monetary Fund (IMF) and World Bank (Section 5.2). Finally, it describes the obstacles to the pursuit of development and democracy posed by conflict and insecurity (Section 5.3). Each section not only analyses the problems, but also suggests strategies to make democracy work for pro-poor development.

136. The Expert Group's policy recommendations at the international level are designed to encourage Commonwealth Heads of Government and the international community to undertake reforms in these three areas (Section 5.4). The obstacles to pro-poor development are interdependent. Rather than confronting them in isolation, governments and the international community should treat them in an integrated and holistic manner.

### 5.1 The Global Economy

#### *The international trade regime*

137. Trade liberalisation and export-led growth have the potential to bring millions of people out of poverty. If developing countries increased their share of world exports by 5 per cent, this could generate \$350 billion, around seven times the amount they receive in aid.<sup>33</sup> The unprecedented success in reducing poverty in East and South-East Asia has been driven by rapid growth in international trade, which was enabled by a concentration on building capacity through education and skills enhancement as well as stability and predictability in economic policy and the political environment.

138. The difficulty for many developing countries is that the current international trade system generates asymmetrical outcomes, making the potential benefits hard to obtain. Wealthier industrialised countries have been the main beneficiaries of trade

liberalisation. The Expert Group believes that creating a transparent rules-based multilateral trading system is an urgent priority for fostering both development and democracy.

139. There are four main problems with the existing trade regime. First, trade liberalisation has a number of short- and medium-term costs that must be minimised in order for developing countries to take full advantage of the benefits of trade. Among these costs has been greater food insecurity as local production declines in the face of foreign competition (often heavily subsidised) and food import bills increase. This occurred in large parts of sub-Saharan Africa and Peru in the 1990s due to rapid liberalisation.<sup>34</sup> Trade liberalisation can have an adverse impact on budgets due to the revenue effect of decreased tariffs, and dumping and over-abundance of cheap imports, especially agricultural products. A World Bank study estimated that sub-Saharan Africa, the world's poorest region, would lose 2 per cent of its income following the Uruguay Round of trade negotiations.<sup>35</sup> Trade liberalisation has had its greatest impact on development in middle-income developing countries rather than in least developed countries. Trade liberalisation is also associated with specific gender opportunities, constraints and challenges. For example, women workers in labour-intensive jobs at the end of global supply chains have suffered from precarious employment and inadequate enforcement of national and international labour standards.

140. The transition costs can be minimised through the appropriate pacing and sequencing of liberalisation. Economic development in the North in the nineteenth and twentieth centuries generally occurred in conditions of state regulation and protection of infant industries. Similarly, countries in North and East Asia were able to gain the benefits of international trade by avoiding overly-rapid liberalisation.<sup>36</sup> Developing countries must be given the means and support to control the pace and sequencing of reforms. They should also create social and economic safety nets to protect vulnerable groups who may suffer some of the negative consequences of liberalisation.

141. A second major problem concerns market access. While developing countries, under heavy pressure, have removed many of their trade barriers, developed countries have not reciprocated in key areas. In precisely those sectors where developing countries have a comparative advantage, such as agriculture and textiles, the developed countries have protected themselves through both tariff and non-tariff barriers (including rules of origin, standards and technical barriers) and through extensive systems of domestic subsidies, resulting in dumped exports. The European Union's Common Agricultural Policy is one of the most notorious culprits.<sup>37</sup> Each cow in the EU is subsidised \$2.20 per day, while around 40 per cent of the world's population lives on less than \$2 per day.<sup>38</sup> The recent increase in US farm subsidies has

exacerbated the situation. The World Bank estimates that the costs for developing countries of protectionism in the developed world amount to \$100 billion each year.

142. The Fancourt Commonwealth Declaration of 1999 stresses that greater equity in global markets requires addressing the trade privileges of developed countries. Developed countries, including those in the Commonwealth, should be encouraged to accelerate liberalisation of their own economies to increase market access for developing countries. Small states within the Commonwealth feel particularly vulnerable to the inequalities of the global trading system, and need support in order to diversify exports and adjust to the erosion of trade preferences.

143. Third, developing countries lack influence in the decision-making processes that create the rules and regulations of the international trade regime, particularly in the World Trade Organisation (WTO). Despite the WTO being based on 'one country – one vote', in practice decision-making occurs through informal channels that lack accountability and transparency, and it is dominated by the wealthy industrialised countries.<sup>39</sup> Lack of technical capacity and financial resources limits the influence of most poor countries in WTO negotiations. A more democratic international trade system would build on the breakthrough in Seattle to promote reforms to the WTO that would permit greater input and participation from developing countries. Similarly, challenging the secretive nature of WTO decision-making would promote accountability and transparency. Finally, expanding technical support to developing Commonwealth countries would be a means of increasing their capacity to negotiate and implement their obligations within the WTO in ways that are consistent with their development interests. A recent set of proposals to reform the WTO is discussed in Box 4.

144. A final problematic aspect of the international trade system is that the existing rules are not sufficiently oriented towards pro-poor development. The breakdown of talks in the Cancun WTO ministerial meeting in 2003 was extremely disappointing. It is crucial that all countries commit to a positive outcome of the Doha Development Round. This requires all parties to reaffirm commitment to a transparent, rules-based multilateral trading system and to avoid recourse to fortress-building regional or bilateral arrangements. They must continue making efforts to reduce trade-distorting subsidies and other barriers to trade, particularly in agriculture. It is clear that there is a need for co-operation and flexibility to deliver the Doha Development Agenda.

145. Cancun demonstrated that developing countries have never been better organised. The industrialised countries should recognise this new reality: that developing countries are no longer prepared to operate separately in trade negotiations. 'Business as usual' is likely to generate frustration that could lead to a crisis of confidence in the WTO. This would be in the interests of neither the developed nor the developing

world. The rules and decision-making systems of the WTO should be reformed to enable developing countries to pursue their development objectives.

### **Private flows**

146. The private sector is the engine of growth in output, employment and incomes in contemporary economies. The economic diversification and wealth creation necessary for sustained growth and development, a *sine qua non* for poverty reduction, cannot take place without an expansion of competitive private sector capacity. The development of a business-friendly environment that promotes pro-poor growth is a matter of the highest priority. It is essential to encourage both high quality foreign direct investment (FDI) and domestic investment to create stable employment, expand domestic demand and transfer new technologies from the developed to the developing world.<sup>40</sup>

#### **Box 4: Democratising the WTO system and Addressing Key Development Issues**

An innovative proposal to help make democracy work for a pro-poor international trade regime is the set of holistic reforms to the WTO system suggested by Third World Network (TWN) as part of UNDP's 'Trade and Sustainable Human Development' project.\* The proposals cover areas including:

- **Textiles and agriculture**

Developed countries should comply with their obligations under the Uruguay Round to phase out their textile and garment quotas by 2005 and should be encouraged to accelerate liberalisation. In agriculture, domestic and export subsidies and tariff peaks in developed countries should be drastically reduced.

- **Intellectual property rights**

Among the measures necessary to make TRIPS more balanced is to agree that all living organisms and their parts, and all living processes, cannot be patented. In addition, while patents have obvious importance in encouraging research and development, nothing in the TRIPS Agreement should prevent members from taking measures that can make medicines accessible and affordable to the public at times of health crises.

- **Services**

The liberalisation of services under the General Agreement on Trade in Services (GATS) is mainly benefiting developed countries as they tend to have service enterprises with a greater capacity than those in developing countries. In addition, the lack of data on the services trade means that it is difficult to assess the impact of GATS on developing countries. Until the problem of lack of data is

147. At present many of the potential benefits of private investment flows for pro-poor development are being lost. For instance, while FDI flows to developing countries have been increasing, a large proportion of profits continue to be repatriated to the North. For every \$1 entering a developing country as FDI, 30 cents leaves the country. In sub-Saharan Africa profit repatriation is three-quarters of FDI, which reflects a high dependence on extractive industries.<sup>41</sup>

148. Companies increasingly realise that they have responsibilities that accompany their rights. These responsibilities are seen to include upholding human rights, particularly economic and social rights relating to labour, in addition to meeting national and international environmental standards.<sup>42</sup> Consequently many large corporations have introduced voluntary codes of conduct and 'Triple Bottom Line Accounting' that provides information on their social and environmental contributions as well as their financial profitability in their annual reports. Some firms are

tackled, developing countries should not be expected to undertake further obligations. Developed countries should take concrete steps (e.g., provide incentives to domestic firms) to encourage imports of services from developing countries, and measures should be taken to better facilitate the temporary movement of labour from developing to developed countries.

• **Improve the basic structure**

Developing countries and civil society should be given more voice in decision-making within the WTO. There should be formal acceptance that developing countries undertake lower levels of obligation than developed countries, and thus not have their special treatment limited to longer implementation periods, as is currently the case in practice. It should be recognised that developing countries need the flexibility to raise and reduce tariffs to help support the growth of specific sectors, particularly infant industries and the technology sector.

The proposed reforms are noteworthy not only for their comprehensive and integrated approach to creating a pro-poor trade regime, but also for their democratic content. They promote greater equality between the North and the South, improve accountability and encourage greater developing country participation and representation in decision-making processes. This set of reforms is not a blueprint endorsed by the Expert Group for the Doha Round of Multilateral Trade Negotiations but rather constitutes one of a number of possible innovative ways of making democracy work for pro-poor development.

\* *Third World Network 2001, 6-16, 79-91. For alternative sets of proposals see, for example, Oxfam 2002a, 250-258 and UNDP 2002, 121.*

attempting to implement internationally agreed codes of conduct, such as the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance and Guidelines for Multinational Enterprises, and the Commonwealth Business Council's 16 Point Programme for Investment.<sup>43</sup>

149. While self-regulation through codes of conduct has been successful in some instances, in other cases it has not. For example, a number of major companies have codes of conduct that do not mention the right of a worker to join a trade union or engage in collective bargaining – core labour standards set out by the International Labour Organisation (ILO). Although voluntary codes are an important step in encouraging companies to respect basic rights, there is no substitute for government enforcement of these rights when they are already enshrined in international law or good practice, or the laws of the company's own home country (see Box 5).

150. Better monitoring and more effective prosecution of corporate bribery are essential for accountability and transparency.<sup>44</sup> The Chairman of Transparency International recently highlighted the 'criminal bribe-paying activities' of transnational corporations headquartered in industrial countries.<sup>45</sup> Additionally, reforming political party financing so that private sector contributions and other influences do not unduly distort the democratic process is a method of challenging corruption.<sup>46</sup>

151. Companies could also take greater individual initiative to use democracy as a means of promoting pro-poor development. For instance, in industries such as mining that use the natural resources of an isolated area, firms or national governments could arrange to provide equity or royalties to local communities, consult the representatives of local communities and supply employment and community services such as health, training and education. More generally, companies can promote participation by making their employees more integrated stakeholders, such as through extending employee share ownership schemes (ESOPS) throughout the firm.<sup>47</sup> Such approaches, which could be encouraged in both transnational and domestic firms, are an effective means of promoting democratic values such as participation and representation.<sup>48</sup> Greater participation of poor communities in business could also occur through governments making more effort to promote small businesses, such as by backing micro-credit schemes or reducing the costs of business registration.<sup>49</sup> Opportunities should also be taken to promote women's entrepreneurship, which has had an important impact on development in Commonwealth and other countries.<sup>50</sup>

152. While improving the general business environment is a significant means of promoting pro-poor development, it is also important to consider specific issues related to the stability of private capital flows. During the 1990s private capital flows became the main source of external financing for developing countries, while official financing became relatively less important.<sup>51</sup> The Monterrey Consensus, adopted by

## **Box 5: Creating a Business Environment for Pro-poor Development**

Developing countries, like all economies, require a business environment that encourages investment. Potential investors look to sovereign risk and a satisfactory return on their investment as key components of their investment criteria. Those countries with a stable democratic government, transparent administrative processes and a fair and effective legal system have proven to attract the majority of the investment that is necessary to promote pro-poor development.

The Commonwealth and the international community are concerned with corporate behaviour and responsibility throughout all Commonwealth countries, but particularly in developing countries. The Expert Group supports a self-regulatory approach to ensuring corporate good governance and social responsibility.

The Group encourages governments within the Commonwealth to ensure, either through legislation or practical measures, that all companies operating within their jurisdiction abide by the laws of the country from which they originated. In addition, industry groups within a country should be encouraged to work with that country's government to ensure that they self-regulate and monitor their industries. This will ensure that the same standards apply across that industry within the country and therefore help guarantee that the standards are the world's best practice.

The Expert Group believes that there is an important role that the Commonwealth could play should the Commonwealth Heads of Government so determine. This would be to provide experts from within the wealthier industrial countries' public services to conduct random audits within those Commonwealth countries that would like such assistance. This would result in the development, over time, of a 'Commonwealth yard-stick'. In addition, the Group encourages all Commonwealth countries to enact legislation to ensure that companies based in their country, when acting internationally, comply with their country's own legislative standards.

Commonwealth countries should also ensure that their financial institutions lending to businesses operating in other countries comply with the laws of the countries in which they originated. This is essential if one reflects on the environmental tragedies that have occurred among the smaller or emerging countries: These have, in the vast majority of instances, been financed by major banks that could have ensured compliance.

Heads of Government at the UN Financing for Development Conference in Monterrey in March 2002, stresses that private international capital flows, particularly FDI, along with international financial stability, are vital complements to national and international development efforts. It is essential, according to the Monterrey Consensus, to facilitate direct private investment flows to developing countries, least developed countries (particularly in Africa) and small island developing states.<sup>52</sup> Similarly, Commonwealth Finance Ministers, in their meeting in London in May 2002, stressed the importance of securing stronger and more stable flows of private finance to developing countries. This is also discussed in the Commonwealth Code of Good Practice for Promoting Private Flows and Coping with Capital Market Volatility.<sup>53</sup>

153. The globalisation of capital markets has resulted in highly volatile and speculative capital flows that are damaging developing countries. Economic crises in these countries have taken a variety of forms, such as the closure of businesses, huge increases in unemployment, cuts in spending on social welfare programmes and substantial rises in income poverty and wealth inequality. Unregulated international capital flows are increasingly considered to resemble the activities of a casino.<sup>54</sup> In addition, many small states are especially disadvantaged in international capital markets, and find it difficult to access private capital and protect themselves from unstable capital flows.<sup>55</sup>

154. It is clear that more effective regulation of international capital markets is required to promote development in poor countries. The IMF itself has recently concluded that the rapid liberalisation of the capital account appears to have been accompanied, in some cases, by increased vulnerability to crises. It now advocates that financial integration with the global economy should be approached cautiously, with strong domestic financial institutions and stable macroeconomic frameworks. There should, therefore, be a case-by-case approach to the pace and sequencing of capital account liberalisation, taking into account specific national circumstances.

155. The liberalisation of capital markets has also facilitated international money laundering and the financing of terrorism. Money laundering is often the result of organised looting by governments of public funds. The effects of money laundering and the efforts to combat it have had a particular impact on small states in the Commonwealth.<sup>56</sup> The Commonwealth Secretariat has been assisting countries to implement the 40 recommendations of the Financial Action Task Force on Money Laundering (FATF) and the provisions of Security Council Resolution 1373.<sup>57</sup> Implementation of these recommendations is essential for promoting accountability and transparency, and for safeguarding vulnerable financial systems against abuse.

## **Debt**

156. Over the past three decades the external debt of developing countries has increased around forty-fold in monetary terms. Debt servicing has grown at an even greater rate: The debt service of low-income countries now greatly exceeds new inflows, leaving net transfers in 2000 at negative \$29bn.<sup>58</sup> Many developing countries have found that their potential resources for pro-poor development are being diverted to repay their international creditors, whether it be with respect to bilateral, multilateral or private sector debt. Only a minority of developing countries have maintained their external debt at sustainable levels. Debt crises in developing countries can have significant contagion effects that threaten global financial stability. As the Commonwealth Fancourt Declaration emphasises, there is an urgent need to tackle the unsustainable debt burdens of developing countries.

157. The heavily indebted poor countries (HIPC) initiative, launched in 1996 and enhanced in 1999, was designed to confront the problem of multilateral, bilateral and commercial debt in some of the world's poorest states. Official debt alone totals around \$150bn (in 1999 nominal terms).<sup>59</sup> The initiative has had important positive effects, particularly on recipient countries' ability and willingness to increase domestic spending on education and HIV/AIDS programmes, and has improved - budget management more generally.<sup>60</sup> HIPC debt relief enabled Uganda to achieve universal primary education. Private investors are also gaining confidence about directing their funds towards countries participating in the HIPC Initiative. For the 26 countries benefiting from HIPC relief, debt service payments are projected to be cut in half over the next two decades.

158. Although bringing some relief, the HIPC initiative has been criticised on a number of grounds. First, the average annual reduction (from 1999 to 2002) in debt service in HIPCs has been only around \$1.3bn.<sup>61</sup> In addition, not all creditors have agreed to reduce their HIPC debts. It is also a matter of concern that an increasing number of HIPCs continue to face litigation on their commercial debt. The initiative has also not proved to be sufficiently flexible to cope with the effects of exogenous shocks. Furthermore, due to low commodity export prices and weak growth rates, debtor countries are less easily able to achieve the performance track record required to reach the 'completion point' - that point at which creditors are satisfied that sufficient measures have been taken by a country to make debt repayment sustainable, if there is some relief. (The debt sustainability ratios are the net present value of debt to exports of 150 per cent and, in exceptional cases, net present value of debt to fiscal revenue of 250 per cent.) Another criticism is that when HIPC relief is financed from stagnant or declining official development assistance (ODA) budgets of donor countries, it simply serves to divert resources from moderately indebted to severely indebted countries, and thus may not add significantly to total development

## **Box 6: Delivering on Debt Relief through the HIPC Initiative**

In a recent paper written for the Commonwealth Secretariat, Nancy Birdsall and Brian Deese outline proposals for improving the enhanced HIPC initiative. Among their proposals are the following:\*

### **• Deepening debt relief**

Heavily indebted poor countries need more resources to help tackle poverty, especially in the areas of education, health and infrastructure. This is particularly the case in small African countries that are highly dependent on primary commodity production and exports, and are affected by the HIV/AIDS crisis. Debt repayments in HIPCs should be limited to a ceiling of 2 per cent of GNP. This ceiling is not only sustainable, but also prevents debt service from unduly sapping resources from development programmes. The approach would relieve \$700 million of debt service for 2003 in the eleven HIPCs that are not yet at the 2 per cent debt service to GNP ratio.

### **• Insuring HIPCs against external shocks**

A major problem faced by HIPCs is that their debt repayments are hampered by exogenous shocks such as poor weather or falls in export prices. An IMF study showed that around half the HIPCs receiving debt relief would again be in an unsustainable debt situation by 2003, and that in most cases this was due to lower than predicted export growth caused by the global economic slowdown and the fall in international commodity prices. Uganda, the first country to achieve 'completion point', has seen its debt rise above the sustainability threshold due to depressed coffee prices. Even so, the estimates for debt repayments have been based on overly optimistic predictions of future economic and export growth. HIPC vulnerability to external shocks could be addressed if such countries were granted additional debt relief when shocks that eroded debt sustainability were shown to be beyond their control. This issue is already partly addressed in the existing HIPC framework, in which it is possible for countries to obtain extra debt relief for a limited period in 'exceptional' circumstances.

This 'topping up' option, however, lacks predictability in its application and is available for too short a time period. A more predictable and sustainable insurance facility is required to confront the problems of the HIPC initiative. In order to help reassure investors that a country's debt burden is sustainable, the facility should be available for ten years. Each year the IMF would calculate whether the 2 per cent debt repayment/GNP ratio described above was being exceeded; if so, the IMF could then assess the proportion of the excess attributable to exogenous shocks, and further debt relief could be granted accordingly. This process would be open to public scrutiny. Costing an estimated \$500bn over ten years, the insurance facility could be financed from IMF gold reserves, which have ceased

to play any serious monetary function.

These reforms to the HIPC initiative would, like the policies suggested in the sections above, serve a dual purpose. On the one hand they could help contribute to development in countries with high debt burdens, as debt repayments draw government funds away from poverty alleviation programmes and can aggravate financial instability. But such reforms would also be consistent with democratic values. Making debt relief more contingent upon the particular problems facing debtor countries, such as weak commodity prices, low growth or HIV/AIDS, is a way of giving states a greater chance of responding to their citizens' needs.

*\* Birdsall and Deese 2002, para. 20-41. The proposals draw on their book Delivering on Debt Relief. Alternative proposals for debt relief appear in Akyüz 2002, 12-15, Global Financial Governance Initiative 2002 and Dodhia 2002, para. 32.*

assistance. Finally, the new poverty reduction strategy papers (PRSPs) announced in 1999, in which governments (aided by the IMF and World Bank) undertake consultations with civil society to develop country-owned poverty reduction strategies that would form the basis for the HIPC initiative and other donor assistance, have been subject to criticism, including that there has been a lack of effective participation by local poor communities (see below).

159. Because of these various problems a major challenge is to find a way of making the HIPC initiative more generous, flexible and sensitive to local needs, and allowing for relief to be more rapidly triggered.<sup>62</sup> Some proposals for doing so are discussed in Box 6. There must also be a commitment to gender-sensitive decision-making in the improvement of the initiative. It should be recognised that long-term debt sustainability can only be attained by reducing the risks associated with these economies and increasing their resilience through diversification. In addition the Expert Group underscores the importance of all multilateral creditors moving, as a minimum, to 40 per cent grant financing in line with IDA 13 (the 13th Replenishment of the World Bank's International Development Association) for vulnerable HIPCs. In addition, the OECD Development Assistance Committee (DAC) bilateral donors that have not done so should provide 100 per cent grant financing to these countries. Furthermore, the quest for more flexible procedures should continue to enable conflict-affected countries to reach the 'decision point' – the point when a country's interim report is approved and it qualifies for debt relief under the initiative. Debt relief must be designed to be sensitive to the problems of particular developing countries, such as low commodity export prices, natural disasters, public health crises or lack of economic diversification and weak growth, as means of promoting pro-poor development.

160. Creating international procedures so that developing countries could resort to a debt standstill in a crisis situation, and subsequently seek approval for their actions from an international body, could be an effective method of supporting development while also creating international mechanisms of accountability, thereby helping make democracy work for pro-poor development.<sup>63</sup>

## **Aid**

161. ODA is needed to supplement improved trading opportunities, debt relief and private flows to help poor countries out of the poverty trap and into sustained development. International aid gives developing countries, particularly the most impoverished least developed countries (LDCs), an opportunity to build up their physical and human resource bases, and subsequently to shift from aid dependence. It also enables them to strengthen institutions, reduce transaction costs and enhance the capacity for a supply-side response in their economies. Small states within the Commonwealth have encouraged donors to increase aid flows to help with their transition to coping with the global economy. While some analysts question the effectiveness of aid, the available evidence clearly shows how aid can increase aggregate savings, investment and growth, and contribute to long-term poverty reduction more generally.<sup>64</sup> Aid can also help stabilise countries affected by events such as conflicts, earthquakes or famines. There are, however, two major problems with existing aid arrangements: Absolute levels of aid are too low and aid is not sufficiently effective.

162. Current ODA is around \$56bn a year. But to meet the MDGs, calculations by the UN and others suggest that an additional \$40-70bn is required. This means roughly doubling the amount of aid to 0.5 per cent of GNP in industrialised countries.<sup>65</sup> Most countries give far below this level (the USA grants around 0.1 per cent) and only five countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden) provide above 0.7 per cent of GNP, the target agreed upon at the UN in 1970.<sup>66</sup> Moreover, despite the continuing prevalence of global poverty, wealthy countries are effectively giving less international aid than in the past. In real per capita terms, net ODA disbursements to LDCs dropped 46 per cent between 1990 and 2000.<sup>67</sup> These falls have been occurring even in countries considered to have good policy environments. In addition, a considerable amount of aid promised to LDCs never arrives.<sup>68</sup>

163. In response to the shortfall of ODA, the UK Treasury recently called for the creation of an International Finance Facility (IFF) that would constitute a commitment by donor countries to substantially increase resources for developing countries to meet the MDGs by 2015. The facility would raise funds on international capital markets and distribute them in the form of grants and concessional loans.<sup>69</sup> The principle of securitising future aid flows is not inconsistent with the approach adopted to finance large infrastructure projects or raise funding from capital markets for the

**Table 3: 'Going it alone, with strings attached'**\*

All aid is not the same. Some countries give a large share of their aid in the form of technical co-operation (TC), which is rarely demand driven and is often largely spent on well-paid advisers from rich countries. Some of the remaining aid is often 'tied' to the purchase of the donor country's products, meaning that the recipient cannot use aid to buy from other countries that make those things more cheaply. Countries also vary in how much of their aid goes to support collective international aid institutions and how much goes only through their own bilateral aid agencies – often without significant co-ordination with other donors.

	Share of all aid spending on donor-country goods or services (%) <sup>a</sup>	Share of all aid given bilaterally (%) <sup>b</sup>
Australia	80	74
Austria	54	65
Belgium	54	57
Canada	79	69
Denmark	19	59
Finland	46	58
France	64	73
Germany	61	59
Greece	87	41
Ireland	6	61
Italy	93	25
Japan	37	68
Netherlands	37	69
New Zealand	53	79
Norway	17	73
Portugal	84	75
Spain	46	61
Sweden	11	70
Switzerland	21	74
United Kingdom	43	66
United States	91	75
<b>AVERAGE</b>	<b>54</b>	<b>64</b>

**Note:** All data on tied aid and all data on TC and bilateral aid are from each country's 2001 report to OECD on its percentage of tied aid, except for Austria (2000 report to OECD), New Zealand (1992) and the United States (1996).

**a** This is the sum of two numbers. The first is the share of gross aid commitments that is given as TC. The second is the share of all non-TC gross aid commitments that is 'tied'. A small amount of aid is classified as 'partially untied'; half of this amount is included in the tied share. **b** Calculated as 1 minus the ratio of 'contributions to multilateral institutions' to 'total official development assistance'.

Source: OECD Development Assistance Committee, DAC Online Database, <http://www.oecd.org/htr/M00005000/M00005347.htm#dac/o>

\* This table, including both the data and text, is a full reproduction of Figure 1 in Birdsall and Clemens 2003, 4.

World Bank and regional development banks. The fact that the IFF would have no immediate impact on budgets is particularly attractive at a time when major donors are currently experiencing budgetary constraints. If a wider group of governments fails to endorse a new facility, Commonwealth governments could adapt the structure of the IFF to mobilise resources within the Commonwealth.

164. The reasons for the ineffectiveness of much aid are complex. Part of the problem concerns the lack of co-ordination among donors. Countries are faced, for example, with multiple standards and reporting requirements, which can result in administrative inefficiency and wasted resources. Donors have also shown themselves to be inflexible, often tying aid to procurement or requiring countries to meet stringent and frequently inappropriate conditions for aid disbursement. Global earmarked funds have in some ways eroded the decision-making authority of national governments. In addition, too much aid has been diverted to finance debt service rather than channelled into development purposes.<sup>70</sup>

165. Some of the problems of the current international aid regime are depicted in Table 3, taken from a recent paper published by the Centre for Global Development. It shows how a large proportion of aid is tied to the purchase of donor countries' goods and services, and how a significant share of aid is given bilaterally rather than through collective and co-ordinated international efforts. The data suggest that developed countries may be failing to meet MDG 8 – 'to develop a global partnership for development', including through more generous ODA for countries committed to poverty reduction. Further data on compliance with MDG 8 among developed Commonwealth countries appear in Appendix A.

166. A related problem is the lack of co-ordination between donors and government anti-poverty strategies. The introduction of PRSPs in 1999 was partly intended to deal with this difficulty. Low-income countries would prepare their own national poverty reduction strategies (with advice from the IMF and World Bank and in consultation with civil society), and if deemed satisfactory by the Fund and the Bank, the PRSPs would provide the basis for concessional assistance and debt relief from the Fund, the Bank and the international donor community as a whole. The PRSP process, while still at an early stage of its development, appears to have encouraged dialogue between donors, governments and civil society, and is having some beneficial effects on budgetary processes.<sup>71</sup>

167. The PRSPs have, however, been subject to criticism. While the process of policy formulation has changed in some ways, the content of policies has not; PRSPs often seem to reinforce policy directions already in place. Even when PRSPs are 'country owned', they are frequently incompatible with the conditionality attached to HIPC decision and completion point documents, Poverty Reduction and Growth

Facility (PRGF) arrangements or Poverty Reduction Support Credits (PRSC). Civil society associations, and sometimes even parliaments, feel marginalised from the PRSP process, and the PRSPs also tend to neglect the impact of trade liberalisation policies on poverty, and to be insensitive to gender issues. While the IMF and World Bank acknowledge some of these problems, few criticisms, as yet, have been addressed sufficiently in reappraisals and adjustments of the system.<sup>72</sup> The PRSP process is expected to be continuous and iterative; as such, it provides the scope to address these issues, as long as governments are committed to the process and donors are willing to align themselves behind beneficiary priorities.

168. Countries with ‘endowed handicaps’ based on smallness, remoteness or being landlocked experience particularly difficult challenges in attracting investment. Priority needs to be attached to identifying innovative market-friendly instruments for sharing risk through the use of official resources to assist them to compensate for their endowed handicaps. Historically, these countries were able to attract investment to develop competitive capacity through the benefits provided by trade preferences, which are now being eroded. The UK Department for International Development’s Emerging Africa Infrastructure Fund is an example of such an instrument.

169. Private voluntary flows and aid from non-governmental organisations (NGOs) amount to some \$7bn per year (over half of which comes from government sources), which is around 8 per cent of ODA.<sup>73</sup> While NGO aid is generally more effective than official assistance at reaching the poor, such aid does not come without problems. Northern NGOs often operate without sufficient participation from the communities they are intending to benefit. Furthermore, the activities of many NGOs are largely unmonitored by the public or governments, resulting in a lack of accountability and transparency.<sup>74</sup>

170. Democratically-oriented policies can be used to confront the development challenges posed by the international aid regime. National poverty reduction strategies could have more meaningful participation from poor communities and incorporate more comprehensive public information campaigns.<sup>75</sup> Reducing the amount of tied aid that promotes donor commercial interest – often at the expense of national priorities – and reducing excessive conditionality in official assistance as well as providing increased direct budgetary support where appropriate, would give governments greater ownership and control of their own policies. Similarly, greater co-ordination and harmonisation between donors and governments would be a way that donors could show their respect for the sovereignty of developing countries. The good practice papers promoted by the OECD-DAC might provide a model in this area.<sup>76</sup> Priority should be attached to implementing the outcomes of the High Level Forum on Harmonisation (Rome, 24-25 February 2003). An example of how governments and donors can work together more effectively is highlighted in Box 7.

171. For their part, beneficiary countries need to strengthen the accountability and transparency of government revenue and expenditure. Promoting good governance and combating corruption can improve aid effectiveness (see Section 4.3).

172. The Expert Group emphasises that the Commonwealth has a great opportunity to give a lead to the international community to ensure that resources for development are allocated and targeted in accordance with the recipient country's own development programmes and frameworks. Failure in this regard will not only undermine the long-term prospects for economic success but will also undermine democratic processes.

## 5.2 International Institutions

173. The institutions of global governance, such as the IMF, the World Bank, the WTO and the United Nations and its specialised agencies, all play important roles in facilitating development, alleviating poverty and securing the peace. The Expert Group believes that it is essential to ensure that international institutions pursue these goals in ways that reinforce and strengthen democratic decision-making and democratic culture both within countries and within the institutions themselves.

174. Much policy debate about the institutions of global economic governance centres on making the IMF and World Bank more accountable through tackling their democratic deficits. What is the nature of these democratic deficits? The main problem is one of representation. Nearly half the voting power in the World Bank (46%) and IMF (48%) is held by just seven countries: China, France, Japan, the Russian Federation, Saudi Arabia, the United Kingdom and the United States. Due to a special majority of 85 per cent being required for significant decisions, the United States is effectively able to exercise a veto. Discretionary control over additional resources furthers US influence in both organisations. In contrast, developing countries – the main borrowers – have comparatively little representation. Although they receive 'basic votes', the share of these in voting power has declined from 12.4 to 2.1 per cent.<sup>77</sup> Informal practices are also important. The United States and Europe effectively choose the heads of the World Bank and the IMF respectively. Despite recent reform initiatives, both organisations have also been criticised for their lack of accountability and transparency in decision-making processes, in addition to the limited number of women among top executives. A set of proposals suggested by UNDP to challenge the democratic deficits in the IMF and World Bank is discussed in Box 8.

175. The democratic deficits in the IMF and World Bank have often had detrimental consequences for development. The Bretton Woods Institutions have promoted policy blueprints that are inappropriate for complex economic and political

## **Box 7: Improving Donor-Government Co-ordination in Tanzania**

Tanzania provides a good example of improving donor-government co-ordination as a means of making aid more effective. A recent OECD-DAC country study of Tanzania analyses the greater trust and harmonisation between donors and the government since the mid-1990s. It highlights the following:\*

- **The annual Public Expenditure Reviews (PER) and preparation of the Medium Term Expenditure Framework (MTEF)**

Introduced by the World Bank in 1996, the PER is now an annual government-led process with wide participation from key sector ministries, most donors and some NGOs and academic institutions.

- **The Local Government Reform Programme Basket Fund**

In 1997 donors and the government established the Common Basket Fund (CBF), a joint funding mechanism to finance the implementation of the Local Government Reform Programme. The CBF is overseen by a committee comprising donor and government representatives, and is mandated to approve annual work programmes, authorise budgets, release funds into the basket and review external audit reports.

- **Harmonisation around the Tanzania Assistance Strategy (TAS)**

In 2002 the government issued the TAS as a 'home-grown' initiative providing a framework for managing foreign aid resources. In the TAS the Government has incorporated many donor concerns, such as promoting good governance, transparency and accountability. The OECD-DAC group of donors have established a Harmonisation Sub-Group to generate responses from donors to the TAS. A process has been established to reach a consensus between donors and the Government on managing aid.

Despite some difficulties, the process of harmonisation between donors and the Government of Tanzania has met with much success. Greater co-ordination is enabling aid to be more effective in assisting with the implementation of the PRSP. There is still a need, however, to bring some donors more closely into the harmonisation initiatives. The improved co-ordination also has important democratic elements. Ownership of aid management is shifting from donors to the Government. Harmonisation processes have included considerable participation from different sectors, including NGOs. Some policy programmes that involve greater donor-government co-ordination, such as that concerning local government reform, support democratic values such as local democracy. More effective monitoring of the donor-government relationship has also contributed to greater transparency of international aid flows and programmes.

\* *Ronsholt 2002. See also UNCTAD 2002, 196.*

## **Box 8: Challenging the Democratic Deficit in Global Financial Institutions**

UNDP's *Human Development Report 2002* is one of many studies that highlights a possible reform package that could increase developing country representation in the IMF and World Bank, and help tackle the problem of the democratic deficit in these institutions.\* The first proposal is to increase the proportion of basic votes of developing countries relative to the voting power of developed countries, so that the developed countries can no longer be so dominant. The second main proposal is to enhance the voice of developing countries, and to increase both accountability and transparency, by having an open selection procedure for electing the heads of the two institutions. Additionally, the number of seats allocated to developing countries on the executive boards should be increased, as should the number of women in top positions. Third, there could be greater efforts to make the institutions more accountable for their actions, such as through: (1) publishing the minutes of executive board meetings; (2) improving follow up of independent evaluations, including those of the World Bank's Operations Evaluation Department and the IMF's Office of Independent Evaluation; and (3) enhancing the ability of poor communities affected by decisions and projects in developing countries to access dispute mechanisms, such as the World Bank's Inspection Panel.

The policies outlined above, although not blueprints endorsed by the Expert Group, are possible ways of promoting pro-poor development and tackling the democratic deficit in the IMF and World Bank. Greater representation of developing countries, more effective methods of participation and increased accountability and transparency are good for democracy and also a means of generating policies that are more sensitive to the needs of disadvantaged populations facing poverty in developing countries.

*\* UNDP 2002, 112-122. For other proposals see Global Financial Governance Initiative 2002 and Akyüz 2002, 15-25. Some of the following proposals are discussed in International Monetary Fund and World Bank 2003.*

realities in developing countries. IMF adjustment policies, including high interest rates, currency depreciation and large budgetary cuts, have often been associated with poverty and inequality increases. According to many scholars IMF-supported measures such as full capital account convertibility contributed to substantial economic instability in East Asia and the Russian Federation. World Bank projects have often occurred without sufficient consultation with local populations and have had negative development consequences.<sup>78</sup>

176. The recent trend towards a greater focus on poverty reduction in reform programmes supported by the IMF and World Bank is to be welcomed, as is the effort to enhance developing country ‘voice’ in the international financial institutions. The World Bank now uses environmental impact assessments, social impact assessments and other measures in an effort to make its projects more sensitive to local populations. Reforms including greater disclosure of information by the Bretton Woods Institutions, the PRSP process, the IMF’s creation of regional technical assistance centres and the Bank’s decentralisation of its country offices, have contributed to developing country voice and capacity-building, and created greater transparency. Current proposals to increase the voice of developing countries include providing developing country chairs with greater technical and research support and increasing the number of executive directors.<sup>79</sup> The good intentions of the international financial institutions must be translated into concrete practices.

177. The WTO’s decision-making system is nominally democratic in that it is based on ‘one country – one vote’. In practice, it needs to be reformed so that developing country members can participate more effectively, especially in the drafting of negotiating texts. The WTO needs to become an organisation that truly respects the interests of developing countries.

178. There is a need to encourage deeper participation of poor communities in the PRSP process, and to monitor the extent to which other policies and programmes in the IMF, World Bank and WTO might be bypassing or inadvertently eroding democratic processes and institutions at the national and sub-national levels. It is also important to ensure that international economic and political institutions are themselves models of good practice in respect of democratic accountability, transparency and participation. In these ways, democracy can work for pro-poor development.

### **5.3 Peace and Security**

179. The Fancourt Commonwealth Declaration of 1999 recognises the fragility of global peace and security. One of the most distinguishing features of the post-Cold War period is the rise of intra-state conflict. Between 1990 and 2001 there were 57 major armed conflicts in 45 different locations, and all but three of these conflicts were internal.<sup>80</sup> Many of the conflicts have spilled over into bordering countries, resulting in regional instability. In some cases neighbouring countries have intervened in civil conflicts to fuel tensions, usually for ethnic or extractive purposes. In addition, civil conflicts have not only caused the massive internal displacement of millions of people, but have contributed to the international refugee crisis that has affected countries in both the South and North. Internal conflicts have sometimes led to the phenomenon of failed states, in which central government authority collapses, as has occurred in Afghanistan and Somalia. A large proportion of civil conflicts have

occurred in fragile new democracies in developing countries.<sup>81</sup> As part of the global effort to ensure peace and security, the Commonwealth Secretary-General's good offices have been increasingly invoked in conflict resolution.<sup>82</sup>

180. But global peace and security have also been threatened by other problems. One of these is terrorism. Since 11 September 2001, governments across the globe have stepped up their efforts to confront terrorist groups. In October 2001, Commonwealth Heads of Government condemned terrorism and "any nation which harbours, supports or provides assistance to terrorist activity".<sup>83</sup>

181. Terrorism has also become enmeshed with other existing problems such as drug trafficking, the arms trade and money laundering. The rise of organised crime – both transnational and domestic – and terrorism have altered the very nature of crime and created distinct challenges for governments across the globe. Crime can no longer be addressed as a local matter. Most serious crime has transnational components and effects and requires a co-operative effort to respond to it. Increasingly by its nature, complexity and wide-ranging impact, such crime constitutes a direct threat to social and political stability. Organised crime and terrorism are limiting the development opportunities of poor countries in a number of ways, for example by diverting scarce resources to fight crime, deterring investment, and through funds being siphoned out of the legitimate economy. A related problem concerns citizen security linked to common crime. In both the North and South there has been an enormous increase in violent crime in recent decades, often committed by mafias, bandits and gangs. Survey data shows how fear of crime is frequently among citizens' greatest daily concerns.<sup>84</sup>

182. Finally, the proliferation of small arms is a key problem for peace and security. A recent United Nations Conference on the Illicit Trade in Small Arms and Light Weapons in All its Aspects highlighted the presence of 500 million small arms in the world and that 40 per cent of the trade is illegal.<sup>85</sup>

183. The causes of these peace and security problems are extremely complicated. They include factors related to the extent to which domestic political institutions can resolve potential conflict, national and international economic structures, cultural and social divisions, the changing geopolitical balance, and historical legacies. Conflict usually emerges through a combination of such factors. Among the various causes ethnic and religious intolerance has been at the root of much conflict; and the international arms trade, for which industrialised country governments bear great responsibility, has both encouraged violence and perpetuated the length of many civil conflicts. Former colonial powers also often left countries with antagonisms that are now being resolved through armed conflict. Apart from these factors, it is essential to acknowledge the link between poverty and violence. In the past two decades internal conflicts have not only emerged in countries that suffer from ethnic tension or have

disputes inherited from the age of empire, but in some of the poorest countries of the world, especially in Africa. It is clear that poverty and inequality can contribute to the tensions that lead to civil war, support for fundamentalist groups and common crime.

184. Poverty is also a consequence of conflict and insecurity. Without peace and security farmers cannot grow and harvest crops and businesses do not have an environment in which they can invest. Scarce resources are directed towards fighting wars, obtaining private security or pursuing terrorists. Infrastructure is destroyed, food is difficult to distribute, and internal displacement and refugee exodus prevent people from effectively engaging in productive activity. Long-term economic planning can become an impossibility.<sup>86</sup> The consequences of conflict can persist long into post-conflict periods. It can take years, for example, for a previously war-torn country to rebuild basic economic infrastructure.

185. Numerous Commonwealth countries have been affected by acute social and ethnic conflict. Conflicts in corners of the world as diverse as Bougainville and Sierra Leone have destroyed health systems, education services and agriculture, and generated a culture of intolerance. Ethnic and social conflicts have occurred in Fiji Islands, Kenya, the Solomon Islands, Sri Lanka and Uganda. Bangladesh, India and Pakistan have suffered from internal and external conflicts. In all these countries, and many others, conflict and insecurity have exacerbated poverty.<sup>87</sup> In several new democracies ethnicity and religion have been used by party leaders to promote their political objectives, while secular politics have been eroded. In addition, ethnic tensions have been fuelled by electoral systems that favour some groups over others, and by educational systems and media that fail to promote a culture of tolerance. It is essential, therefore, to recognise the reality of multiculturalism and to support cultural diversity. High priority must be attached to promoting political mobilisation based on inclusive platforms and ideologies.

186. The Expert Group is particularly concerned that the international community is failing to provide timely logistical and financial support in a number of conflict situations, particularly in Africa, where domestic efforts to contain conflict have been made and have failed (Box 9). Without such support regional and sub-regional efforts to address conflict cannot proceed.

187. There are various ways of using democracy to promote peace and security. Some internationally mediated peace processes to end civil wars have attempted to incorporate participation by groups in civil society, providing a democratic grassroots element to conflict resolution. In Sierra Leone, the Commonwealth has been backing a number of initiatives involving women, men and youth that support post-conflict reconstruction and peace building at the national and local levels.<sup>88</sup> Such approaches not only contribute to peace but also uphold and promote democratic values such as

participation, local democracy and gender rights.

188. A recent report emphasises that religious strife, civil wars and ethnic tensions are often due to “the absence or denial of free cultural expression as embodied in cultural diversity”.<sup>89</sup> Policies that contribute to greater cultural diversity and religious or ethnic tolerance, such as the incorporation of multi-ethnic and pluricultural themes into educational curricula, can be a means of promoting peace. They can also support civil rights, such as freedom of religion, and group rights including the right of indigenous peoples to establish and control their education systems and institutions in a manner appropriate to their cultural methods of teaching and learning.

189. Reducing arms sales to governments that use weapons to subordinate their civilian populations can help protect human rights, while fighting the illegal arms trade upholds respect for the rule of law. Strengthening judiciaries to challenge abuses committed by the military and police, and ensuring lack of impunity for past human rights violations, also bolsters the rule of law. The rule of law will be further strengthened by more effective legal provisions to fight terrorism and organised crime. At the same time, anti-terrorist policies should maintain respect for civil liberties in order to be consistent with democratic values.<sup>90</sup> Finally, community policing

**Box 9: Encouraging International Co-operation to Support Peace and Security in Africa**

Conflicts not only impoverish the poor but also erode processes of democratisation. They constitute a major obstacle to Africa’s renaissance. Recognising this reality African states have been pursuing policies aimed at addressing this scourge. In addition to national efforts, sub-regional and continental mechanisms have been established to respond to the crisis situations emanating from conflicts in countries such as Burundi, Democratic Republic of the Congo and Liberia.

Preventing, containing and resolving conflicts are daunting but urgent challenges. They require resources in addition to political will. For these efforts to have a reasonable chance of success they need to be augmented by international support. Such support is particularly needed for peace missions and peacekeeping. Where such support has been forthcoming it has had a decisive impact. Sierra Leone is a case in point. But the reality is that such support is the exception rather than the rule.

There are a number of examples where African states’ readiness to act decisively in deploying peace missions or peacekeeping has been frustrated by the lack of requisite means and uncertain or excessively delayed reaction by the international community. Three cases come to mind.

In 1994, in the immediate aftermath of the genocide in Rwanda, the UN was keen to deploy peacekeepers and undertake other peace initiatives. The UN Secretary-General

projects to reduce common crime are a means of democratising security to build peace.<sup>91</sup> These kinds of strategies can help pro-poor development through ensuring peace and security, while simultaneously upholding and promoting democratic values.

190. The military invasion of Iraq has raised discussion about whether it is legitimate and necessary to impose democracy by force. Some commentators have argued that 'regime change' through military action by democratic countries can be an effective means of establishing democracy in undemocratic states. The Expert Group is wary of this approach to democratisation. Such actions may not only have weak foundations in international law, but also divert scarce public funds into military spending, have serious consequences in terms of loss of life, induce refugee crises, cause other forms of social, political and economic instability as well as divert development resources away from the most needy. For these reasons, the Expert Group believes that democratisation is best achieved using a peaceful but activist approach that encourages dialogue among diverse social sectors and supports local citizen participation in seeking solutions to political injustice. The international community should focus its attention on supporting free and fair elections and helping to build and to strengthen other institutions and processes, such as effective public

expressed his frustration at the failure to obtain troops that could be immediately deployed. Utilising the occasion of the inauguration of President Mandela in Pretoria, the then Secretary-General of the Organisation of African Unity (OAU) had consultations with several African Heads of State. As a result of these consultations at least ten African states were ready to send troops without delay provided that the logistical support was found. It was almost six months before such support was forthcoming.

Another example is that of Burundi. Despite universal support for a peace agreement and mediation efforts led by President Mandela, the deployment of peacekeepers has been hampered due to logistical problems. Only South Africa has been set to deploy while Ethiopia and Mozambique have been unable to deploy without external financial and logistical support.

Finally, there is the dramatic case of Liberia, where again the readiness of regional actors to send troops has been handicapped by the lack of commensurate logistical and financial support from the international community.

The message is very clear. Increasingly African states have demonstrated a determination and readiness to address the different dimensions of conflict as well as the preparedness to take appropriate measures in support of conflict resolution and the deployment of peace missions and peacekeepers. But this determination is clearly undermined by the lack of logistical and financial support provided by the international community.

security forces and judicial systems, that are necessary for democratic governance.

## 5.4 Recommended Actions at the International Level

### *Promoting free and fair trade*

191. The existing multilateral trading system impedes both development and democracy. The Doha Development Round provides powerful countries with an opportunity to demonstrate their commitment to inclusive globalisation, attainment of the Millennium Development Goals (MDGs) and global peace and security.

192. Commonwealth governments could play a vital role in ensuring:

- (i) that ongoing trade negotiations, after the failure to reach agreement in Cancun, address the asymmetries of the international trade regime discussed in this Report, such as those related to agriculture (including subsidies and dumping), market access for non-agricultural products and special and differential treatment;
- (ii) that poor and vulnerable economies in the Commonwealth are permitted to undertake liberalisation in ways and with phasing that minimise transition costs and do not impact harshly upon the poor within those countries; and
- (iii) that trade policy reforms promote gender equity.

193. The Group notes that the Commonwealth Secretariat could usefully expand its programmes to provide technical support to developing Commonwealth countries as a means of increasing their capacity to negotiate and implement their obligations within the WTO system in ways that are consistent with their development interests.

194. The Expert Group believes that Commonwealth Trade Ministers Meetings could assist the Commonwealth's diverse membership to understand each other's interests and concerns. It is noteworthy that consensus reached at Finance Ministers Meetings enabled the Commonwealth to play a leading role in promoting debt relief for heavily indebted poor countries. While the Group recognises that trade interests are more contentious, it is of the view that as a microcosm of the world, the Commonwealth is well placed to seek to facilitate consensus on multilateral trade issues through better understanding of different perspectives and interests. In addition, where there is significant convergence on particular trade issues, the Commonwealth should bring the full weight of the association to bear on advancing the agenda.

195. Commonwealth countries, assisted by the Commonwealth Secretariat, could take initiatives towards a more balanced intellectual property rights regime that is more oriented towards the needs of developing countries, including access to medicines and the protection of the interests of local communities. One possible initiative is a programme to follow up on the recommendations of the Independent Commission on Intellectual Property Rights (CIPR) established by the UK government.

196. Commonwealth countries should facilitate the creation of instruments (or streamlining of existing instruments) to help low-income countries overcome the problem of commodity price volatility and external shocks, and address the issue of the secular decline in commodity prices. The adverse effects of commodity price volatility (especially for the affected countries' ability to attain the MDGs) should also be taken into account in debt relief schemes such as the HIPC initiative and in aid programmes.

### ***Financing for development***

197. Poor countries need urgent and substantive increases in the quantity and quality of financial resources if they are to achieve pro-poor development and the MDGs. The Group believes that such resources can be made available by the international community through a number of means and in particular:

- (i) innovative mechanisms for doubling ODA to \$100 billion such as through the UK proposal for an International Finance Facility which, if not taken up by all countries, could be adapted as a Commonwealth mechanism for raising development resources;
- (ii) improving aid effectiveness through, *inter alia*, strengthened aid administration in beneficiary countries, reductions in tied aid and an increase in direct budgetary support, and implementation of the Rome Declaration on Harmonisation;
- (iii) support for social safety nets to reduce the impact of poverty on the most vulnerable groups, such as women, children, disadvantaged ethnic groups and indigenous peoples;
- (iv) more flexible approaches to debt relief that release adequate resources to support domestically formulated and internationally agreed development programmes, particularly in health and education;
- (v) support for measures that enhance greater stability of flows of

private investment to developing countries; and

- (vi) international financing initiatives to assist developing countries (particularly the smallest and most vulnerable) in confronting exogenous shocks such as a sharp deterioration in their terms of trade that threaten to derail otherwise robust development programmes. This could take the form of strengthening IMF and World Bank facilities to enable them to provide more timely, more concessional and more adequate assistance in these circumstances.

198. In respect of all these initiatives and strategies, the Group emphasises that the Commonwealth has a great opportunity to give a lead to the international community to ensure that resources for development are allocated and targeted in accordance with the recipient country's own development programmes and frameworks. Failure in this regard will not only undermine the long-term prospects for economic success but will also undermine the democratic processes outlined above.

199. The Expert Group emphasises the central importance of sound management of both domestic and external debt as a pre-condition for sustained growth. It recognises the valuable role being played by the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) in many countries and calls upon the Commonwealth Secretariat to continue to assist countries to develop their debt management capacity.

200. Commonwealth countries should continue to press for implementation of the HIPC initiative in ways that ensure debt sustainability for recipient countries.

201. Commonwealth countries should support initiatives such as NEPAD that encourage partnership between governments, the international community, the private sector and civil society to deliver aid and to tackle development problems more generally. The Expert Group recognises that the Commonwealth, as a series of networks encompassing governments, the private sector and civil society, has a comparative advantage in this area.

### ***Stable private flows***

202. While the Expert Group does not believe that supranational bodies are required to confront problems of volatile and inadequate private capital flows, it encourages Commonwealth countries to support initiatives that permit low-income countries to take measures to protect themselves from volatile private flows, including a cautious approach to capital account liberalisation.

203. The Expert Group recognises the various ways in which international financial markets can have adverse effects on developing countries. There may be a need for greater transparency of international financial markets, more effective regulation of highly leveraged investment funds and derivatives and stricter rules against insider trading. These issues require further analysis before concrete solutions can be recommended. The Group calls upon the Financial Stability Forum and other relevant institutions to take account of the more fragile conditions in emerging markets in seeking solutions to these issues.

204. The Financial Action Task Force on Money Laundering (FATF) recommendations on combating money laundering and the financing of terrorism impose considerable administrative and legislative burdens. The Group welcomes the special efforts made by Commonwealth donors to provide support in this area and requests them to continue to assist capacity-constrained countries.

### ***International institutions***

205. International institutions, including the IMF, the World Bank, the WTO and the United Nations and its specialised agencies, are all playing important roles in facilitating development, reducing poverty and securing the peace. The Group's concern is to ensure that international organisations pursue these goals in ways that reinforce and strengthen democratic decision-making and democratic culture within countries. In this regard, Commonwealth governments are urged:

- (i) to encourage deeper participation of poor communities and vulnerable groups in the poverty reduction strategy paper (PRSP) processes of the IMF and World Bank, and to monitor the extent to which other policies and programmes of the IMF, World Bank and WTO might be bypassing or otherwise inadvertently eroding democratic processes and institutions at the national and sub-national levels; and
- (ii) to ensure that international institutions (such as the IMF, World Bank, WTO and UN institutions such as the Security Council) are themselves models of good practice in respect of democratic accountability, participation and transparency.

206. The Commonwealth should take advantage of the reach its members have into these institutions to develop productive working relationships with them in order to advance the association's values and objectives.

### ***Peace and security***

207. Conflict and insecurity extinguish the prospects of both democracy and

development. Furthermore they impact disproportionately on the poorest in any society. Yet international action in the cases of the poorest and most desperate states in conflict is almost always dilatory and inadequate where domestic efforts to contain conflict have been made and have failed. The Group is particularly concerned that where regional and sub-regional organisations are attempting to address conflict situations such as those in Burundi, Democratic Republic of the Congo and Liberia, which impact on Commonwealth countries, the international community is often failing to provide timely logistical and financial support without which the operations cannot proceed. On this issue, Commonwealth Heads of Government can make a difference by actively helping to mobilise critical international support and resources to facilitate the work of sub-regional or regional peace initiatives that are duly authorised by the United Nations Security Council.

208. Commonwealth Heads of Government should commit to strengthening and encouraging mechanisms for regional conflict resolution and peace-building initiatives through the development of common policy strategies that facilitate citizen participation, such as from women and youth.

209. The Expert Group believes that democracy cannot be imposed by force. The use of force has significant costs, including loss of life, the diversion of scarce public funds into military spending, the creation of political divisions and the exacerbation of social and economic instability. Moreover, such actions have weak foundations in international law. The Group calls upon Commonwealth countries to support democratisation processes that promote peaceful forms of political change and local citizen participation in decision-making processes, and that conform with international law. The Expert Group believes that the Commonwealth has a comparative advantage in promoting and supporting a multilateral approach that is based on peer review, engagement and pressure.

210. The Expert Group emphasises that appropriate power-sharing arrangements are essential in multi-ethnic and multicultural societies. Commonwealth countries should commit to introducing citizenship education that promotes cultural diversity, religious and ethnic tolerance, human rights and democratic values in general, particularly among youth. Commonwealth countries should also commit to ensuring that the communications media, political parties, electoral systems and other institutions do not contribute to racial and ethnic hatred and intolerance (see Section 4.3).