5 Ecological footprints

If it took England the exploitation of half the globe to be what it is today, how many globes will it take India?  

Gandhi

Introduction

Hatiya Island, which lies at the mouth of the Meghna River, in the Bay of Bengal, is a dangerous place to live. Not much more than a large sand bar, the island is home to 300,000 people, the majority of them landless. The poor communities who cultivate its fertile soil face many problems. All of the island’s inhabitants live with the threat of cyclones and tidal surges, but it is the poorest families who are most vulnerable. In the devastating cyclone of April 1991, more than 90 per cent of the island’s inhabitants lost their homes. Their crops and fields were submerged under several feet of salt water. Over night, years of hard work were destroyed. Dwip Unnayan Sangstha (DUS), one of Oxfam’s project partners in Bangladesh, was one of the few organisations still able to help stricken people, distributing food and other essential supplies. It continues to support the islanders through longer-term development work, focusing particularly on a campaign for land rights. With help from DUS, people displaced by river erosion from the north of the island have successfully claimed land newly created by silt deposits in the south, and they have been encouraged to protect it from tidal surges by building embankments and planting trees.

The people of Hatiya are well aware of the threats posed to their livelihoods by unequal social relations and an unpredictable environment. But there is another threat of which most are unaware: the threat of global warming. There is substantial agreement among scientists around the world that human activities are warming the surface of the earth. The burning of fossil fuels and, to a lesser extent, the clearing and burning of forests, together with the emission of methane gas, some of which is produced by animals, accelerate the build-up of greenhouse gases. These reflect infra-red radiation that would otherwise pass out of the earth’s atmosphere, thus causing global warming. The Intergovernmental Panel on Climate Change (IPCC), a body of more than 300 experts convened by the United Nations, currently predicts that the expected rise in concentrations of greenhouse gases will result in an increase in average global temperature of between 1°C and 2°C by 2030, and nearly 3°C by the year 2100. That may not sound like much, but the scale and speed of the changes are greater than anything witnessed in the last 10,000 years. Since the coldest point of the last Ice Age, world mean temperature has increased by only some 4-5°C. The IPCC predicts that temperature increases will cause sea levels to rise globally by 18cm by the year 2030, rising to an average of 65cm by the end of the next century. Subsequent projections have revised the figure downwards a little, but low-lying regions of the world could still anticipate devastating effects.
For Bangladesh, and other countries unable to afford costly flood-defence systems, global warming is likely to bring an increase in the scale and frequency of the coastal flooding associated with cyclones and storm surges. For present and future generations of people living on Hatiya, this spells potential disaster. Some researchers consider that global warming may already be a factor in extreme weather patterns of the kind which brought the 1991 cyclone to Bangladesh.

The dangers facing communities on Hatiya Island and elsewhere in the Bay of Bengal illustrate the way in which global environmental problems hold particular threats for the poor. In general, poor countries, and poorer groups within countries, have less capacity to adjust to the pressures resulting from environmental degradation. Low-income countries are especially vulnerable since their economies are more dependent on agriculture and natural resources that are sensitive to climate changes. Global warming will lead to a greater frequency of extreme climatic events, and result in much more variable growing conditions. In almost all regions of the world, in major food-exporting regions and in areas that are not self-sufficient in food, it is likely that it will be changes in crop-water patterns that will have the most significant effect on agriculture. Although there will clearly be some winners from this process, when cereal production becomes possible in places it was not before, it seems likely that they will be outnumbered by the losers. According to the IPCC, for example, warmer, dryer conditions could cause losses in agricultural production of up to one-third by about 2030 in the Great Plains of the US and the Canadian Prairies, as the boundaries for cultivating cereals edges northwards by 300 kilometres for every degree centigrade increase in average temperature. This constitutes a threat both to the livelihoods of farming communities in North America, and to the food security of the world’s poorest countries in Africa and elsewhere, many of which have become critically dependent upon food imports.

The most serious threat is to vulnerable communities in arid and semi-arid regions, such as the Sahel and the Horn of Africa. If rainfall changes do not compensate for warming, the impact on vulnerable groups in semi-arid areas could be huge: in Kenya, for example, it is estimated that there would be reductions of up to 30 per cent in the area suitable for maize cultivation, which would have devastating effects. Warming would also have a dramatic impact on the availability of pasture for grazing, as reduced moisture leads to a loss of tree cover and vegetation. For many of the pastoral farmers and smallholder producers with whom Oxfam works, therefore, global warming is, quite literally, a matter of life and death. Unlike the industrialised world, most developing countries simply lack the investment resources which would enable them to diversify or adjust to global warming; and they have fewer options in terms of migration. Poorer people in these countries will pay the highest price, since it is they who work on the most vulnerable land or in the most exposed low-lying regions; and it is they who have the fewest resources with which to adapt.

There is now a gathering awareness of the threat posed by global warming to the livelihoods of millions of people in the developing world. The recent UN Global Conference on the Sustainable Development of Small Island Developing States (SIDS) made action to combat the risk of global warming the first recommendation in its Programme of Action. Any rise in sea levels, it advised, would have significant and profound effects. "The very survival of certain low-lying countries would be threatened."

Calculating the effects of global warming
Case studies carried out for a Commonwealth Group of Experts show how rising sea-levels could have far-reaching social and economic effects on low-lying coastal areas. Major deltas could be acutely affected since they are, for the most part, very low-lying, unprotected from the sea, densely populated, and important centres
Ecological footprints of agricultural production. The two deltas with the greatest potential for disaster are the Nile and the Ganges. A sea-level rise of 50cm would inundate an area of the Nile delta currently holding 16 per cent of Egypt's population and an even higher percentage of productive farmland. The threats to Bangladesh are more serious still. Climate change would almost certainly increase the frequency of cyclonic storm surges, one of which killed over 250,000 people in 1970; a one-metre rise in sea level could flood more than 15 per cent of the country's land area, directly affecting over 10 million people.

Efforts have been made to predict more precisely the effects of climate change on Bangladesh, but it is a task fraught with complexities. Delta areas are inherently unstable: each year large areas of land are formed by new alluvial deposition and other areas are eroded by shifting channels. These processes are themselves affected by increased rates of deposition as a result of ecological changes in the upper reaches of the rivers, by increased salination, and a major intensification in agriculture. There is, then, an extremely complex and dynamic set of physical and human changes in the delta, making it difficult to predict with certainty the likely effects of a sea-level rise. What can be predicted is that the potential for disaster is considerable.

The Commonwealth Secretariat has attempted to estimate the impact of an increase in the mean sea level of 1 metre (90cm on static sea level and 10cm subsidence). Its findings include:

- In the coastal areas there would be inundation of 2000km², 16 per cent of Bangladesh's total area and 14 per cent of the cropped area. The socio-economic consequences would involve:
  - displacement of 10 per cent of population
  - loss of land currently producing two million tonnes a year of rice, 400,000 tonnes of vegetables, 200,000 tonnes of sugar, 100,000 tonnes of pulses, and accommodating 3.7 million cattle, sheep, and goats
  - loss of 1.9 million homes, 1,470km of railways, 10,300 bridges, 700km of metalled road and 19,800km of unmetalled roads
  - output loss estimated equivalent to 13 per cent GDP and loss of assets of 450bn taka ($11bn).
- The Sunderban mangrove forests, in southwestern Bangladesh, stretching over 400,000 hectares, would be destroyed by increasing salinity, then inundation.
- Salinity problems, already serious, could be aggravated with implications for drinking water (especially in Khulna and Chittagong), agricultural yields (especially for vegetables), and industrial facilities (e.g. power stations).
- Coastal structures like the existing 58 polder embankments, which protect areas of land with internally-controlled water management, would need heightening and strengthening, as would drainage systems. The estimated cost is 18bn taka ($4.5bn).
- The above effects do not include the potentially catastrophic consequences of:
  - more extreme and/or more frequent storm surges resulting from tropical storms like those in 1970 that killed over 250,000 people, and in 1991 left over 138,000 dead
  - the impact of different rainfall patterns on river flows and, thus, vulnerability to river flooding, like that in September 1988, which inundated 85 per cent of the land area and affected 45 million people.

Further studies have been published which challenge scenarios such as this, on the grounds that they fail to address both the considerable natural resilience of the Bangladesh coastal zone, and human adaptability to environmental change. While this may be the case, the issue is still of such uncertainty as to warrant using the 'precautionary principle', and examining what may be worst-case scenarios.

Responsibility for global warming

People living in low-lying countries have developed over many centuries ingenious methods for dealing with an unstable environment. But they are now faced with a threat which may be beyond their control. That threat
is rooted not in the vagaries of climate, but in the consumption patterns of people in the industrialised world, which are overwhelmingly responsible for emissions of CO₂, the greenhouse gas mainly responsible for global warming.

In essence, the patterns of production and consumption in the industrialised world are threatening the survival of vulnerable communities in developing countries; communities like those on Hatiya Island. Ultimately, of course, they also threaten the welfare of future generations in the industrialised world. There is now a growing awareness, heightened by the 1992 Earth Summit, that our planet's ecosystem is being stretched to breaking point. For many in the South, environmental degradation is already posing a profound threat to security and livelihoods. For people in the North, the threat might seem more remote. However, the reality is that global security is at risk. Having lived for much of the post-war period with the threat of a nuclear holocaust hanging over its head, the international community will enter the next century facing the prospect of an ecological crisis which constitutes a less visible but no less profound threat to survival.

When the UN was founded, it established a system of global citizenship rights to protect present and future generations from the scourges of poverty and war. However, this has not been translated into a practical framework in which governments can be held responsible for the welfare of future generations. The problem of environmental deterioration demands that this be remedied. Equal rights for future generations, or ‘intergenerational equity’, ought to be a guiding principle for the twenty-first century. That principle is based on two linked propositions: that no generation has the right to destroy the ecosystem or degrade the ecological resource-base of the planet; and each generation has the right to inherit a planet capable of sustaining health and wellbeing, and with a diversity in its natural and cultural resource base at least equivalent to that inherited by its predecessor. The challenge for citizens and governments now is to convert a set of moral principles into appropriate economic policies and institutions that will safeguard the global environment, and with it, the rights of future generations.

Unequal shares

If it is the rich — most people living in the North, and many Southern elites — who bear prime responsibility for global environmental degradation, it is the poor who are most immediately affected by it, and who are currently paying the greater price for adjusting to the imperatives of sustainable development. This discrepancy is not reflected in the perception of most people and governments in the North, who continue to regard high population growth in developing countries as the major threat to the environment.

From a Southern perspective, however, to attribute responsibility for the global ecological crisis to the developing world is to turn reality on its head and blame the victim for the crime. At issue is the question of unequal economic power, which enables the North to appropriate more than its fair share of global ‘sinks’, whilst urging environmental protection measures on the South. As one of India’s leading environmentalists, Anil Agarwal, has put it:

A person who is living in India like me may feel very strongly about the fact that if the Americans keep on building more power stations based on coal, this leads to global warming, which leads to a sea-level rise, and then drowns Bombay and Bangladesh. Do I have the right to say something about it or not? What are the levers of power that I have? None at all ... I allow the Americans to go to the World Bank and say there will be a green conditionality on Narmada [dam project] but I have no right, no forum, and no power whatsoever to say that there will be environmental discipline on energy consumption patterns in the United States of America. What do I do about that? It has tremendous repercussions for me, extraordinary repercussions for my economy. If global warming takes place and the climate changes, how am I going to adjust to that? ...
If the demand is for global governance in a sense of fair rights to all of us, then let us talk about a right to a clean environment for every citizen in the world, to which every government will have to submit itself.8

Environmental impact of Northern consumption

Poor people are denied the fair rights to the environment, to which Agarwal refers, not only by their poverty, but by the unsustainable patterns of production and consumption of the rich. With one-fifth of the world's population, the OECD countries consume almost half the world's fossil fuels, most of its metals, and a large share of timbers. Together they account for over one-third of the warming impact on the atmosphere from emissions of greenhouse gases. An analysis of commercial energy consumption, a useful measure of environmental impact, demonstrates that four-fifths of the world's commercial energy is used by a quarter of its population, living in 42 countries. Meanwhile, one-fifth of the world's energy is used by three-quarters of its population, living in 128 countries. On average, each person in a 'high consumption' country uses 18 times more energy than a person in a 'low consumption' country. According to one estimate, the impact of an average US citizen on the environment is 35 times that of the average Brazilian, and 250 times that of the average African. He or she also consumes 227 times as much gasoline and 115 times as much paper as the average Indian.9

The same picture is repeated in relation to global warming. During the 1980s, the industrialised countries produced over half of the observed rise of greenhouse gas content in the atmosphere. While developing countries also emit CO₂ in significant and rapidly increasing quantities, they still emit far less per head of population than industrialised countries. Per capita emissions in the US are almost 9 times those of China and almost 18 times those of India, for example. The UK, with just 1 per cent of the population accounts for 2.37 per cent of emissions.

The North's consumption patterns have imposed a high price on developing countries. Some environmentalists in the developing world have drawn an analogy between the exploitation of environmental resources today and the economic exploitation of the colonial period. 'Despite the world process of decolonisation,' writes one agency, 'there is today many times more land being used in the developing world to meet the food and other biomass needs of the Western countries than in the 1940s before the process of decolonisation began.'

Consider, for example, the agricultural systems of the industrialised world, which are partly maintained by production in developing countries. Demand for high protein feedstuffs to support livestock production in the Netherlands is met by production in developing countries on a land area eight times larger than that cultivated in the Netherlands itself. The UK requires two acres abroad for every one under cultivation at home.10 In some cases, vulnerable communities in developing countries have faced devastation as their land is used to provide food for the people and animals of Northern countries. It can, of course, be argued that trade revenues are vital to the South and can be used to import food and essential manufactures. However, not only is loss of food self-reliance a serious problem for poor countries, but it is the poorest who see the least benefits and pay the cost of environmental degradation in lost livelihoods. An example is the switch to soya bean production in Brazil.

The price of beef

The subsidised expansion of the EU's dairy and livestock industry has created a huge demand for high protein animal feedstuffs. That demand has been met in part through the expansion of large-scale, mechanised soya production in Brazil.

Between the mid-1960s and 1990, the area under soya cultivation in Brazil increased from 500,000 acres to 26 million acres. Smallholder producers of beans and staple foods in the southern part of the country have been dis-
Figure 5.1 Current annual carbon dioxide release per person

SOURCE: FRIENDS OF THE EARTH
placed to make way for giant soya estates, so that per capita production of beans is less than half of its 1980 level. Many of those displaced have been resettled in the north-east of Brazil, where they have become unwitting instruments of rain-forest destruction. Meanwhile the ecosystem of the Cerrados Plateau, the country's main soya producing area, has been devastated through soil loss and the loss of valuable species. This trading arrangement has brought Brazil major foreign exchange gains, with soya now established as the country's major agricultural export. However, it is a trading arrangement which has proved considerably more efficient at feeding European cattle than maintaining the livelihoods of poor Brazilians.

Soya production in Brazil provides one example of how consumption patterns in the North can profoundly effect the environment in developing countries. Each kilogram of beef produced in Europe requires five kilograms of high-protein feedstuffs. Supplying those feedstuffs in the mid-1980s diverted over nine million hectares of land in developing countries. Most of that land was in countries with large populations of rural landless, and where mechanised cultivation of soya is ecologically unsustainable. Despite this, the World Bank has continued to support the expansion of soya cultivation in countries such as Bolivia.

Exports and environmental damage
Oxfam has first-hand experience of working with communities in the South whose environments have been destroyed in the process of producing primary commodities for export to the North: forests have been cleared, fishing grounds depleted, and soils eroded. Even degradation caused by subsistence farming can often be traced back to the displacement of traditional communities onto more fragile, marginal land by landowners and governments oriented towards the production of crops for export. Meanwhile manufactured goods exported by developing countries are kept cheap, in part, by lower, or less stringent enforcement of, labour and environmental standards. The result is that workers in the South, and particularly women, together with neighbouring communities and the local environment, pay the cost of current consumption patterns in the North in poverty, ill health, and environmental damage. Production for commercial exports can accelerate the cycle of environmental decline, as illustrated by the production of shrimps in Bangladesh for the European market.

Shrimp farming is one of a number of non-traditional cash crops that Southern countries developed during the 1980s and early 1990s. Often of high value, such crops are seen as a way to boost export earnings, and reduce dependence on traditional cash crops, which are subject to wide fluctuations in world prices. International agencies and national governments have pushed to increase these non-traditional exports, often under World Bank-IMF structural adjustment programmes. However, while such exports can increase foreign revenue, this can be at considerable social and environmental costs.

The impact of shrimp farming
Shrimp farming has undergone a phenomenal growth in Asia: during the 1980s production increased seven-fold, from 57,000 tonnes to 441,000 tonnes. Shrimps are big business for Bangladesh, ranking as the country's third largest export earner after garments and jute manufactures.12

In many areas of the country, producers have responded to the increased demand for shrimps by converting more land into ponds. This has lead to the transformation of vast tracts of agricultural land into shrimp ponds. The effect on local communities has been dramatic. In some cases, peasant farmers have found their rice crops ruined and their fresh-water supply contaminated by salt water leaking into their fields from neighbouring shrimp farms. In the words of one Bangladeshi farmer:

I dropped to my knees and broke down in tears. I could not believe they could do this to me. I cried to Allah, seeking punishment for the men who had flooded my rice field and made me a beggar overnight.13
Even the more amicable land-share arrangements, whereby land is leased to a shrimp farmer for part of the year for the shrimp production cycle, before being returned to the owner for the rest of the year, have had serious impacts. Rice farmers who lease their land claim that the increase in salinity required for shrimp cultivation has reduced rice yields by two-thirds. They also say it will take many years to restore the land's fertility.

The acquisition of land is often achieved by violent means. One frequently deployed method is the deliberate flooding of land belonging to others. This increases soil salinity and reduces its fertility, undermining the livelihoods of smallholder producers. Owners are then left with little choice but to rent their land out at rock-bottom prices.

Diversification is an important policy objective for many developing countries. However, the Bangladeshi shrimp industry highlights some of the problems that arise when economic policies are developed without regard for their social and environmental objectives. In this case there is conflict over the use of land for food production, as opposed to export production. The industry has also reduced local employment opportunities (shrimp farming is capital-intensive, rather than labour-intensive), and is having an adverse impact on the environment. Its benefits are unevenly distributed, so that while considerable gains are made by local entrepreneurs, many other people are poorer as a result. The export of a luxury protein has to be questioned from a country that is unable to feed its own population and is massively dependent on imports of food aid.

Measuring environmental impact

There are different ways of looking at the same facts when measuring environmental impact. For example, the World Resources Institute (WRI) in 1990 compiled a national league-table for greenhouse-gas emissions. Two developing countries, Brazil and China, were included in the top six, because of their high aggregate consumption; such exercises tend to confirm the popular view of developing countries as the perpetrators of the global environmental crisis. But they misrepresent the nature of the problem by focusing attention on overall, rather than per capita, consumption. China has over one-fifth of the world's population, so it is not unreasonable to assume that it will figure as a major consumer of natural resources. On a per capita basis, however, as we have seen, CO₂ emissions in the US are many times higher than those in China and India. With some justification, Anil Agarwal and Sunita Narain, of the Centre for Science and Environment (CSE) in New Delhi, branded the WRI report 'an excellent example of environmental colonialism'.

India and China today account for more than one-third of the world's population. The question to be asked is whether we are consuming one-third of the world's resources or contributing one-third of the muck and dirt in the atmosphere or the oceans. If not then surely these countries should be lauded for keeping the world in balance because of their parsimonious consumption despite the Western rape and pillage of the world's resources.

There are various ways in which the impact of production and consumption patterns of different populations on the environment can be measured. The Centre for Science and Environment (CSE) in India has developed a methodology which takes into account the fact that there are natural sinks or chemical processes which absorb or destroy the greenhouse gases. Approximately half the present CO₂ emissions are absorbed by oceans and land vegetation. Seen from the wider perspective which the CSE approach offers, damage to the biosphere is caused not just by the overall levels of pollution generated, but by the inability of sinks and natural processes to absorb it.

In the CSE's calculations to measure contributions to global warming, sinks are allocated on a per capita basis to each country. The net contribution of each country to the threat of global warming is then measured as the amount
by which its total greenhouse gas emissions exceed its allocation of sinks. With this approach, the US shows up as an even greater contributor to the greenhouse gas increase, while China, India, Indonesia, and Mexico disappear from the top 15. Moreover, even the CSE's method understates the responsibility of the industrialised world for global environmental problems, since it looks solely at present consumption patterns. Viewed over a longer time-scale, the industrial production patterns of the North have contributed to the build-up of greenhouse gases to a far greater extent than those of the South.16

Ecological footprints

We all leave our mark on the ecological system of our planet, but some of us, as the figures above suggest, leave a far deeper impression than others. This has led environmentalists and development agencies to look at the environmental crisis not in terms of population numbers alone, but in terms of each population's impact, or 'footprint'. William Rees, a Canadian academic who coined the term 'ecological footprint', first used it to describe the tendency of urban regions to appropriate the capacity of 'distant elsewhere'. Footprint analysis can demonstrate vividly the physical dependency of humankind on natural resources. It can be used to produce a first estimate of the present and anticipated natural capital requirements of the human economy, and to reveal the extent to which requirements in one region are currently being met from resources in another. For his own Lower Fraser Valley in British Columbia, for example, Rees calculated that the land required to sustain the population in terms of food and sinks for CO₂ emissions was about 20 times its own land area.17

In Rees's model, footprints are a precise calculation expressed in units of land area. This narrow interpretation is of limited use in terms of informing policy analysis, however, since it is seldom appropriate to express all impacts in terms of land units alone. Others are therefore using the concept much more broadly to describe a wide range of environmental, and in some cases, social, impacts of activities in a specific country, which appropriates the resources of other countries in order to maintain its own production, consumption, and investment patterns. Footprints can include the over-extraction and consumption of natural resources, and the impact of that consumption on the environment. There are also wider structural driving forces in the global economy that tend to generate ecological footprints, including trade policies which fail to internalise social and environmental costs, market signals that encourage the adoption of inappropriate high-input, high-output farming systems, and the burden of debt and structural adjustment.

In order to make footprint analysis a more useful policy tool, it is helpful to combine it with the concept of environmental space, which is a calculation of how much of the earth's resources we can use without impinging on the rights of current and future generations. This idea was developed by the Dutch Friends of the Earth in the report Action Plan for Sustainable Netherlands. At the heart of the concept is the equity principle: that each person on the planet, now and in the future, has the right to equitable shares of water, food, air, land, and other resources within limited global carrying capacity.

Calculation of carrying capacity, which refers to a given area's ability to support life (in this case, human life) by providing resources and absorbing wastes on a sustainable basis, depends on several changing factors, including consumption levels, technological innovation, and efficiency. Similarly, any calculation of environmental space itself is not fixed: it, too, depends on human numbers and technology. However, it is still a useful tool for setting orders of magnitudes on the levels by which the industrialised countries need to reduce their environmental impact. In terms of agricultural resources, for example, the FoE report estimates that there is a world average of 0.29 hectares available per inhabitant. Unsustainable agricultural practices and population
growth could reduce this area to 0.25 hectares. If sustainable methods of production are used, only 0.19 hectares of cropland are needed to produce a basic healthy diet for each person. To live within this space, Dutch use of agricultural land would have to fall by 45 per cent by 2010.18

At the 1992 UNCED ‘Earth Summit’ in Rio de Janeiro, world leaders began to recognise that, in the words of the Agenda 21 action programme, unsustainable patterns of consumption and production in the industrialised countries are the major cause of global environmental deterioration. The Rio Declaration on Environment and Development added:

The developed countries acknowledge the responsibility they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command (Principle 7)

However, the Summit, with its focus more sharply on action in the South rather than the North, made little progress in translating the implications of this recognition into policy commitments, and President Bush’s statement that ‘the American lifestyle is not up for negotiation’ was implicitly echoed by most industrialised countries in their unwillingness to take practical action.

The ecological footprint concept is beginning to enter the political mainstream as individual governments start to acknowledge the need to reduce the environmental burden they impose on other countries around the world. For example, in its National Strategy for Sustainable Development, published in January 1994, the British Government states:

Concerns about sustainability relate not only to a country’s own environment but to the environmental impact which its economic activity has beyond national boundaries. The UK ... thus needs to consider the impact of its international activity (trade and investment) globally and in individual overseas countries.19

At the 1994 Oslo Symposium on Sustainable Consumption, the Norwegian Premier, Gro Harlem Brundtland, proclaimed that the primary challenge was to ‘choose to leave enough “environmental space” for future generations’; and the Dutch Environment Minister, Hans Alders, stated that ‘industrialised countries must change their patterns of production and consumption in such a way that less developed economies are given more room for development, both in relative and absolute terms.’20

The development of methods to gauge the footprints of different countries could provide a useful policy tool for working towards sustainable development. One obvious advantage is that it would provide some indicator of national responsibilities for particular environmental problems, thereby helping to establish the commensurate obligations of governments. One of the problems in past environmental negotiations has been the horse-trading over who should meet which targets and at what rate; a bargaining process in which developing countries have little power. Provided that the scope of ecological footprint analysis includes both social and environmental impacts, and is linked with the concept of environmental space, it could provide a helpful unifying conceptual framework for bringing together diverse policy areas. Further, it suggests that an appropriate foreign policy would ensure that, at a minimum, the pursuit of sustainable development in an industrialised country does not compromise other countries in their pursuit of sustainability or, better still, that it actively enables other countries to pursue sustainable paths.21 Finally, it could provide potential political leverage for Southern countries to demand that the principles of equity and responsibility are at the heart of international agreements for sustainable development.

Such action is vital if we are to avert environmental catastrophe. One route to such a catastrophe would be for developing countries to replicate the per capita pollution levels of the industrialised world. Commenting on the dangers of reproducing northern economic models in the South, the UNDP’s 1994 Human Development Report observed:
**Ecological footprints**

Replicating the patterns of the North in the South would require 10 times the present amount of fossil fuels and roughly 200 times as much mineral wealth. And in another 40 years these requirements would double again as the world population doubles...Poor nations cannot — and should not — imitate the production and consumption patterns of rich nations.22

Viewed from a concern with global ecological security, that is unquestionably true. Yet it is neither realistic nor just to expect four-fifths of the world to change the course of their own development in order to protect the earth and its resources, if at the same time, the developed countries continue to monopolise those resources and to damage the biosphere. Industrialised countries must therefore take the lead, both in making dramatic changes in their own production and consumption patterns, and in enabling Southern countries to experience the kind of growth they need to combat poverty, without destroying the environment. This poses difficult choices for policymakers, who are faced with having to make a radical reappraisal of current economic development theories. However, taking the action needed to tackle this should be seen politically as a 'win-win' scenario which is in everyone’s interests, since ultimately the legacy of our unsustainable development model will affect all people, North and South.

**Policy options for sustainable development**

The United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in June 1992 was the largest diplomatic gathering in history. Thirty thousand people attended the summit, including 9000 journalists and 118 heads of state, and it received a blaze of publicity around the world. Meanwhile, over 500 NGOs and other groups with special concerns and expertise gathered at the parallel Global Forum some 40 miles away to debate many of the same themes. The Brazilian Government spent $33m to refurbish a huge convention hall where the official meetings were to take place, and millions more on keeping the city's hundreds of thousands of slum dwellers out of sight of the official delegates: a special highway was built at a cost of $130m to sweep Heads of State from the airport to their luxury hotels (and the requirement of Brazil's national environmental laws that an environmental impact study be carried out was suspended in order to permit construction in record time).23

In spite of unprecedented global attention, the Conference in Rio failed to live up to its promises. The Climate Change Convention set no legally binding targets or time-tables for industrialised countries to stabilise, let alone to reduce, emissions of CO₂ or other gases responsible for global warming. The Biodiversity Treaty was so vague that there appear to be no legal criteria through which compliance or non-compliance can be determined: countries commit themselves generally to conduct biological inventories, establish protected areas, and conduct environmental assessments of development projects. The hoped-for Forests Convention became a series of non-binding 'Forest Principles'.

More promising was the emergence of Agenda 21: a 500-page global action plan for achieving sustainable development. Many of its 40 chapters contain excellent proposals. Unfortunately, they depend upon unrealistic implementation mechanisms and are not backed by the necessary financial resources. Not only is Agenda 21 non-binding, it also depends on an unprecedented transfer of technology and finance from North to South, to invest in a multitude of areas related to environment and development, including health, sanitation, agriculture, the marine environment, technical assistance, and education. The cost was estimated to be $600 bn a year, of which the North was to supply $125bn annually. Industrialised countries would therefore need to more than double current levels of development assistance, while Southern countries...
would somehow come up with an extra $475bn annually in matching funds. Given current economic and political realities, this level of financing seems unlikely, to say the least. Indeed, since 1992, far from increasing, Northern aid budgets for the South have in fact shrunk (as we shall see in Chapter 6). It is not surprising that citizens in developing countries feel betrayed and disappointed by the lack of action, both from their own governments, but chiefly from the North, to follow up the fine words of Rio.

The most curious failure is that the inter-relationships between the development process, increasing trade liberalisation, and economic integration, were never seriously challenged throughout the whole UNCED process. It was significant that the corporate sector enjoyed special access to the Secretariat of the Conference throughout, and the influence of transnational corporations (TNCs) was strong enough to block discussion of the environmental impact of their activities. Recommendations drawn up by the UN's own Centre for Transnational Corporations (UNCTC), which proposed stringent global environmental standards for TNC activities, were shelved. Instead the Secretariat adopted a voluntary code of conduct, drawn up the Business Council on Sustainable Development, a corporate lobbying group. Far from being subject to a multilaterally-negotiated, mandatory code of conduct, the TNCs emerged from UNCED without their role in causing environmental destruction and social dislocation even having been scrutinised in the official process, let alone curtailed. The free-market approach was reaffirmed, uniting leaders from the South and North alike. The fundamental questions of what development means, of the impact of market deregulation, and of who benefits from growth, and capital and technology transfers, were simply passed over.²⁴

Sustainable growth

Failure to challenge this dominant policy approach is at the heart of the environment and development crisis. Current economic policies assume that growth will improve the environment (via an increase in the resources available for environmental protection), increase employment, and reduce poverty (through trickle down of the benefits of growth). Yet at present none of these assumptions holds true: current patterns of economic growth are all too often destroying the environment, failing to generate sustainable livelihoods, and exacerbating poverty.

What is critical is the quality of growth and the extent to which it is compatible with sustainable development and environmental protection. In its now famous definition, the Brundtland Commission Report of 1987, Our Common Future, defined sustainable development as the ability to 'meet the needs of the present without compromising the ability of future generations to meet their own needs'. The definition has been criticised for failing to distinguish either between the vastly different 'needs' in rich and poor countries, or between 'human needs' and 'consumer wants'.²⁵ Such criticisms are only partly justified, for the Brundtland definition contains two further concepts which are far less often quoted:

• the concept of the essential needs of the world's poor, to which over-riding priority should be given, and

• the idea of limitations: 'not absolute limits but limitations imposed by the present state of technology and social organisations on environmental resources and by the ability of the biosphere to absorb the effects of human activities'.²⁶

Whereas the Brundtland report accepts that there are physical limits to material consumption, it concludes that 'technology and social organisation can be both managed and improved to make way for a new era of economic growth.' The International Chamber of Commerce emphasises the mutually reinforcing relationship between growth and sustainability, stating in its 'Business Charter for Sustainable Development': 'Economic growth provides the conditions in which protection of the environment can best be achieved, and environmental
protection, in balance with other human goals, is necessary to achieve growth that is sustainable. For Agenda 21 itself, the links are similarly straightforward: international trade promotes growth, which generates additional resources for cleaning up the environment, which in turn underpins a continuing expansion of trade and growth, and so on, apparently without limit. An ‘open trading system’ will be ‘of benefit to all trading partners’, it declares.

There is no doubt that we can improve the efficiency with which we use environmental resources. One clear example is that of Japan, which has experienced an 81 per cent increase in output since 1973, using the same amount of energy. However, given the way in which Japan has located its more energy-intensive production outside its borders, the degree to which this experience is replicable is unclear. The critical question is whether we can improve efficiency fast enough (faster than the rate of economic growth), and cheaply enough (so that overall productivity rises rather than falls). If we can, then it becomes possible to achieve both economic growth and a declining impact on the environment. To do so requires a continuous and exponential increase in efficiency of resource use, backed by stringent environmental policies. This presupposes the existence of the political will either to tighten environmental regulations, or to invest the fruits of growth in expensive environmental protection measures. Yet, in the aftermath of UNCED, that will, with a very few exceptions, appears to be singularly lacking.

How can growth be based on making more sustainable use of environmental resources, rather than mopping up after the damage is done? According to many mainstream economists, the incentive to make more sustainable use of environmental resources is lacking because of ‘the failure of markets and governments to price the environment appropriately’, taking into account the ‘costs of environmental damage to society’. They contend that environmental impact could be significantly reduced if market prices reflected environmental costs more accurately. Thus, by correcting the environmental blindness of markets through tax policies and other measures, governments can make an important contribution to sustainable resource management.

The ‘polluter should pay’ principle is central to this approach, and extremely important in attempts to promote more sustainable development. Unfortunately, as most economists would accept, there are huge practical difficulties in giving monetary value to items as diverse as oak trees or the ozone layer, in attempting to price the intrinsic value of natural systems, or the effects of actions today on the environments of future generations. It is hard to decide whose values the prices would reflect, or how to take account of huge disparities in the distribution of resources, or the need to protect marginal producers and consumers. TNCs involved in commercial logging, for example, would be unlikely to place the same value on forests as would the people who live in them.

It is clear that market mechanisms have a crucial role in bringing about changes in environmental behaviour, and that it is important to try to find prices for commodities which reflect their true costs more accurately. The withdrawal of subsidies on energy production and consumption, for example, is a good way of encouraging people to use energy less wastefully; and ecological tax reform is likely to be critical to pursuing a sustainable development path. However, it is unlikely that market-based instruments alone will be capable of placing growth on a sustainable footing at the rates envisaged by the World Bank and others.

The critical question, for policy makers, is whether efficiency and technological improvements are going to be sufficient to deliver sustainability. It is a huge challenge, given the problems we face now, let alone those we might face in future. In its 1992 World Development Report, the World Bank forecasts that developing country output will rise by 4 per cent per year between 1990 and 2030. By the end of that period it will be about six times what it is today,
The Oxfam Poverty Report

with industrial country output tripling over the same period. Total world output would be 3.5 times what it is today. The Bank concludes:

*Under a simple extrapolation based upon today's practices and emissions co-efficients, this would produce appalling problems of pollution and damage. Tens of millions of people would probably die each year as a result of pollutants, water shortages would become intolerable, and tropical forests and other natural habitats would be a fraction of their current size. This possibility is clear and real.*

Averting this scenario will require technological improvements on an epic scale. The economist Paul Ekins has attempted to measure the scale of the challenge posed by the relatively modest goal of reducing overall environmental impact by half, assuming that current growth trends continue and that world population doubles over the next 50 years, as predicted. He calculates that production and consumption would quadruple over this period. Technological advance would therefore have to reduce the environmental impact of each unit of consumption to one-sixteenth of its present level. The scale of the 'technological fix' required can scarcely be over-estimated. It may be achievable: but only with a thoroughgoing revolution in current political and economic priorities.

This conclusion is of particular significance for the South, since poverty reduction will require considerable growth as well as development in developing countries. The terms of the dilemma are clear: the South needs to grow in order to develop, and it is currently dependent on trade primarily with the North in order to achieve this. The North needs to reduce the environmental impact of its production and consumption patterns, and it looks likely that this could necessitate a reduction of trade with the South.

The implications are far-reaching. A critical question must be whether debt-reduction funds for Southern diversification, and increased prices for commodities, via international action to regulate the supply of commodities onto the world markets, or via ICREAs (international commodity related environmental agreements), can be enough. There would have to be an explicit recognition that developing countries should be enabled to pursue more self-reliant growth strategies, by which they reduce their dependence on Northern markets, where demand is maintained through unsustainable consumption patterns. A massive international effort would be needed to facilitate this, including substantial financial and technology transfer from North to South.

Questions about the future relationship between economic growth, trade, and poverty reduction, have been ignored by most analysts. The Brundtland Commission, for example, assumed that a five- to ten-fold expansion of industrial activity would be both possible — and necessary — to raise the material standards of the present world population to European levels by the middle of the next century. Leaving aside important considerations of whether the benefits of such growth would reach the poorest people, ecological footprint analysis suggests that several additional planet Earths would be required to achieve this goal, assuming prevailing material values and the technologies most likely to be available.

Part of the solution to this dilemma must be in improved commodity prices, the withdrawal of discriminatory trade policies, and comprehensive debt relief. Looking to the future, developing countries will need to depend less upon exports to the North, and more upon regional trade and self-reliant growth. There are no simple prescriptions; but there is a growing recognition of the importance of the problems. For example, while the UNDP 1994 Human Development Report maintains that there need be no tension between economic growth and environmental protection and regeneration, it does also cautiously acknowledge the scale of change that will be necessary to achieve this goal: 'A major restructuring of the world's income distribution, production, and consumption patterns may be a necessary precondition for any viable strategy for sustainable human development', it observes. However,
the report draws back from outlining how such a major restructuring might take place, beyond the introduction of environmental pricing.34

**Tackling climate change**

Developing countries went to Rio with some hope of substantial Northern action on climate change, including appropriate technology transfer to the South. They were disappointed. The Climate Convention which emerged from UNCED is deeply flawed, both in design and scope. Some have suggested that its stated aim: 'To achieve stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system', is impossible to achieve, since the amount of greenhouse gases emitted into the atmosphere to date already represents a dangerous interference with the global climate, even if all emissions stopped immediately. US lobbying ensured that the Convention's requirement for countries to stabilise CO\textsubscript{2} emissions at 1990 levels by the year 2000 is not legally binding. The industrialised countries are simply required to adopt policies aimed at returning emissions of CO\textsubscript{2} and other greenhouse gases to their 1990 levels by the end of the century.

But even if the Convention were binding, it would still be inadequate. In its first scientific assessment in 1990, the IPCC stated that an immediate cut of 60 per cent in CO\textsubscript{2} emissions would be required to stabilise concentrations at present levels. This implied a virtual halving of fossil-fuel use in transport, industry, and electricity generation, at a global level. More recently, it reported that even if CO\textsubscript{2} emissions were capped at present levels, atmospheric concentrations of the heat-trapping gas would continue to increase for at least two centuries, rising well beyond the point at which the Earth's climate would be disrupted, and doubling pre-industrial levels by the end of the next century.35

In the light of these warnings, actions to date by the industrialised countries to reduce emissions appear derisory. Policy makers are failing to fulfil their commitments to stabilise CO\textsubscript{2} emissions by the year 2000, let alone making the cuts that are necessary to reduce the risk of significant long-term environmental and social disaster.

The 118 countries negotiating at the first Conference of Parties in Berlin in April 1995 failed to agree a timetable for further reductions, and specifically rejected the proposal from AOSIS (The Alliance of Small Island States) which would have required a 20 per cent reduction of 1990 CO\textsubscript{2} emission levels by 2005. Instead, they agreed the Berlin Mandate, which defers final adoption of targets and timetables for another two years. While this sets in motion a political process which should eventually yield results, the further delay in responding to such a critical issue is clearly regrettable. However, individual governments should not wait until 1997 before acting; there is much they could do now.

**CO\textsubscript{2} emissions in the UK: a case study**

Along with other industrialised countries, the UK has failed adequately to address the challenge of climate change. The environmental group Friends of the Earth has calculated that, taking into account current and historical per capita trends, the UK will have to achieve cuts in its national CO\textsubscript{2} emissions of at least 30 per cent on 1990 levels by 2005, with further cuts after that, to reduce its production to equitable levels. Emissions of CO\textsubscript{2} from the UK were 160 million tonnes of carbon (MtC) in 1990. Of this, more than half was from energy used to provide heat and light and run equipment in buildings, with substantial contributions from transport and industrial uses.

Electricity production accounted for another third of CO\textsubscript{2} emissions. At present, very little of the electricity supply is catered for by carbon-free renewable energy sources such as wind, wave, and geothermal energy, although opportunities for wind and wave power electricity generation in Britain are the best in Europe.36

The UK Government's report on Climate Change, published at the beginning of 1994 as
part of its obligation under the Framework Convention (Climate Change: the UK Programme), relies almost entirely on voluntary measures to achieve its target of a reduction of 10 million tonnes of carbon per annum. This is in spite of calls from business leaders for tougher regulations, on the grounds that neither the free market nor ‘enlightened self-interest’ would work to force a cut in emissions dramatic enough to tackle global warming.

More recently (March 1995) the UK government announced revised figures for the UK emissions of CO₂ which appear to suggest that carbon production will actually fall by the end of the century. However, this seems to have been achieved by confusion over the original predictions of emissions, not by a concerted effort to reduce them. Nevertheless, the government deserves some credit for trying to break the deadlock at the Berlin meeting by proposing a moderate target of cutting 1990 CO₂ levels by 10 per cent by 2010.

The most appropriate mix of policy measures needed to reduce CO₂ emissions is a matter for debate. What is clear, however, is that far more could be done to develop policies to reduce the UK’s energy footprint, and to meet tangible and meaningful targets, such as a reduction in CO₂ emissions of 30 per cent from 1990 levels, by 2005. Possible measures include a combination of regulatory and fiscal policies, such as the introduction of tough, mandatory energy-efficiency standards for domestic and office energy-using appliances and, where feasible, industrial processes; upgrading energy efficiency standards in Building Regulations by 35 per cent from 1990 levels; further developing CHP (Combined Heat and Power) plants; reducing private car use; initiating a major programme of investment to upgrade the insulation levels of low-income households; altering energy utility regulations so as to ensure that improving energy efficiency on customers’ premises is good business for the electricity and gas companies, and ensuring that the Energy Savings Trust is adequately funded. Investment in renewable energy could be increased, and an energy tax could be introduced.³⁷

Ecological tax reform

Tax reform could play a vital role in achieving targets for sustainable production and resource use, by bringing market prices and costs into closer alignment with the real environmental costs of production and consumption patterns. By changing the way taxes are raised, ecological tax reform could both encourage environmental protection and generate employment. For example, at present, roughly two-thirds of the burden of taxation in the UK falls on the activities of people and the economic ‘goods’ of employment and business enterprises, while the remaining third falls mostly on consumption, with very little on environmental ‘bads’ such as pollution and the inefficient use of resources. The economy duly responds to these price signals by over-using natural resources and under-using people (unemployment). By shifting the burden of taxes away from employment (reductions in national insurance charges, lower income and profit taxes), and onto environmental damage and the use of resources (taxes on energy, transport, and pollution, for example), ecological tax reform could make a significant contribution towards reversing the substitution of labour by capital and the increase in the use of energy and raw materials, trends which lead both to an over-exploitation of natural resources and to structural unemployment.

It has been argued that it could be unwise to make governments dependent for their revenue upon an activity which one wants to reduce, since this gives them a strong incentive not to encourage its reduction! However, it would not be necessary to make a complete shift from labour to resource taxation. A recent OECD study suggests that significant benefits could arise from relatively small reforms.⁹⁸ Clearly, tax reform of this kind would need to make provision for compensating poorer households, for whom energy costs make up a
significant proportion of their expenditure. However, a combination of government expenditure and other tax reductions targeted on poor households could achieve this. One study has shown that a programme of home insulation in poorer homes could create some 50,000 jobs a year for a decade, and leave the poor better off. For a one-off government expenditure package of about £1bn the environment, the unemployed, and poor people would all achieve significant benefits.99

Concerns that increased energy and other taxes on inputs to industry will penalise national competitiveness could be allayed through commitments to return the ecological tax revenues to industry in the form of lower labour costs and incentives for eco-efficient technology investments. This would benefit all the service industries and most manufacturing industries. It would not compensate those that are energy-intensive, however, and special measures would need to be adopted to help them through the transition.

Claims that ecological tax reform would harm employment seem ill-founded. The European Commission’s White Paper, Growth, Competitiveness, Employment proposes a form of ecological taxation, precisely because of the employment opportunities which it would create, and observes:

The inadequate use of available resources — too little labour, too much use of environmental resources — is clearly not in line with the preferences of society...people expect for themselves and for their children on the one hand more jobs and a stable income, but on the other also a higher quality of life.40

A recent report of the Employment Policy Institute estimated that half a million jobs could be created over 10 years by taxing pollution rather than employment.41 Friends of the Earth has come to similar conclusions in its study, Working Future: Jobs and the Environment, which challenges the conventional wisdom that ‘conservation costs jobs’, and argues that environmental protection policies are essential to a sound economy.42 The study provides estimates of how extra jobs could be created by shifting transport investment from road to rail; abandoning nuclear power in favour of renewable energy sources such as wind farms, together with large-scale energy-saving programmes; promoting recycling and organic farming; and introducing regulations to oblige industries to install new technology to clean polluted land and rivers. While the authors admit that tens of thousands of jobs would be lost from the nuclear industry and from factories unable to meet stringent pollution standards, they estimate that there would be a net gain of as many as 700,000 jobs if indirect employment is also included. The report summarises research from across the industrialised world. In the USA, for example, a study revealed that wind and solar energy generated five times as many jobs as coal-fired energy. The OECD has also concluded that environmental protection would generate two million new jobs in industrial countries by 2000.

Opposition to an EU energy tax

Despite the growing evidence to suggest that environmental taxes can be introduced in a manner consistent with protecting employment, efforts to introduce them have typically been thwarted, often through the influence of powerful industrial lobbies claiming that ‘green taxation’ will lead ineluctably to lost competitiveness and job losses. Efforts to secure agreement on a European-wide energy and carbon tax to reduce CO\textsubscript{2} emissions is a case in point.

The proposal was for a mixed energy and carbon tax, with 50 per cent being levied on carbon content, and 50 per cent on the energy value of the fuel. It was suggested that the tax would be introduced at the rate of $3 per barrel in 1993 rising to $10 per barrel of oil equivalent by the year 2000. A report produced by the EC Commission in October 1992 suggested that the proposed tax would produce a 4 per cent saving in emissions, one-third of the total required. Large-scale exemptions were suggested for energy-intensive industries with a large
involvement in international trade such as the steel, chemicals, non-ferrous metals, cement, glass, and paper and pulp industries. The proposal also contained measures which would provide exemptions to those countries with lower than average emissions per head of population. Yet even these modest proposals have been stalled for over three years.

Although there is support from Germany and most Northern European states, it is opposition from the UK Government which is currently holding up progress. In a meeting of EU Environment Ministers on 23 April 1993, the UK was the only country out of the 12 Member states which did not accept the principle that a tax was needed to help the Community to reduce its CO₂ emissions. More recently, at a similar meeting in October 1994, the UK Environment Minister, John Gummer, restated his firm and long-standing opposition to any Community-wide carbon and energy tax.

Yet despite arguments that the unilateral adoption of energy taxes would place energy-intensive domestic industries in an uncompetitive position, the Netherlands, Finland, and Sweden have all introduced new energy and carbon taxes, with the specific aim of curbing CO₂ emissions. (Studies for the UK similarly raise serious doubts over the credibility of the government's case against an energy tax. According to Friends of the Earth, cuts of up to 30 per cent in CO₂ emissions could be achieved in the UK by 2005 through measures including improved energy efficiency, greater energy conservation, higher energy prices for the business and public sectors in line with the EC's proposal for a carbon/energy tax, accelerated development of renewable energy sources, and reduced car use). Moreover, in many cases, investment in energy-efficient technology can itself be a source of competitive advantage, as the experience of both Japan and Germany has underlined. Far from leading to lost competitiveness, carefully designed and implemented taxation measures can act as an incentive to more efficient energy use, to the benefit of the national economy and the global environment.

**Transport**

The internal combustion engine is now recognised as a significant cause of environmental problems. The products of the motor industry, primarily passenger cars, are globally the largest single source of air pollution. Some 14 per cent of the world's CO₂ emissions come from road transport. Below we highlight issues and policy positions, which are of wider relevance, through a focus on transport policy in the UK.

Over 20 per cent of the UK's emissions come from transport. Between 1970 and 1990, fuel consumption by cars rose by around 70 per cent, car ownership almost doubled, and car mileage grew by around 117 per cent. This sector is now the fastest-growing source of emissions in the UK, with predictions of a further rise of 30 per cent between 1990 and 2005, principally due to a growth in car use forecast by the Department of Transport of between 32 and 51 per cent over the period. The contribution of the government's road-building programme to overall UK responsibility for global warming cannot therefore be overlooked.

A massive shift away from more road building and more private cars towards investment in public transport is urgently needed. In Britain, the government's Sustainable Development strategy, published early in 1994 as part of the Rio follow-up process, claims to be taking steps to introduce a framework which will enable people to reduce dependence on private cars. However, with many road-building plans still in place (despite the success of public protests to halt some), and rail privatisation widely expected to reduce both the quality and quantity of rail services, any such framework is little in evidence. While the measures announced by the government to reduce transport emissions by 5 per cent compared with forecast levels (principally by a commitment to year-on-year real increases in fuel duties of 5 per cent) are to be welcomed, they fall far short of an environmentally-sound transport policy. More
progressive measures might include reallocating a substantial proportion of the National Roads Programme budget to investment in public transport, removing the presumption in favour of development from land-use planning law and policy, increasing fuel prices, and setting emission standards for new cars.

Energy in the South

Energy policy lies at the heart of sustainable development. Investing in energy efficiency is a proven strategy for meeting environmental, social, and economic objectives, and together with an expansion of renewable energy sources, and other fiscal and regulatory measures, will be crucial if the current dependence on fossil fuels is to be significantly reduced. This is as true for the developing as for the developed world.

Sustainability in the South, as in the North, depends on a massive shift away from fossil-fuel energy use towards energy efficiency and renewable energy sources. The international financial institutions have significant influence on policy in this area. The World Bank, for example, plays a major role, with energy being the Bank's largest or second largest lending area in recent years, accounting for between 14 and 18 per cent of annual lending in the period 1990-1993. However, in spite of Barber Conable's commitment to the Bank's playing 'a leadership role' in promoting energy efficiency, this has yet to be translated into project funding.45

Throughout the early 1990s the Bank focused its lending almost entirely on large dams and thermal power plants, rather than promoting end-use efficiency and conservation. In late 1991, a comprehensive review of the Bank's energy lending by the Washington-based International Institute for Energy Conservation concluded that the Bank was devoting less than 1 per cent of its energy lending to end-use efficiency and conservation investments.45

Yet it is well known that current patterns of energy development in developing countries often involve massive social and environmental destruction. Large hydroelectric dams are responsible for the destruction of forests and farmland in many countries, and frequently result in the forced resettlement of rural populations; while the growing use of coal for power production by China and India will make these countries the largest contributors to global warming in the next century if alternatives are not found. The cost of large-scale energy projects is extremely high; in many developing countries between a quarter and a third of all public investment is now being used for electricity generation, diverting desperately needed capital from other priority investments, such as health services and education.

It has been estimated, however, that investments in state-of-the-art industrial equipment, and other energy-saving improvements and appliances, could cut the need for growth in power-generating capacity by as much as 50 per cent in many developing countries. The cost of such end-use efficiency investments is often less than half the cost of the new power plants and dams that would be necessary to generate the equivalent amount of power.45

World Bank energy staff themselves have pointed to the enormous economic implications of this neglect of end-use efficiency energy investment scenario:

Estimates suggest that if 20 per cent of commercial energy in developing countries were saved, total gross savings for developing countries would amount to about US $30 billion per annum, or about 7.5 per cent of the total value of merchandise imports. This is about 60 per cent of the net flow of resources out of developing countries for debt service in 1988, and about two-thirds of the official development assistance from OECD and OPEC countries in 1987.45

Conclusion

It is clear from the evidence in this chapter that present policies and consumption patterns are not compatible with a commitment to sustainable development and intergenerational equity.
If this picture is to change, urgent action will be required to initiate fundamental reforms in the management of Northern and Southern economies.

Northern governments should follow the Dutch example of assessing the scale and impact of their ecological footprints in key sectors, including energy and agriculture. Governments then need to commit themselves to setting specific, time-tabled targets for reducing the negative consequences of their footprints. Such targets should broadly be based on calculations of equitable allocations of environmental space. Governments would need to report on progress on these targets to the UN Commission on Sustainable Development, together with their reports on implementation of Agenda 21.

Given the urgency of the environmental crisis, governments should demonstrate their commitment to the policies of Agenda 21 by allocating substantial additional financial resources to fund it, together with appropriate technology transfer and capacity building.

Governments will need to develop policy frameworks across all sectors to meet more stringent targets for energy use. These could include a combination of regulatory and fiscal policies, including a carbon/energy tax, tougher energy-efficiency standards, programmes of insulation, and investment in renewable energy. Governments in the North should commit themselves to reducing CO₂ emissions by 30 per cent from 1990 levels by 2005, and make less polluting technology readily available to the South, so that it is able to pursue a more sustainable, and less carbon-intensive path.

Finally, governments could develop wider tax measures to promote more sustainable forms of production and consumption. The EU, for example, could redesign its taxation policies and structures in such a way as to meet the twin objectives of ending the over-exploitation of natural resources, and helping to create employment.
6 Aid, debt, and development finance

A substantial increase in the resources for fighting poverty in the poorest countries appears entirely affordable. It is a matter of political commitment and the reassessment of donor priorities.

WORLD BANK, 1990

The poor do not want you to impose your programmes to empower us. We know how to empower ourselves. We want your support for our decisions. This is the message from the poor to the governments, the NGOs, and the donor agencies.

KARUNAWATHIE MENIKE, PEOPLE'S RURAL DEVELOPMENT ASSOCIATION, SRI LANKA

Must we starve our children to pay our debts?

JULIUS NYERERE

Introduction

Half a century ago, the Bretton Woods conference acknowledged that many of the world's poorest countries lacked the financial resources needed to expand economic growth and employment. Equity required that these countries should be able to make use of the financial resources of wealthier countries on reasonable terms. The architects of the Bretton Woods system were acutely aware that unregulated capital markets would not provide such terms. The system they designed therefore included mechanisms for transferring, particularly through the World Bank, savings from the industrialised world for investment in the infrastructure and trading activities of developing countries.

Today, long-term development finance remains vital for developing countries, not least to repair the damage inflicted during the debt crisis of the 1980s, when funds flowed in reverse direction from South to North. More broadly, external support is needed in many countries to supplement domestic resources, in order to create employment, raise investment levels, support economic recovery, maintain imports and, above all, to invest in the health and education of people.

Yet external funding, whether from governments, international financial institutions or NGOs, involves much more than a straightforward financial transfer. The relationship between donor and recipient raises fundamental issues of unequal power, the danger of local priorities being unduly influenced or distorted, and of local capacity being undermined. The provision of external aid and technical expertise can distort the economies of recipient countries by creating an unhealthy reliance on foreign exports and imported goods, or by reducing the pressure on governments to embark on painful and long overdue tax reforms.
The Oxfam Poverty Report

Foreign donors, ostensibly all committed to the same goal of poverty reduction, face a myriad of contradictions. Aid ministries want to contribute to sustainable development, yet are under pressure to use aid to promote national strategic and commercial interests. The international financial institutions are banks and are constrained by commercial pressures, and by the fact that they are also large bureaucracies, whose ideologies reflect those of their funders. NGOs may enjoy degrees of freedom that their governments and multi-lateral agencies lack. But they may also be less accountable, and at risk of co-option by particular interests.

Ultimately, external assistance is no solution to fundamental problems of poverty, which are rooted in injustice and the denial of rights. These must be resolved by local people: by grassroots groups, people's organisations, trade unions, NGOs, and business interests, coming together as part of civil society, putting pressure on and interacting with the state to effect change.

Yet this does not deny the critical importance of external assistance to poor people and their governments, whether it comes in the form of aid or investment flows or debt reduction packages. Such external finance is vitally needed as part of the enabling environment in which people can act together to reduce poverty and secure their basic rights. Unfortunately, most developing countries are not receiving the kind of external support they need.

For many of the world's poorest countries, a chronic debt crisis, largely disregarded in the North because it does not threaten the global financial system, has continued unabated for some 15 years. The depth of that crisis is reflected partly in financial indicators, which point to widespread bankruptcy. At a deeper level, however, the debt crisis is manifest in the suffering of ordinary people: people who are denied health care, education, and opportunities for livelihoods because of the claims of external creditors. These creditors, which include Northern governments and institutions controlled by them, often claim that radical action to reduce the debt burden of the world's poorest countries would constitute a 'moral hazard', setting a precedent which could threaten the stability of the international financial system. In fact, the debt problems of the poorest countries could, given the political will, be resolved without any such threat. In terms of the UN Charter's commitment to poverty reduction, the real moral hazard is that posed by political leaders in the industrial world who, through their indifference and inertia, have allowed debt to destroy the hopes and opportunities of millions of the world's poorest people.

The surge in private capital transfers to the developing world has brought with it a renewed faith in the efficacy of market forces. Increasingly, the argument is heard that private investment, rather than public finance, holds the key to future prosperity. That is a questionable proposition, even in the countries now acting as a magnet for foreign capital. For the vast majority of the poorest developing countries, which are being bypassed by private capital flows, publicly-financed development assistance remains vital.

International aid programmes could, if adequately financed and properly targeted, play an important role in offsetting the extreme disparities in wealth and opportunity facing people in the North and the South. In their domestic policies, the industrialised countries invest on average around one-quarter of national income on social welfare systems designed to protect the vulnerable and unemployed, and to counteract poverty and extreme inequality. Development assistance provides an opportunity to extend such provision to the international stage. Yet the industrial countries spend only a minute, and falling, share of their national incomes on aid.

To make matters worse, a very large proportion of this very small quantity of aid is irrelevant to the needs of the poor throughout the world. This is because aid programmes are often designed to promote the narrowly-defined interests of the industrialised world, rather than to reduce poverty. Far too much aid
bypasses the world's poorest countries and poorest people, largely because Northern governments are more concerned with cultivating their export markets and building their strategic influence than with reducing poverty.

For most people in the industrialised world this is a deeply offensive use of public funds. They regard aid neither as charity nor as a mechanism for pursuing self-interest, but as a means of extending the principles of solidarity and community in order to reduce poverty. This is the true spirit of development assistance. In a global community, hunger, disease, misery and vulnerability should be no more acceptable abroad than at home. Equity and social justice demand the provision of a global safety-net to combat severe poverty in the poorest countries. The danger is that, without a radical reform of international aid to achieve this objective, public support for aid will wane, thereby reducing the pressure on governments to maintain aid transfers. Not only would that be a tragedy for human development and the poor, who could derive so much benefit from development assistance; it would also be self-defeating. Northern governments cannot ring-fence their citizens from the conflicts, refugee flows, and violent instability which are the product of poverty and marginalisation. International aid, for all its current faults, remains one of the most
important mechanisms for reducing poverty and its destructive effects. Development assistance is one activity where ethical concern and enlightened self-interest coincide.

In this chapter, we examine the problems facing different groups of countries in obtaining external finance. We also outline measures for reforming debt relief and aid strategies in a manner which is pro-poor. Governments, however, are not the only source of aid transfers. Nor are they alone in facing problems in developing genuinely poverty-focused aid programmes. The role of non-government organisations (NGOs) has increased in importance in recent decades. Agencies such as Oxfam have worked with local counterparts in facilitating community-based development efforts, with the emphasis on the participation of local communities, and on enhancing the capacities of the poor. This approach to development starts by listening to the poor themselves, recognises the role and needs of women in the development process, and considers environmental implications and the sustainability of project initiatives.

A problem which NGOs share with governments is that reaching the poor and promoting genuine human development are objectives which are easier to subscribe to in principle than to achieve in practice, as we suggest in the final section of this chapter. Bilateral and multilateral donors and NGOs alike need to listen and learn from local communities, rather than arrive with pre-conceived ideas about the route to sustainable development.

**Private capital flows and debt**

During the 1970s, international capital markets transferred around $20bn a year to developing countries, financing imports and covering the trade deficits left by rising oil prices. This picture changed dramatically in the 1980s. The rise in real interest rates which occurred after 1979, as Northern governments responded to the second oil price rise with monetarist policies which forced up interest rates, threw North-South financial flows into reverse gear. Between 1983 and 1989, creditors received $242bn more from these countries than they provided in new loans. These outflows were maintained at enormous economic and social cost. Imports collapsed, as foreign exchange was diverted into debt repayments, investment slumped, and wages fell dramatically. Social provision deteriorated as bankrupt governments cut spending. In Latin America, the epicentre of the debt crisis, average incomes fell by 10 per cent in the 1980s and investment declined from 23 per cent to 16 per cent of national income, causing widespread unemployment and poverty.

Theoretically, the debt crisis should never have happened. The Bretton Woods agencies were created in part to transfer the savings of surplus countries to deficit countries, in the interests of orderly adjustment. During the first half of the decade, they started lending money to indebted countries, enabling them to repay their commercial creditors. By 1985, however, repayments on IMF loans from developing countries were outstripping new finance, so that the Fund became a drain on resources. After 1989, repayments on World Bank lending also meant that its balance turned negative. Thus institutions created, especially in the World Bank's case, to transfer resources to developing countries, are now doing precisely the opposite. This perversion of the multilateral financial system stands in urgent need of correction.

The 1990s have witnessed a transformation in the overall resource flow picture. Between 1989 and 1994, net transfers to developing countries almost tripled to $227bn. Virtually all of this growth is attributable to private capital flows, mainly in the form of direct foreign investment, portfolio investment in stocks and shares, and funds raised by the sale of government bonds in Euromoney markets. Collectively, these flows are now by far the most dynamic component of finance for developing countries, having quadrupled to $170bn over the past five years. In 1989, private capital flows were roughly equal to overseas development
Figure 6.2 IMF transfers to SILICs

<table>
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<th>Year</th>
<th>Transfers to governments</th>
<th>Repayments to the IMF</th>
<th>Net transfers</th>
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<td>-745</td>
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<td>589</td>
<td>329</td>
<td>-280</td>
</tr>
</tbody>
</table>

Key:
- Transfers to governments
- Repayments to the IMF
- Net transfers

Source: World Bank, World Debt Tables
assistance. Today, they are some four times larger.5

They are, however, heavily concentrated in a relatively small group of about a dozen countries. Most of these, with the major exception of China, are middle-income countries; just five of them (Argentina, China, Mexico, Thailand, and Malaysia) accounted for over half of all private investment in developing countries for the period 1989-1993. The world’s poorest countries have been bypassed by these flows of private capital. Sub-Saharan Africa, for instance, receives less than 1 per cent of global investment.

These private transfers are often highly speculative, unstable, and driven by a concern to maximise short-term profit, rather than to support long-term development. They are also easily reversible, as evidenced by the financial crisis gripping Mexico, the country whose threatened default in 1982 brought the expression ‘debt crisis’ into the language of international finance. Mexico’s problems suggest that it may be premature to treat Latin America’s debt crisis as past history.

Latin America: from debt crisis to Brady Plan and back

The Brady Plan to reduce commercial debt, launched in 1989, marked a watershed in the international debt strategy for middle-income countries, belatedly acknowledging what had long been evident: that a large proportion of commercial debt was unpayable, even with the financial squeeze applied under adjustment programmes.6 While enormously complex in implementation, the Plan recognised the simple principle that commercial debt could be reduced with support from the IMF and the World Bank. Creditor banks were invited to accept a range of options for reducing the stock of debt owed to them, in return for a guarantee backed by the IMF and World Bank and the government involved. These guarantees came in the form of ‘Brady bonds’ with a lower face value than the original debt (which the financial markets had accepted were unpayable), but with a binding commitment to meet future payments in part with loans from the IMF and World Bank, and in part from the debtor’s own resources.

Twelve countries have now completed deals under the Brady Plan, covering some $190bn, or four-fifths of the debt stock owed in 1989. The signing of the first Brady deal coincided with the start of the boom in private capital flows to developing countries, with the countries previously at the centre of the debt crisis figuring prominently among the newly favoured ‘emerging markets’. By 1993, Latin America was receiving the equivalent of 3 per cent of regional income in private capital flows, reversing the outflows of the previous decade, prompting most commentators and Northern governments to draw a line under the ‘debt crisis’.

But in fact there is little cause for optimism. Although the Brady Plan played an important part in creating the confidence underpinning the acceleration in private capital flows, it did so by replacing one sort of debt (commercial bank) with another (Brady bonds), and extending repayment periods. The end result is that Latin America’s debt stock has continued to rise during the 1990s, and there is little flexibility available for further rescheduling.

Moreover, while the ratio of debt service to exports has fallen, this is partly as a consequence of US interest-rate reductions. Taking into account declining interest rates and the costs to debtors of financing future payments, the Brady Plan had resulted by 1994 in debt reduction equivalent to around $24bn, or 6 per cent of total debt.7 With repayments on debt still absorbing almost one-third of export earnings, Latin America still has a serious debt problem, even if the debt crisis has receded.8 The region remains highly exposed to the risk of a renewed crisis in the event of balance-of-payments difficulties. If a repeat of the 1980s scenario is to be avoided, it is essential for the international community to create a framework for financial stability in the region.
Private capital movements have helped to disguise the depth of the debt problems left unresolved by the Brady Plan. They have not, however, established a viable framework either for the provision of long-term development finance or for financial stability. Indeed, the private capital markets into which some developing countries are being integrated may unleash volatile financial forces which are capable of destroying fragile economies.

The fundamental problem is that a large proportion of the foreign capital pouring into emerging markets is speculative in nature, and entirely disconnected from the real economy. Much of the explosion in private capital flows generated through the sale of government bonds and through portfolio investment represents high-risk short-term speculative activity, and institutional investment by pension funds and money market managers. Contrary to the popular perception, such flows have less to do with opportunities for productive investment and employment creation than with the pursuit of the fast-buck in money markets. This
is especially true for portfolio investment, through which fund managers transfer funds through stock exchanges or invest them in privatisation deals, often with highly destabilising consequences.

In May 1991 Mexico embarked on one of the largest-ever privatisation programmes in Latin America when the government sold $2.4bn of shares in Telmex, previously a state monopoly. The shares were sold for $27 before climbing to $75 in early 1994, earning vast fortunes for foreign speculators. As these speculators traded in their shares to take their profits in early 1995, when a financial crisis loomed large, the value of shares fell to $34. This is one example, repeated many times over, of the discrepancy between the forces which govern stock market behaviour, and the realities which shape the real economy in which ordinary people live and work.

Low interest-rates in the US, reducing the gains to capital there, have played an important part in boosting the attractiveness of emerging markets during the early 1990s. During 1993, most of these markets went into steep decline, underlining the fact that, in a global currency market where vast sums can be moved at the touch of a button, money can move out as fast as it moves in. Since most of the capital flowing into Latin America has no connection with production, governments there have attempted to prevent its outflow by raising interest rates to ever more atmospheric levels, with disastrous consequences for the economy.

The collapse of the Mexican peso

With its peculiar brand of incompetent economic management and commitment to financial deregulation, Mexico has been transformed during the 1990s into a 'junk bond' economy. Massively high interest-rates persuaded foreigners to hold almost $30bn in government securities at the end of 1994, compared to $2bn in 1990. The financial crash at the end of 1994 forcefully demonstrated the potential for instability that such speculative capital flows create. As the country’s trade deficit deepened during the 1990s, the Mexican government relied increasingly upon issues of government bonds to attract foreign currency.

These dollar-denominated bonds carried interest rates in excess of 16 per cent, imposing huge repayment obligations, which were covered by issuing more bonds. The whole arrangement propped up an artificially over-valued exchange rate, which in turn allowed investors to protect their profits when transferring them back home. But the over-valued exchange rate had the effect of sucking in more imports and discouraging exports, forcing up the trade deficit to 8 per cent of GDP and increasing dependence on foreign private capital.

Mexico’s attempt to finance its trade deficit through speculative capital finally collapsed when, in December 1994, it became clear that the country did not have the reserves to meet payments on $28bn worth of dollar-denominated government bonds. The peso promptly lost 50 per cent of its value, leading to a US-led rescue effort. Some $50bn dollars were pledged to stave off Mexican bankruptcy, $18bn of it by the IMF. Having provided the resources to bale out the commercial banks threatened by Mexican default in 1982, the Fund is now part of a wider international effort to bale out the assorted speculators who gambled with such profitability on Mexico’s capital markets.

The size of the rescue package, which exceeds the annual flow of overseas development assistance provided by the OECD countries, ensures that these speculators will be repaid. The terms on which the rescue package is being provided ensures that it will be Mexico’s poor who pay the highest price for their government’s embrace of the twin theologies of free trade and financial deregulation. Strict conditions attached to the loan demand wage cuts and public spending reductions, and will inevitably lead to a drop in living standards and increased poverty; a scenario reminiscent of the 1980s debt crisis.

Mexico’s future is uncertain. While immediate default may have been staved off, the spectre of insolvency continues to loom large,
with implications that go far beyond Mexico. Most immediately, the crisis has raised serious questions over the entire NAFTA exercise, which demands that Mexico's economy be exposed to intense competition at a time when reconstruction and selective protection is vital.

The crisis in Mexico has affected stock exchanges of other emerging markets, most of which were already in decline. Banking systems across Latin America have been left in a highly unstable condition, and other exposed economies, notably Argentina, have been forced to embark on emergency programmes with the IMF. There are important differences between the present crisis and the debt crisis of the early 1980s, since it is not just commercial banks who are exposed. But this could be a further source of instability, given that financial markets, pension-fund managers, and other sources of speculative capital, are considerably less subject to government influence than are commercial banks.

Debt in low-income countries

As the threat facing the commercial banking system has receded during the 1990s, the problem of Third World debt has drifted imperceptibly off the agenda of the Group of Seven industrialised countries. But for the world's poorest countries, the debt crisis continues to wreak social and economic havoc. These countries remain overwhelmingly dependent on official aid flows for their financial survival. However, the flow of aid is stagnating in real terms, and likely to decline further as major donors trim their aid budgets. For this reason, efforts to increase the financial resources available to the poorest countries must focus partly on trade and partly on debt reform. Measures to ease the crushing debt burden of these countries are now vital if their marginalisation within the international economy is to be reversed.

Nowhere is this more necessary than in sub-Saharan Africa. The facts speak for themselves: measured as a percentage of GDP, sub-Saharan Africa's debt is higher than for any other developing region. Repeated rounds of debt rescheduling have succeeded in reducing the ratio of debt to total export earnings, but only to around 250 per cent, which is still as high as in the middle-income countries during the worst years of the debt crisis. Between 1990 and 1993, the region transferred $13.4bn annually to its external creditors.14 This is four times as much as governments in the region spend on health services. In fact, it is more than their combined spending on health and education. It is also substantially in excess of the $9bn a year which UNICEF estimates as the total cost of meeting basic human needs for health, nutrition, education, and family planning.15

This would be bad enough; but unfortunately, it is not the full picture. If African governments were meeting their scheduled repayments, they would by paying out more than twice as much. In fact, arrears are accumulating at an alarming rate, and Africa's debt stock is continuing to grow despite the haemorrhage of resources from the region. The stock of unpaid interest and principal of debt owed to official creditors stood at almost $38bn in 1993 — more than double the level in 1990. Since 1988, about two-thirds of the increase in debt stock for sub-Saharan Africa can be traced to the accumulation of interest on arrears. For the severely-indebted low-income countries (SILICs) as a group, debt service payments account for 18 per cent of export earnings, while scheduled payments account for 45 per cent. Thus while actual repayments are well below the average for middle-income countries, arrears accumulation in the SILICs indicates widespread financial insolvency.

Uganda's debt problem

Of the 32 countries categorised by the World Bank as severely-indebted low-income countries, Sub-Saharan Africa accounts for 25. One of the most severely indebted is Uganda.16 In 1994, the country is scheduled to pay $162m in debt service payments, which represents over four-fifths of the country's export earnings. This
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compares with $120m which the government spends on health and education combined. Uganda’s debt burden is self-evidently unpayable, and universally recognised as such. The debt-service-to-export ratio for the country is more than three times higher than what the World Bank’s considers to be the maximum for sustainable debt.17

The more telling measure of the unsustainability of Uganda’s debt burden is to be found in its human welfare indicators, which are among the worst in the world. The country’s death rate is about twice the average for low-income countries. Infant and child mortality rates (at 117 and 180 respectively per 1000) are also exceptionally high. Among children under the age of five, the main killers are preventible illnesses such as malaria, diarrhoea, pneumonia, and malnutrition, reflecting inadequate provision of primary health care and sanitation.18 Yet despite these appalling indicators, per capita spending on debt repayment is more than double per capita spending on health. If these repayments were to be stopped and the money transferred to the health sector, it would be possible, on the World Bank’s estimates, to provide basic health care to all Ugandans.

The debt crisis in other regions

Countries in other regions also figure prominently in today’s global debt crisis. With a foreign debt that has reached nearly $11bn, Nicaragua has the highest per capita debt in the world and a repayments profile that defies the imagination. Converted into individual debt, every Nicaraguan woman, man, and child owes the country’s external creditors over six times what they can expect to earn in a year. In order to meet the repayments due on that debt over the next seven years, a sum equivalent to twice the country’s entire foreign exchange earnings would have to be transferred. To this would have to be added interest payments on overdue balances. Taken together, these transfers would represent the equivalent of almost half the country’s total national income.19

While debt reduction measures have addressed some of the more immediate problems of middle-income countries, many continue to face acute problems. For example, Peru’s outstanding debt represents a far higher proportion of its export earnings (around 400 per cent) than the average for severely-indebted low-income countries.

Debt problems have seriously damaged the social and economic life of Jamaica, for example. While nominally a middle-income country, more than half of Jamaica’s population live below the poverty line, and levels of malnutrition have doubled over the past decade. Unemployment and growing recourse to drugs marketing as a means of survival have combined to make Jamaica the crime capital of the Caribbean, with a murder rate second only to Colombia.20 Migration to the US, legal and illegal, has offered another escape route from poverty for Jamaica’s growing under-class. The economic causes of this social breakdown are to be found partly in the country’s debt, payments on which have resulted in transfers to creditors of over $1.2bn since the mid-1980s. In the 1993 budget, almost half of all government expenditure was directed towards debt repayment. Meanwhile, maternal mortality rates are increasing, per capita spending on primary education is lower than in the mid-1970s, illiteracy levels are rising, and public services are disintegrating.21

Oxfam has witnessed the devastating consequences of debt in many of the countries in which it works. As the state’s capacity to provide is eroded by the transfer of resources to repay debts, NGOs have supported the efforts of local communities to provide essential health care, education, water, and sanitation. The wider economic consequences of unpayable debt burdens are often less visible, but they are no less devastating in their impact. For example, the diversion of foreign exchange to external creditors reduces import capacity. As a result, local industries are left without essential items, cutting productivity, undermining employment, reducing fiscal revenues for the state,
deterring investment, and generating inflationary pressure (as the output of goods and services declines). Social and economic infrastructure in urgent need of investment is starved of resources; dispensaries are left without essential drugs, transport grinds to a halt from lack of fuel, and repairs and maintenance work are not carried out.

To these costs can be added the deterrent effect which mounting stocks of unpayable debt is likely to have on foreign investors. According to Northern governments, one of the reasons for not providing wide-ranging debt relief is that investment confidence will suffer. The fallacy in this argument is that there is unlikely to be any investor confidence in countries with massive and unpayable debt burdens. Investors are cautious people who know that governments trying to meet unrealistic debt repayments will be forced to raise taxes (some of which will fall on them), or print money (which will generate inflationary pressures). Under these circumstances foreign investors will stay away (as they have in Africa), and domestic investors will put money into short-term trading activities in the informal economy, or invest their capital out of the country.

Such considerations partly explain the failure of investment to recover in sub-Saharan Africa. In addition, devaluation has serious consequences for countries with large external debt problems, since it raises the costs of debt service payments. Thus debt overhang is a major obstacle to the realisation of two of the central aims of structural adjustment: to encourage investment and to make realistic currency alignments.

There is a further cost to severely-indebted countries in the diversion of scarce administrative and policy-making skills. It has been estimated that some 8000 debt-rescheduling negotiations took place between 1980 and 1992 in Africa alone. Some of the most able civil servants in the region have thus been forced to waste their skills on negotiating the terms on which their country’s unpayable debts will not be paid.

**Bilateral and multilateral debt in low-income countries**

The SILICs all carry an unsustainable debt burden. However, the nature of that burden varies from country to country, and this has important implications for the design of debt-relief measures.

**Bilateral debt**

Debt owed to official creditors accounts for the largest share of debt stock and repayment obligations. In 1994, this category represented 61 per cent of total debt stock for the SILICs, with the Paris Club of Western government creditors accounting for two-thirds of the total. Countries of the former Soviet Union and some Latin American countries are significant official creditors, as well as major debtors in their own right. The stock of official debt has risen rapidly since the early 1980s, and it continues to increase for the reason outlined earlier: that is, non-payment on the part of debtors. At the end of 1992, interest payments capitalised in rescheduling accounted for more than half of the debt owed to the Paris Club by low-income countries. The growth in bilateral debt stock has been accompanied by a hardening in its terms, with a reduction in concessional debt. As a result, scheduled repayments are increasing. Projections for 1992-1997, show that sub-Saharan Africa, for example, is scheduled to pay four times as much on average as it paid official creditors in 1991. Since most of this increase will be unpayable, it will be rescheduled and added to the ever-growing stock of debt, fuelling a cycle of increased repayment obligation, a further build-up of arrears, and higher future repayments.

**Multilateral debt**

The growing burden of official debt repayments reflects the willingness of official creditors to tolerate a build-up of arrears. In fact, it is a willingness enforced by the growing demands of multilateral debt, owed to the World Bank, the IMF, and regional development banks. In
Figure 6.5 Proportion of debt by creditor category

SOURCE: WORLD BANK
the early 1980s, multilateral debt represented a small fraction of the total debt stock of low-income countries. This picture began to change when the World Bank and the IMF increased their lending during the debt crisis. The stock of multilateral debt owed by SILICs has more than quadrupled since 1982 to $49bn, one quarter of their total debt stock. Because multilateral agencies are preferred creditors and have first call on repayments, they absorb an even higher share (roughly half) of debt service payments. In many SILICs, payments to multilateral creditors leave governments with no capacity to service bilateral debt, hence the increasing arrears.

The rapid build-up of obligations to multilateral creditors has created problems at two levels. First, it has contributed to the growing problem of arrears on bilateral debt, creating an ever more unsustainable debt position for a growing number of countries. Second, the recycling of multilateral debt is diverting a large amount of development assistance from poverty alleviation programmes to debt servicing. For example, the World Bank has provided International Development Association (IDA) soft loans, financed by grants from Northern governments, to enable countries to repay hard loans falling due to the International Bank for Reconstruction and Development (IBRD). IDA is the major source of development finance for low-income countries; but a significant proportion of its funds are now being recycled. IDA lent $2.7bn to SILICs in 1994, $1.9bn of which returned to the World Bank in the form of debt-service repayments. Given the desperate financial plight of these countries and their need for reconstruction finance, such transfers are clearly inadequate.

This is especially true for countries with substantial repayment obligations to the IBRD, including Tanzania, Kenya, Honduras, Nicaragua, Bolivia, Jamaica, and Honduras (all of whom paid more than 5 per cent of their export earnings on IBRD repayments in 1992). In 1993, repayments on hard loans from the World Bank cost Honduras $89m — equivalent to almost one-quarter of total debt repayments in that year. Donors have supported World Bank efforts to reduce the overhang of IBRD debt by providing supplementary finance for its 'Fifth Dimension' programme, under which repayments to IDA are used to cover the costs of interest payments on IBRD debt. This is clearly preferable to imposing unrealistic demands on developing countries. But it is yet another example of aid budgets being diverted to finance the IBRD.

In contrast to the World Bank, which has at least maintained a positive transfer of resources to the low-income countries, the IMF has contributed to the drain of resources from low-income countries. In 1986, the Fund created its Structural Adjustment Facility (SAF) to enable countries to repay loans falling due on its extended fund facility credits (which carried market interest rates) advanced in the early 1980s. These were repayable over ten years, with payments beginning after five, at 0.5 per cent rates of interest. By 1988, these SAF loans were running out, so the IMF requested donor support for an Enhanced Structural Adjustment Facility. The new facility combined interest rate subsidies with new loans on terms similar to the SAF, in an effort to facilitate debt repayments. In contrast to the IDA, however, where repayments start after ten years and do not have to be concluded for 40 years, SAF and ESAF have refinanced only 40 per cent of debt repayments to the IMF by low-income countries.

The consequence of this complicated picture of borrowing from Peter to pay Paul is that, since the mid-1980s, the IMF has been receiving more in the form of payments on past debts from the world's poorest countries than it has been providing in new loans. For sub-Saharan Africa, the net transfer to the IMF has amounted to $3.8bn since 1987: a huge burden in view of the region's chronic trade and financial problems. One of the worst affected countries is Uganda, where repayments to the IMF will exceed $200 million for the period 1993/94-1997-98. By the latter year, payments to the IMF will account for over one-third of total...
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debt-service and represent 20 per cent of export earnings. This comes on top of a negative transfer of resources to the IMF of $90m for the period 1987-1990.\textsuperscript{31}

Estimates of the number of countries facing acute problems in relation to their multilateral creditors vary. However, taking a ceiling of 10 per cent of scheduled debt service payments for multilateral creditors, one study suggests that as many as 21 SILICs and around five middle-income countries are facing difficulties. The study concludes: ‘From being the solution as lenders of last resort for new money between 1982 and 1985, multilateral lenders have now become the problem for most indebted countries.’\textsuperscript{32}

Multilateral debt obligations are making a mockery of efforts to provide longer-term development finance. In effect, donor money provided by the World Bank under IDA is simply crossing 19th Street in Washington, to the accounts of the IMF. Meanwhile, donors are using their bilateral aid budgets to facilitate repayments to the IMF and to assist the World Bank in reducing IBRD obligations. The absurdity of existing arrangements for debt recycling is graphically illustrated by the case of Zambia. In 1993, the international donor community provided the equivalent of $110 for every Zambian through aid budgets intended to promote poverty reduction and long-term development. Out of that sum, around $70 went straight into the accounts of multilateral creditors, partly to finance $100m in repayments on past debts owed to the IMF.

Towards a resolution of the debt crisis

The protracted nature of the debt crisis in low-income countries is a testament to the failure of Northern governments to develop coherent strategies for debt reduction. Reform measures have been half-hearted and ill-conceived, reflecting a concern to maximise repayments rather than minimise the social and economic disruption caused by debt. Even under the most favourable debt-reduction options currently available, the majority of SILICs would continue to face unsustainable debt burdens.\textsuperscript{33}

Below we outline a strategy for reducing the official and multilateral debt burden of the world’s poorest countries. Such a strategy would offer the prospect for sustainable recovery and release resources for investment in human development. Creditors have a responsibility to share in the burden of debt reduction, not least since so many of the loans which brought about today's debt burdens were as irresponsibly lent as they were spent. However, creditors and debtors alike share a responsibility for ensuring that debt reduction is linked to the attainment of objectives for improving human welfare. For most countries, these objectives have been established under National Plans of Action for realising the goals set by the World Summit for Children. In Oxfam’s view debt reduction provisions should be tied to agreements which ensure that a proportion of the new financial resources which will be available to governments will be devoted to human investment in areas identified in National Plans of Action.

Official debt

Until 1994 the rescheduling of official debt owed to the Paris Club was carried out under the Enhanced Toronto Terms. These allowed for the reduction by half of the debt stock responsible for interest repayments falling due within 12 to 18 month rescheduling periods. The resulting savings for debtors were minimal, since the stock of debt involved was small, resulting in savings of less than 2 per cent on repayments.\textsuperscript{34} Along with other NGOs, Oxfam supported as a step in the right direction efforts by the British Government to extend the terms of debt relief to cover the entire debt stock of countries, and to increase to two-thirds the amount of debt eligible for write-off.

Under the 1994 Naples Terms, named after the site of the Group of Seven meeting which agreed them, the Paris Club has broadly agreed to the UK’s proposal. It has also accepted that for countries facing ‘exceptional problems',
higher levels of debt write-off are necessary. Under the new terms, countries with a per capita income of less than $500 or a debt-to-export ratio exceeding a fixed ceiling will now be eligible for debt reduction of 67 per cent, provided they have remained in compliance with IMF programmes for a minimum of three years. This is an improvement. However, the Naples Terms are inadequate in a number of respects.

Most obviously, the debt reduction element is too small to restore the majority of SILICs to a position of financial solvency. Nicaragua, for example, owes only one-quarter of its debt to Paris Club members, but it has no capacity to service that debt in view of its obligations to multilateral creditors. For countries in this position the decision of the Paris Club marginally to increase the average rate of debt reduction is a matter of almost total irrelevance, since it will merely slow the rate at which the mountain of unpayable arrears increases. In situations such as this, where debt-service ratios are clearly untenable even under the most favourable rescheduling terms, there should be an automatic write-off of between 85 per cent and 100 per cent of debt stock.

Another problem with the Paris Club approach is the requirement that countries maintain a three-year programme with the IMF to become eligible for debt relief. This rule is arbitrary and inequitable in the extreme, especially for countries which have pursued sensible macro-economic policies without recourse to the Fund. Countries such as Tanzania, which has periodically broken off its programmes with the Fund, or which adopted ESAF programmes after 1992, will not be immediately eligible for full reduction of debt stock. Moreover, the generalised failure of IMF programmes suggests the need for donors to investigate more flexible criteria.

But perhaps the most serious flaw in current approaches to debt relief is that they do not address the debt problems of low-income countries in an integrated manner. In part, this is because creditors have refused to address, or even acknowledge, the problem of multilateral debt; and in part because of the anachronistic conventions which are embedded in Paris Club approaches to debt reduction. One such convention is the application of a 'cut-off' date for the stock of debt eligible for rescheduling and reduction. Debt contracted after that date, which usually coincides with the first visit of the country in question to the Paris Club, cannot be reduced. Since several countries accumulated a large proportion of their debt after their first visit to the Paris Club, the benefits of the Naples Terms will be limited.

The shortcomings of present debt reduction strategies were illustrated early in 1995 when the Paris Club dealt with Uganda’s debt problems under the new Naples Terms. Because Uganda’s cut-off date was fixed in the early 1980s, only about a quarter of its official debt stock was eligible for rescheduling. The multilateral debt stock, which accounts for the bulk of Uganda’s repayments, was excluded from the operation. The end result was that Uganda’s total debt stock was reduced under the Naples Terms by less than 3 per cent: a sum which will have a negligible impact on financial transfers. Once again, a more sensible approach would have been to write-off Uganda’s entire debt to the Paris Club — an option which was ruled out by the IMF’s insistence that the country was not facing liquidity problems!

Three measures are urgently required to enhance official debt reduction measures:

- For most countries, including the vast majority of the SILICs, debt write-offs in the range of 90 per cent to 100 per cent of the entire debt stock are needed. Similar terms should be considered on a case-by-case basis for chronically indebted middle-income countries, such as Jamaica.
- Cut-off dates should be adjusted with a view to maximising the benefits from debt relief, rather than, as happens at present, minimising the costs to donors.
- The linkage between debt relief and adherence to an IMF programme should be broken, with the Paris Club agreeing more appropriate and flexible rules for eligibility.
Multilateral debt

Uganda's problems typify a wider failure on the part of Northern governments and the international financial institutions they control to address the issue of multilateral debt. The received wisdom is that multilateral debt cannot be reduced without jeopardising the stability of the global financial system. (Similar arguments were frequently deployed on behalf of commercial banks during the 1980s, until they were forced, partly by the IMF and World Bank, to accept market realities.) Today, the damaging role of multilateral debt must be recognised and dealt with in a constructive and flexible fashion. That debt is diverting development assistance on an unacceptable scale and undermining investment and prospects for economic recovery.

The international financial institutions themselves have acknowledged the need for formal debt reduction, through their various programmes for debt recycling. Some of these programmes — such as the World Bank's 'Fifth Dimension' scheme and measures to reduce IBRD debt through IDA transfers — have been relatively successful. Others — notably the IMF's arrangements — have been an almost unmitigated failure. It is high time for a new framework for multilateral debt management to be devised. This should include the complete withdrawal of the IMF from financial involvement with SILICs. These countries need long-term development finance provided on IDA terms, rather than short-term balance-of-payments support.

While the Fund has a potentially valuable advisory role to play in important areas of economic management, it is not a development agency, and it continues to provide finance on inappropriate terms. To make matter worse, the Fund has acquired through its concessional lending facilities a policy influence which is incommensurate with its negative financial contribution and inconsistent with the needs of low-income countries. The conditions attached to ESAF are among the most stringent in any area of multilateral finance, with loan releases based upon the attainment of short-term monetary targets monitored on a quarterly basis. Even if the conditions were more appropriate and more flexibly applied, such an influence would be disproportionate to the Fund's financial stake in most indebted countries.

The ultimate aim of a debt strategy for the IMF should be the conversion of its outstanding debt stock in SILICs into IDA terms, and its transfer to IDA accounts. Currently, most Northern governments and the IMF itself rule out any move in this direction, claiming that the Fund does not have the authority to write-off resources which belong to its members. All that is required to give it that authority, however, is a political decision on the part of Northern governments. The alternative for these governments is to continue transferring aid resources to the IMF, which is an option likely to damage the credibility of their aid programmes. In any case, now that bilateral development assistance budgets are coming under increasing pressure, there is little prospect of sufficient aid resources being found to resolve the problem of multilateral debt through aid transfers.

Fortunately, there are simple alternatives to proceeding down the present route. Northern governments and the IMF have consistently over-stated the difficulties of reducing multilateral debt. Essentially, the problem is one of accountancy rather than financial credibility, involving financial provisions against non-payment on outstanding debt. That problem could be resolved in one of two ways: by transferring resources from outside the Fund (i.e. continuing to divert aid), or generating them from within. In Oxfam's view, the latter option is preferable.

Two mechanisms are available. The first is to authorise the IMF to issue a new tranche of Special Drawing Rights (the reserve currency which the Fund holds in trust for its members). There is now broad agreement that this is long overdue, but there is some disagreement over the size of the issue needed. The IMF itself has proposed an increase in SDRs by the equivalent...
of $40bn. Less than 10 per cent of this would be required to write-down the costs of all IMF debt in sub-Saharan Africa (excluding Nigeria). The other option would be to generate resources for the same purpose by selling off part of the IMF’s gold stocks, which are now an insignificant part of its asset base. One variant of this proposal has been advocated by the British Government, which wants the Fund to sell part of its gold stocks, invest the proceeds, and use the resulting revenue to subsidise repayments to the IMF. The overall objective of the UK proposal is to soften the terms of ESAF, rather than facilitate a more ambitious reduction in debt stock. However, the principles upon which it is based could provide a framework for more radical moves towards debt reduction.

Although the World Bank has dealt with IBRD debt more effectively than the IMF has dealt with repayments on its hard loans, it could do more. In particular, it could use some of the IBRD’s extensive reserves, now amounting to more than $17bn, to finance the conversion of all remaining IBRD principal and interest repayments owed by SILICs (with the exception of Nigeria and a handful of other countries) into IDA terms. The argument that this would undermine the financial position of the World Bank is untenable, since the sums involved account for no more than $2.5bn. The World Bank could also review the position of middle-income debtors facing problems with the IBRD more sympathetically. Jamaica, for example, could derive major benefits from relatively modest reductions in its obligations to the IBRD. Considering the depth of the country’s poverty and its financial plight it is certainly in need of such action, which should not be ruled out by rigid classification criteria.

Regional development banks, such as the Africa Development Bank (ADB) and the Inter-American Development Bank (IDB), figure prominently in the problems of some chronically indebted countries. The management of the ADB made serious mistakes in continuing to lend on hard terms, long after it was clear that countries would be unable to pay. The result is that several countries, including Cameroon, Tanzania, and Uganda, now face unrealistic repayment obligations. These countries need to receive concessional finance through the ADB’s soft-loan facility, which is seriously under-funded by donors.

### Development assistance

The importance of aid is both exaggerated and understated. It is exaggerated because human welfare in poor countries is influenced far more by the external trade environment, debt, and domestic policies than by international development assistance. By creating market opportunities through trade and writing-off debt, Northern governments could do more to enhance human welfare than they could ever achieve through their aid budgets. At the same time, the importance of aid is understated because its significance goes beyond its financial value to recipients. It has the potential both to bring about positive change and to do more harm than good.

The unequal power relationship between donor and recipient can distort local priorities and undermine local capacities. For example, the provision of expert advice to design a health-care system may reduce the incentive for governments to develop their own health expertise. Moreover, despite stated commitments to poverty reduction, and the promotion of sustainable development, the aid policies of donors are also shaped by other factors, including strategic interests and commercial considerations. Yet these inherent contradictions do not add up to an argument against providing much-needed development assistance to poor countries; rather, they underline the importance of ensuring that aid is used effectively to enhance local capacity to tackle poverty.
Aid quantity

At almost $69bn in 1993, official development finance from bilateral and multilateral agencies represents around 40 per cent of the net flow of resources from the OECD countries to developing countries. Globally, aid represents a small proportion of the developing world’s income, but is of considerable significance for many low-income countries. As a group, these countries receive about half of their external finance in the form of aid. For some regions the share is much higher; in sub-Saharan Africa aid flows represent on average 13 per cent of national income. These flows play a critical role in facilitating imports, supporting public investment and, increasingly, repaying debt. Without international development assistance, many countries would lack the resources needed for reconstruction and to improve human welfare.

For this reason, recent trends in aid flows represent a source of considerable concern. The deep cuts in bilateral aid transfers recorded in 1993-1994 could mark a watershed in overseas development assistance. After more than 20 years of steady if unspectacular growth, bilateral aid from the 21 OECD countries providing development assistance fell by 6 per cent in real terms (adjusted for inflation), with aid grants to (non-African) low-income countries falling by 25 per cent. In its annual review of aid flows for 1994, the Development Assistance Committee of the OECD put a highly optimistic interpretation on this reduction, suggesting that it was ‘a bout of weakness, rather than an incipient collapse’ in aid provision. It is difficult to share this sanguine view. Several major donors drastically reduced their aid budgets in 1993, blatantly disregarding pledges to move towards the target of 0.7 per cent of GNP in the process.

The US, one of the countries most distant from the UN target, reduced its aid expenditure by 19 per cent. With conservative Republicans in control of both houses of the US Congress for the first time in 40 years, the foreign aid programme is being subject to intense scrutiny. Proposals before the early 1995 session of Congress include substantial reductions in development assistance to the global South. Some would achieve these by virtually eliminating aid to Africa and concentrating the foreign aid programme on areas of strategic interest, such as the Middle East, and Russia and the CIS.

Another proposal, put forward by Senator Jesse Helms, perhaps the most radical of the critics of foreign aid, would eliminate the US Agency for International Development, incorporating some of its activities in the State Department and establishing a quasi-independent foundation to fund long-term development activities. While the idea of replacing the USAID bureaucracy with a funding agency is intriguing, the implications of Helms’ proposal for the levels of US development assistance are not yet clear. Helms has been a fierce critic of the US foreign aid programme, and it is assumed in Washington that his proposed International Development Foundation would have fewer resources for poverty alleviation programmes than USAID currently allocates. Helms would also ask the Foundation over time to generate its resources from private sources. In other words, he is proposing the gradual privatisation of the development programme of the supposed leader of the world’s democracies.

Elsewhere, official aid budgets are also being squeezed. The Australian government withdrew a commitment to raising its aid budget to 0.4 per cent of GDP by 1995. In Canada, overseas development aid as a percentage of GNP is down to 0.34 per cent from a high of 0.49 per cent in 1991-92 and, based on government projection, the level is expected to fall to 0.3 per cent by 1997-98. In the last six years, the ratio between defence and aid expenditures has become more and more unfavourable to aid: while the defence budget will fall by 4.9 per cent from a base of $11.9bn in 1994-95, the reduction in aid by 15 per cent from a base of approximately $2.5bn is much more severe. The voluntary sector has received a disproporti-
tionate amount of the cut, and since 1991-92 has been cut by 28 per cent. In Europe, contributions from EU member-states to the European Development Fund (EDF), the second largest source of concessional finance for Africa, will be cut by 5 per cent between 1994/95 and 1997/98. The British bilateral aid programme for Africa is projected to fall by about 17 per cent over the same period.

To add to this gloomy prospect, both Britain and Germany have made it clear that they will reduce their contribution to the European Development Fund, when existing pledges run out in 1998. In Germany, which contributes one-quarter of the EDF's $13.2bn, the finance ministry wants to cut contributions by 30 per cent before that date. This raises the spectre of sub-Saharan Africa having one of its main aid lifelines cut at a time when the region is being bypassed by private capital flows.

There are some exceptions to the overall downward trend. For example, in 1993 the government of Ireland reversed a seven-year trend with a decision to increase Ireland's Official Development Assistance by 0.05 per cent of GNP annually to achieve the UN goal of 0.7 per cent of GNP, with further substantial increases in 1994 and 1995. But for most major donors, significant cuts in future aid spending look likely.

It must be stressed that future reductions will occur against a backdrop of already inadequate aid provision, in which hopes of achieving the UN aid target of 0.7 per cent of GNP are beginning to appear increasingly illusory. In 1993/1994, the industrial countries collectively provided 0.30 per cent of their GNP in aid, the lowest level recorded for two decades. At the same time, new demands on aid budgets are reducing the resources available for investment in long-term development.

The most important of these demands derives from conflict-related emergencies, diverting a growing proportion of development assistance into humanitarian relief. In 1988, less than 3 per cent of bilateral aid was spent on emergencies and relief; today, it is 11 per cent. Several donors, notably Austria, now allocate a substantial proportion of their aid budgets to domestic programmes for refugees, even though these programmes were previously financed under other budget heads. Such measures reduce the resources available for poverty reduction in developing countries, as does the use of part of the aid budget for debt rescheduling. In 1992, this represented over 2 per cent of official development assistance.

While the resources available for poverty reduction programmes have been falling, the number of claimants recognised as eligible or potentially eligible for aid has been rising. Aid disbursements to Central and Eastern European countries and newly-independent states of the former Soviet Union stood at $7bn in 1994: equivalent to around 12 per cent of aid to developing countries. There is some debate over whether, as governments claim, these resources have been additional to existing aid budgets. What is clear is that, when resources are scarce, choices have to be made over their allocation — and that donors have chosen to find resources for development in Eastern Europe, but not to increase their development assistance to low-income countries.

The failure of aid
Increased aid is not in itself a panacea for poverty. If it were, sub-Saharan Africa would be well on the road to social and economic recovery. Since the early 1980s, Africa's share of the total development assistance budget has increased from 27 per cent to 37 per cent. More than $200bn in aid has been poured into the region, representing a higher share of regional income than even the transfers from the US to Europe under the post-war Marshall Plan. Yet economic recovery has proved elusive, and human welfare indicators continue to worsen. What lessons can be learnt from Africa's experience?

Firstly, and most obviously, aid flows cannot compensate for a dramatically worsening external trade and financial environment. Large as the transfers to Africa have been, they are much smaller than the losses the region has suffered
from deteriorating terms of trade.

Secondly, the effectiveness of aid is reduced when it becomes a mechanism for financing debt repayments rather than development. In 1993, sub-Saharan Africa received $18bn in overseas development assistance, but half of it went straight back out in the form of debt servicing. As the demands of multilateral creditors have grown, aid has increasingly been reduced to a mechanism for recycling debt, rather than alleviating poverty.

Thirdly, the effectiveness of aid is determined partly by the wider policy environment. Aid is not effective where civil strife undermines the security needed for long-term development. Nor is it effective where economic policies are flawed. In this respect, Africa has suffered from the worst of all worlds. Bad domestic government (the maintenance of over-valued exchange rates, a failure to pursue coherent budgetary policies, and corruption), and structural adjustment programmes, which have placed an undue emphasis upon market deregulation and deflation, have seriously undermined the effectiveness of aid. So, too, has the absence in many countries of the institutional capacity needed to utilise aid effectively, and to prevent it from ending up in the foreign bank accounts of local elites. Unless these wider issues are addressed, public disillusionment with aid for Africa is likely to deepen over the coming years, with potentially disastrous effects on the lives of African people.

Aid quality

Most aid donors in the industrialised world declare poverty reduction to be among the primary purposes of their aid. For example, the British Government, in a 1994 report to Parliament, states that: 'It is right that a part of the nation's wealth should be used to help poorer countries and their peoples improve the standard of their lives.' "Such phrases could be drawn in abundance from almost any of the glossy brochures in which governments public-
have levels of poverty which are as widespread and as deep as in the poorest countries. Between them, Brazil and Mexico have more people living in absolute poverty than sub-Saharan Africa, even though their incomes are higher. Despite these provisos, there is a correlation between the effectiveness of aid in poverty reduction, and its allocation to the countries where poverty is most pervasive.

Judged on the basis of this criterion, the British aid programme compares favourably with other OECD countries, with around 80 per cent of total expenditure being directed towards low-income and the poorest middle-income countries. The US programme, by contrast, appears to be governed more by a concern to support strategic allies than to reduce poverty. Between them Israel and Egypt absorb over half the US aid budget, being provided with over $5bn annually; three times the US aid budget for the whole of sub-Saharan Africa. This generosity is a recognition of their adherence to the Camp David agreement and their support for US foreign policy in the region. Israel, where (outside of the Palestinian community) poverty is negligible, receives $626 per person. By contrast, Peru receives $30 per person, even though average incomes are one-twelfth of those in Israel, and seven million people live in absolute poverty.

The US aid budget reflects, in stark form, the subordination of poverty reduction objectives in aid provision to 'national security' considerations. During the Cold War, such considerations resulted in a bizarre distribution of aid, which was seen largely as an instrument for pursuing strategic interests. Hopes that the end of superpower rivalry would improve matters have so far been only partially realised. High military spenders, notably in the Middle East, continue to receive disproportionate amounts of aid, part of which is designed to maintain markets for military exports. Aid to Eastern Europe and the former Soviet Union is similarly seen in strategic terms by most donors.

Measured in terms of the country allocation of its spending, the World Bank's International Development Association (IDA) can lay claim to being one of the better-focused mechanisms for development assistance. Virtually all IDA spending, which amounted to $5.5bn in 1994, is concentrated on low-income countries, compared with around half for bilateral development assistance. IDA funds are almost equally divided between Africa and Asia. For sub-Saharan Africa, IDA is now the major source of long-term development finance and balance of payments support. However, there are many problems associated with IDA lending. Projects financed by IDA have resulted in the forcible displacement of local communities, and environmental damage; and a significant proportion of IDA lending is tied to structural adjustment programmes, and through them to IMF conditionalities, undermining IDA's capacity to support poverty reduction. Despite this, any reduction in IDA flows would have severe consequences for many low-income countries, especially at a time when bilateral aid budgets are being reduced. Moves by some donors, notably the US, to scale-down their support for the three-year replenishment of IDA represents a serious threat to international poverty reduction efforts.

Aid and human priorities

Even where aid is spent in poor countries, it typically lacks a poverty focus. Bilateral donors collectively spend only 7 per cent of their aid budgets on priority areas such as primary health, basic education, water and sanitation provision, and nutrition programmes. Even when aid is spent on health and education services, it tends to fund schemes that disproportionately benefit the better-off. For instance, Britain's Overseas Development Administration (ODA) claims that it spends about one-third of its aid budget on areas of basic needs, such as health and education. In fact, however, less than one-fifth of the 1992 aid budget for education was directed towards primary education, with the bulk of the remainder going to universities, technology centres, and secondary education.
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Given the critical importance of primary education in social and economic development, and in enhancing opportunities for women, this represents a misallocation on a huge scale. Most aid donors have endorsed in principle the conclusion reached by the 1990 Jomtien conference on Education for All that education expenditure should be oriented towards basic education. Yet these donors spend only about 1 per cent of their aid budgets in this area. For every dollar of aid spent on primary school children in Africa during the 1980s, $575 was spent on university students. Such expenditure patterns are clearly not consistent with the objective of achieving a basic level of education for 80 per cent of children by the year 2000, as agreed at the 1990 World Summit for Children. Yet there is little sign of donors changing their priorities.

It is a depressingly similar story in other areas. For poor households, inadequate provision of water and sanitation is a major cause of exposure to water-borne diseases, and a demand on the physical strength and labour time of women who collect water. Yet water supply and sanitation for urban areas receives four times as much development assistance as for rural areas, and much of it goes to providing relatively high-cost tap water to private homes. Primary health care systems are at the forefront of the fight against poverty. Public provision in this area reduces the incidence of debilitating diseases which affect people's ability to make a livelihood. Without well-run primary health care facilities, women are denied the opportunity to control their own fertility, with adverse consequences for their own and their children's health, and their own opportunities for education and employment. They are also exposed to unnecessary risks during pregnancy and their children are more likely to die. Along with investment in women's education, investment in their health is the most important factor in reducing infant and maternal mortality rates, and in reducing family sizes and demographic pressure. And investment in health promotion is by far the most efficient form of health finance, both because it brings benefits to more people; and because it is cheaper to prevent disease than to cure it. Yet donors continue to regard investment in primary health care as a peripheral concern. The primary health care facilities which could prevent or treat 80 per cent of the diseases afflicting poor people receive 1 per cent of international aid flows.

Most donors continue to fund teaching hospitals, which provide high-cost services to relatively prosperous urban populations. Japan, for example, spent over one-third of its aid health budget on teaching hospitals in the late 1980s. The failure to develop a poverty-focused aid programme has been particularly evident in the case of Japan, which is the second-largest OECD donor. It reflects the conviction of successive Japanese governments that economic growth achieved through export-oriented industrialisation will 'trickle down' to the poor. Sectorally, Japan has given priority to supporting large-scale economic infrastructure in areas such as power, transportation, and large dams. Investment in areas such as basic education, water supply, and primary health accounts for only around one-fifth of Japanese aid. The country's aid programme also has a bad record in relation to the environment and the protection of people's land rights, as shown in its support for the Sardar Sarovar Dam in India and the Koto Pandjang Dam in Indonesia.

It seems that aid donors, like recipient governments, have an in-built preference for investing scarce resources in areas where the social and economic returns to society are lowest. As we have pointed out elsewhere, the rapid social and economic development of the high-performing countries of South-East Asia was achieved, in part, through a concentration of government welfare expenditure at the lowest levels. That investment brought immediate benefits to people's lives. It also brought longer-term economic benefits and helped to facilitate the relatively equitable distribution of the benefits of economic growth. The contrast between the approach of governments in
South-East Asia and aid donors is stark and instructive. While the former concentrated on efficient provision for the poor, the poorly-targeted aid programmes of the latter have failed to help the poor. Without a change in priorities which brings aid practice into line with poverty-reduction objectives, resources funnelled through government aid agencies will continue to make at best a marginal contribution to improving human welfare.

Spreading aid thinly
The wide geographical spread of aid budgets is another factor affecting their quality. Several OECD donors, including the EU, Canada, and the UK, provide assistance to over a hundred countries. Britain provided bilateral assistance to 135 countries in 1991-92, with 80 per cent going to 20 recipients. Although such a spread might bring commercial advantages and influence, few donors have the capacity or the expertise to maintain coherent aid programmes in dozens of different countries; nor do they have the means to undertake effective monitoring.

To make matters worse, donor co-ordination within countries is often weak, leading to duplication and waste. From the point of view of developing countries, dealing with multiple donors (whether official or NGOs) imposes considerable demands in terms of the diversion of skilled administrators. Nepal receives aid from 19 bilateral donors and 13 multilateral donors, most of whom operate on different budget cycles and procedures. In countries where there is an acute shortage of trained graduates in the civil service, it is impossible effectively to integrate aid into national strategies for poverty reduction. What often happens in practice, especially in the poorest countries, is that donors themselves assume financial and administrative responsibility for large areas of policy. In order to maximise the effectiveness of development assistance in reducing poverty and assisting states to use aid effectively, there is a strong case for improved donor co-ordination and greater specialisation both between countries, and between sectors within countries.

Aid and commercial self-interest
If the strategic foreign policy objectives of donors can conflict with the aim of poverty reduction, so too can the pursuit of commercial self-interest. Most aid donors use part of their budgets to promote exports by their own industries, linking aid contracts to domestic procurement. Some do so on a very large scale: around 75 per cent of British aid is tied to the purchase of British goods and technical assistance, one of the highest rates in the OECD. In some cases, development assistance grants and loans are also added to commercial loans to fund part of the costs of tendering for projects, subsiding the commercial sector.

Donors tie aid for a variety of reasons: creating employment, promoting trade, cultivating new markets, and generating profits for business. The result is a vast diversion of public funds from poverty reduction. Because the tying of aid insulates donors from competitive pressures, developing countries end up paying above the market rate for goods and services. One recent estimate suggests that these extra costs to aid recipients represent more than 15 per cent of the aid provided. According to the World Bank, untying all aid flows would generate economic benefits to developing countries amounting to as much as $4bn per year, which is more than the entire UK aid budget. The price inflation associated with aid tying represents a direct subsidy to exporters in the OECD companies, who constitute a formidable lobby influencing aid priorities.

While tied aid is good news for exporters, it is bad news for just about everybody else, including the OECD tax-payers who finance aid budgets. Using public funds to create protected markets for subsidised exporters is a grossly inefficient form of investment. (It is also against the free market philosophy which OECD governments encourage the recipients of their aid to embrace.) In addition, tied aid may result
in the purchase of inappropriate goods and services, as the choice will depend upon what is available in donor countries, rather than what is needed in developing countries. The clearest example is to be found in the provision of technical assistance. Of the roughly $12bn in development aid spent annually on training, project design, and consultancy, over 90 per cent is spent on foreign 'experts'. Sub-Saharan Africa has probably received more bad advice per capita from such experts than any other region, and international agencies, from NGOs, to the World Bank and the UNDP, criticise technical advice as one of the least effective forms of assistance. It is often poorly planned and monitored, with little attention given to building capacity in developing countries.

The Aid Trade Provision

The hazards of aid-tying are illustrated by the Aid Trade Provision (ATP) of the UK's bilateral aid programme. According to the British Government, the ATP generates three times as much in earnings as it costs taxpayers to finance. It is supposed to support, in the words of the Minister for Overseas Development, 'sound projects that will contribute to sustainable development and which are of particular industrial and commercial importance to Britain'. Powerful industrial conglomerates have been instrumental in promoting the use of aid to win overseas contracts. The same conglomerates have received the lion's share of the benefits in the form of lucrative contracts, mainly for infrastructural projects such as power generation and construction.

Concern over the use of overseas aid to finance commercial activity was highlighted by a project to construct a hydro-electric power station on the Pergau river in Malaysia. This project was the largest ever financed under the ATP, at an estimated cost of £234m over 14 years. It illustrated in graphic form everything that is wrong with tied aid. An assessment of economic viability of the project carried out by the ODA concluded that there were cheaper and more efficient means of supplying energy, and that the project was 'a very bad buy' for Malaysian consumers and British tax-payers alike. In 1994, the former Permanent Secretary of the ODA told a parliamentary enquiry investigating the project that it had been an 'abuse of the aid system'. So why did the government choose to proceed? One reason, according to the account given by the Prime Minister, was that the project was viewed 'in the wider context of maintaining billions of pounds of British exports to Malaysia'. Another reason was that the ATP provision was linked to a 1988 trade protocol, which provided for over $1bn of British arms exports to Malaysia.

The Pergau affair underlined the dangers inherent in the commercialisation of aid budgets. At a time when aid to the poorest countries was falling, the government was willing to use more development assistance to promote, through an inefficient energy project, the commercial interests of UK companies, than it was providing through bilateral aid to the whole of Latin America. The linking of aid to military contracts was equally disturbing, not least since it represented a violation of the declared principles of the British aid programme, and was kept hidden from public scrutiny. Sadly, the Pergau affair was not an isolated example of waste and inefficiency. An evaluation of ODA-funded power projects in Bangladesh found that UK companies, supported by the ATP, had conspicuously failed to create demand for local suppliers, preferring to maximise imports of their own products. As in other areas, commercial interest rather than a poverty focus was allowed to dictate aid provision. In 1992, a review conducted under the auspices of the ODA concluded that the ATP was directing scarce aid resources into projects of questionable value, and away from the needs of the poorest countries and people; nor was it bringing substantial benefits for the British economy. The review summarised its findings in the following terms:

There have been benefits to the UK economy from the ATP scheme. These are difficult to quantify, but it is unlikely that the overall benefits of ATP which have
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Accrued to the UK economy have matched its costs... ATP projects (also) had a less beneficial impact on recipient countries than other bilateral aid projects which had been evaluated, particularly when comparing success rates for projects in the same sectors and country.62

Phasing out tied aid

While some governments, including the UK government, have expressed a concern to reduce the level of aid-tying, progress towards this objective has been minimal. Under guidelines agreed in 1992, the OECD countries agreed that tied aid should not be used to support projects which were commercially viable in their own right.65 Non-viable commercial projects remain eligible for aid support, provided they are 'sound from a development perspective'. Such guidelines could help to phase out the worst examples of aid-tying. In practice, however, they are sufficiently vague to allow for widespread abuse (for example, there are no clear criteria for judging a 'sound' development project). Another problem is that they appear to endorse the right of governments to avoid open tendering for development projects. In fact, donors are using their aid budgets to promote commercial interests in an increasingly aggressive manner. As the OECD's Development Assistance Committee has concluded:

There have also been changes in some facilities, from defensive to aggressive strategies, seeking commercial advantage rather than reacting to what are perceived as unfair competitive practices by others.64

As this statement suggests, all governments are now to some extent trapped in a problem of their own making, using aid subsidies to protect markets from competitors receiving subsidies in other OECD countries. The only way to deal with this problem will be to agree binding multilateral rules, under which all governments agree to phase out aid-trade tying in favour of competitive procurement practices.

Aid, human rights, and good governance

Since the early 1990s, aid donors have sought to use their financial influence to act as a catalyst for change in a wide range of policy areas. Conditions attached to aid now typically include measures to promote 'good governance' — a catch-all phrase which means different things to different donors. The 'good governance' menu includes such things as democratic pluralism, accountability and transparency in government, poverty reduction, respect for the rule of law and human rights, and movement towards a non-regulated economy. Disagreement between donors on the emphasis to be placed on different elements of this package and on how to monitor progress, has resulted in vague and confused messages being sent to Third World governments and citizens. 'Good governance' aspirations have been compromised by double standards, whereby donors demand stringent conditions from aid recipients but do not apply the same conditions to themselves; and, in some cases, the pursuit of mutually incompatible objectives.

An example of incompatibility is to be found in the requirements that developing country governments comply with structural adjustment programmes. However, the effect of many of these programmes has been to reduce state health and education provision, to exacerbate inequalities, and further marginalise poor people through inappropriate forms of market deregulation: the opposite of the objectives set for aid programmes. There appears to be little logic in donors financing primary health care provision in, say, Zambia or Pakistan, when governments there are slashing expenditure to meet budget targets set under the structural adjustment programmes, with which the same donors demand compliance. Despite this, unquestioning support for structural adjustment remains one of the pillars of bilateral and multilateral development assistance. An example of double standards is that structural adjustment programmes demand that developing
country governments open up their markets; whereas Northern governments continue to keep theirs firmly closed.

Almost all donors stress the importance of using aid to foster civil and political rights, but ignore almost completely the promotion of economic, social, and cultural rights. The Lomé Convention of the European Union, for example, requires human rights considerations to be taken into account in development co-operation with the African, Caribbean, and Pacific states. Proposals from the European Commission tabled during the mid-term review of Lomé IV, the current agreement, sought to reinforce the linkage between human rights and development co-operation, which, it said, should be aimed at 'fostering democratic values, the rule of law and good governance'. The Commission is attempting to establish more stringent conditions for monitoring progress in these areas, and to use European aid to encourage moves in the right direction. Unfortunately, different donors appear to have different and changeable standards for determining what the right direction might be. In 1992, the Dutch Government responded to the massacre of unarmed Timorese protestors by Indonesian troops by stopping aid. Other OECD donors, sensing the prospect of lucrative contracts, promptly stepped in to fill the gap. Britain, which had increased aid to Indonesia from £7m in 1986 to £21m in 1991, criticised the Dutch move on the grounds that it would undermine Europe's ability to influence the human rights performance of the Indonesian Government. By apparently allowing commercial considerations to outweigh human rights objectives, confusing signals are being sent as to the nature of 'good governance' conditionality.

Forceful measures to promote 'good governance' have been the exception rather than the rule. In Africa, the most notable exception is Kenya, where in 1992 donors publicly presented the government with an ultimatum to hold multi-party elections or face aid cuts. Widespread corruption and human rights abuse were cited as additional reasons for using aid conditionality as a catalyst for change. In the event, the Kenyan government held elections and proceeded to finance its election campaign in part by using multilateral funds provided for development and printing money (in breach of its agreement with the IMF). Ethnic tensions were exploited to divide the opposition and secure re-election on the basis of a minority vote, after which the aid tap was turned back on and the government returned to power, with corruption and other malpractice continuing much as before. Once again, it is difficult to discern precisely what 'good governance' is supposed to mean when it is pursued in such a self-evidently contradictory manner.

Social conditionality
An area in which donors have been less inclined to enforce aid conditionality is poverty-oriented spending patterns. There is no evidence, for example, that governments which use scarce resources for large-scale military expenditure are less favourably treated than others. (Spending patterns suggest they are, if anything, more favourably treated.) Nor do governments which invest more resources in areas of social welfare provision of benefit to poor people receive greater support as a reward.

Can and should aid be used to put pressure on governments to reform their spending policies in favour of the poor? Oxfam believes that new forms of conditionality could help to bring about positive policy reforms. Instead of a broad sweep of incoherent objectives under a 'good governance' umbrella, some specific social policy objectives could be constructively pursued through a dialogue with governments over spending priorities. Governments and donors could, in principle, agree incremental steps for raising investment in primary health care, basic education, and the provision of water and sanitation. Such steps could be relatively easily facilitated through a financial partnership, in which governments and donors undertake joint commitments to meet agreed targets. The UNDP has argued for a new devel-
development compact in which developing countries agree to raise their spending on social priority areas to 20 per cent of budgetary expenditure, and aid donors provide a similar proportion of their aid budgets for this purpose. This '20:20 compact' was broadly endorsed at the Social Summit in Copenhagen, although only as a vague and voluntary target.

Apart from providing tangible, measurable, and realisable policy objectives, such a contract would involve obligations on both sides, rather than the imposition of donor objectives on aid recipients. Most donors reject such an approach on the grounds that it would undermine the national sovereignty of developing country governments. They have been considerably less reluctant about eroding sovereignty in other areas; through their support for structural adjustment programmes, donors have obliged governments to impose fees for primary education and basic health facilities, to devalue their currencies, set interest rates at levels dictated by the IMF, privatise whole industries, and liberalise markets.

**Measuring aid quality**

Part of the problem with development assistance is that relatively little is known about the distribution of the benefits it brings, or its impact on the lives of poor people. The impact of investment in primary health care and primary education in countries and regions with high levels of poverty, is relatively easy to monitor. But is a power station a poverty reduction project? Not at first sight perhaps; but if it creates employment and provides electricity to poor people at affordable prices, and does not cause environmental damage, investment in power generation can bring important benefits to the poor.

For example, Britain's ODA has provided over £100 million for Greater Dhaka power distribution project in Bangladesh, the aim of which is to strengthen and extend the electrical power system in Dhaka. An initial evaluation of the project conceded that it had not been targeted at groups in poverty. However, it had created incidental, and largely accidental, spin-off benefits. Residents in some slum areas were provided with electricity, facilitating the expansion of home weaving and the recycling of waste scavenged by poor children. However, they were required to pay more than the official tariff to their landlords and other operators making their electricity connections. A genuinely poverty-focused approach would have attempted to consider the most effective ways of delivering electricity to poorer communities as part of the project design.

**Setting aid priorities**

To their credit, some donors are now attempting to develop more rigorous methods of evaluating the impact of their development assistance. In an effort to monitor how aid funds are allocated, the UK's ODA has established a Policy Information Marker System (PIMS), which is intended to measure performance against seven priority objectives. These range from direct poverty reduction activities (for example, investment in child health and education) to enhancing productive capacity through infrastructural investment, and promoting market-based economic reforms. One problem with the PIMS approach is that it understates the impact of the British aid programme on poverty. Because investment in productive activity is not counted as 'poverty-reducing', its benefits or costs to the poor are not recorded.

A wider problem is that the impact of aid cannot be assessed against arbitrary categories which bear little relationship to the experience of poor people. 'Economic reform', to take one of the 'non-poverty-reducing' categories included under PIMS, is not neutral in its effects on the poor, and it has a direct bearing on the effectiveness of measures expressly designed to promote social welfare. Aid-based investment in primary health care counts for little where economic problems or changing budgetary...
priorities are contributing to the collapse of wider public investment in health.

The World Bank's poverty focus

The World Bank has been in the forefront of efforts to measure the effects of its programmes on poverty. Project lending is now measured partly against the extent to which it supports poverty reduction strategies. Where projects include specific mechanisms for identifying and reaching the poor, where the primary purpose is poverty reduction, or where the proportion of poor people participating in the projects significantly exceeds the proportion in the population as a whole, the World Bank now includes them in its 'Programme of Targeted Interventions' (PTIs). In its assessment for 1993, the World Bank stated that 26 per cent of all lending fell into the PTI category, rising to 40 per cent for IDA. However, the extent to which these projects directly benefit the poor is less clear.

The same is true of structural adjustment programmes which are assessed against the criterion of whether or not they incorporate 'poverty-focused measures'. According to the World Bank, 24 of the 49 adjustment programmes agreed in 1992 and 1993 fell into this category. All but one of the 1993 programmes were included partly because compliance with poverty-focused reforms was made a condition for releasing funds. The problem with the World Bank's evaluation criteria is that they take it as axiomatic that the introduction of free market reforms are poverty-reducing. Thus Côte d'Ivoire's adjustment programme merits inclusion under the 'poverty-focused' category because 'deregulation will help create jobs for young entrants into the labour force, as well as for the poorest segments of society.' In some cases deregulation has had precisely the opposite effect.

Another problem is that the evaluation procedures confuse the terms of adjustment agreements with their implementation. For example, the structural adjustment programme in Zimbabwe is counted as poverty-focused, partly on the grounds that it provided for the restoration of current expenditures on health and education as a condition for releasing funds. In the event, even though expenditure under both budget heads fell sharply under the adjustment programme, funds were released.

An agenda for aid reform

The ultimate measure of aid effectiveness must be whether it enhances the capacities of the poorest, their education and skills, their health, their ability to control their own lives, and their opportunities to develop secure livelihoods. These are the outcomes which the majority of people in the industrialised world want to see. It is a testimony to the depth of public support for development assistance that, even in the face of repeated evidence of misplaced donor priorities, 'aid fatigue' has yet to set in. Support will start to wane, however, unless governments embark on far-reaching reforms of development assistance.

These reforms should begin with the introduction of greater transparency. Aid funds which are at present devoted mainly to subsidising commercial exports, should be shifted to the budgets of more appropriate government departments, such as trade and industry. Where aid is used to finance military exports and achieve strategic foreign policy objectives, it should be transferred to the budgets of defence and foreign affairs departments. What remains in aid budgets should then be measured against the only valid criterion: is aid helping to empower people to improve their own lives and overcome the worst aspects of absolute poverty? Much of what currently passes for development assistance would fail this acid test. Yet donors have enormous scope for reallocating their aid, and could take immediate steps to earmark more funds for priority areas. Progress towards this objective should be monitored and publicised by the OECD’s Development Assistance Committee, on the basis of detailed social priority spending accounts provided by donors.
Increasing the flow of aid

If aid is to make a positive contribution to poverty eradication into the next century, improvements in aid quality will need to be reinforced by increased and more secure flows of development finance. The 0.7 per cent target fixed by the UN remains relevant, and donors should establish firm time-tables for achieving this objective. At present, any moves in this direction will have to be voluntary. There is a powerful case, however, for introducing a more obligatory element into aid efforts, ensuring that the burden is distributed equitably and that annual flows are predictable.

One study has attempted to estimate the revenues which might be generated by a progressive international income tax on rich countries, rising from 0.20 per cent at the lowest average national income band, to 0.37 per cent at the highest. Based on 1990 figures, the study found that such a tax would create more revenue than the aid contributed by OECD countries in that year. If the tax increased gradually to achieve an average transfer in line with the 0.7 per cent target, aid flows could double. Their real value would increase even more if the revenue from the tax were transferred in the form of grants, rather than the current mixture of grants and export credits; and if they were administered by an international authority under UN auspices which prohibited aid-tying. However, it is clear that the idea of taxing rich countries would be fiercely resisted, thus limiting its practicability.

Another option which merits serious consideration is the tax on international currency transactions proposed by Nobel Prize-winning economist James Tobin in 1978. Such a tax would act as a deterrent on the vast flows of speculative capital, currently estimated at $1 trillion per day, which are destabilising economies in the industrialised world and developing world alike. Clearly, any such tax would have to be supplemented by national and international action to bring financial markets under more effective control. But even levied at the most marginal rates, it would generate a major source of revenue with which to tackle global poverty, without taxing constructive economic activities.

The multilateral system run by the Bretton Woods agencies, originally set up to transfer resources to low-income countries, is being subject to criticism from a variety of sources. Community organisations in the developing world and Northern NGOs point to the social and environmental failures associated with the policies of the agencies. From a different perspective, there is an increasingly influential lobby, represented by the Republican-dominated US Congress, which sees investment in development as a costly irrelevance and drain on resources. In the view of this lobby, private capital rather than public finance is the appropriate vehicle for transferring resources to developing countries. In a 1994 report outlining reform proposals for the Bretton Woods system, the influential Volcker Commission, chaired by the former US Federal Reserve chairman, argued for a decisive shift in the balance of World Bank activities, with the focus on investment in private sector development and the enhancement of private capital flows.

There are serious dangers in such an approach. Many low-income countries will not for many years be able to obtain commercial financing for investment on the scale required for poverty eradication. For them, continued access to concessional IDA lending is vital, not least because it is untied. Without IDA funding, the poorest countries would be forced either to turn to commercial markets, borrowing on terms they are unable to afford, or to make do with more limited access to foreign exchange. As it is, the limited resources available under IDA have forced some countries, such as India, to turn prematurely to commercial markets. It has also resulted in more stringent conditions for countries which are eligible for IDA support.

With IDA's three-yearly replenishment in doubt because of opposition in the US Congress, concessional resource flows are likely
to decline; whereas what is needed is for IDA to be replenished, but with a much stronger and measurable focus on poverty-reduction; and an increase in the share of IDA in overall World Bank lending from its present base of 30 per cent. This increase might take the form of creating an intermediate facility which charges slightly higher interest rates for countries in less parlous financial circumstances. Even in countries which can afford to borrow on capital markets, private finance is unlikely to facilitate the social and infrastructural investment needed to sustain recovery.

Reform of the IMF
Reform of the IMF is equally urgent. The Fund was created to provide countries faced with foreign exchange shortages with the liquidity they needed to overcome temporary balance-of-payments problems. A new reserve asset, known as Special Drawing Rights (SDRs), was subsequently created to provide that liquidity, with governments effectively transferring part of their reserves to the IMF. These in turn could be used by governments facing balance-of-payments constraints, to help them to import what they needed to grow out of recession. In practice, the Fund’s stock of SDRs has always been too small to enable it to perform this role, and with new member countries in the former Soviet Union and Eastern Europe making new demands, they are now hopelessly inadequate.

The IMF’s Managing Director, Michel Camdessus, has proposed a new issue of SDR’s, amounting to more than $40bn. This would help developing countries, many of whom face chronic foreign exchange shortages, to increase their own reserves without resorting to extreme deflationary measures or putting a brake on growth by cutting essential imports. Innovation in the way in which SDR quotas are distributed would also bring benefits. Under present arrangements, SDRs are allocated on the basis of a country’s financial stake in the IMF, so that the richest countries get the largest share. Given that it is developing countries which have the greatest need for finance, the industrial countries could transfer some of their allocation. Once again, the IMF has tentatively proposed moves in this direction, but they have been rebuffed by the industrialised countries. Finance ministries in most of these countries continue to claim that any measure which increases international liquidity will generate inflation. After a period which has witnessed the lowest international commodity prices since the 1920s and with much of the world locked into deflationary policies, recession or slow recovery, this argument is untenable.

World Bank projects
The World Bank is the main source of finance for project-based lending in developing countries. Over the years its focus has gradually extended from infrastructural projects to a wide range of activities in industry, agriculture, and the social sector. The Bank has also adopted impressive social and environmental guidelines, intended to protect vulnerable communities from adverse effects. While the scope of the World Bank’s activities make a comprehensive assessment of the effects of these guidelines impossible, Oxfam’s experience suggests that, in many cases, they have not been translated into practice.

Resettlement
In the face of mounting public pressure, the World Bank introduced a comprehensive resettlement policy in 1980 designed to protect the rights of displaced people. Where possible, displacement was to be avoided or minimised. Where it was inevitable, the World Bank pledged to ensure proper compensation for the communities affected and assistance for resettlement. However, problems in implementing the new policy were highlighted by the Narmada (Sardar Sarovar) dam project in India.

In 1992, the Morse Commission, set up to investigate problems with resettlement in the dam area, concluded: ‘involuntary resettlement resulting from the Sardar Sarovar Projects
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offends recognised norms of human rights.' The report went on to criticise plans to displace at least 100,000 people, in 245 villages, living in the area affected by submersion. It noted that the impact of canal systems, which would affect a further 140,000 farmers, had largely been ignored. But the most serious indictment was of the Bank's internal procedures. The report concluded that 'no adequate appraisals of resettlement and rehabilitation, or of environmental impact' had been made, and that the decision to proceed was taken 'on the basis of extremely limited understanding of both human and environmental impact, with inadequate plans in place and inadequate mitigative measures under way'. Morse went on to criticise World Bank staff in the India Department for deliberately misleading Executive Directors and Bank management in Washington on the scale of resettlement, and on problems over non-compliance with agreements.77

Other evidence suggests that this was not simply an isolated example. Over the last seven years alone, World Bank projects have forcibly displaced 2.5 million people. In a recent review of projects affecting about 2 million people over the period 1986-1993, the World Bank admitted that virtually all of them had failed to ensure that displaced people regained their former standard of living. The World Bank review acknowledged 'the potential for violating people's individual and group rights makes compulsory relocation unlike any other project activity.' Yet it goes on to record serious underestimates of the numbers likely to be displaced. In India, where Bank guidelines were seldom applied, it admits 'the overall record is poor to the extent of being unacceptable.' Some of the problems were traced in the review to slack project preparation by Bank staff, and lax management attitudes. This resulted in clearance routinely being given to projects that did not meet Bank safeguards, and the deferral of action to remedy non-compliance by borrowers.78 But a deeper problem, which the report ignored, is the fact that these project failures have continued without an effective response from the Bank's Executive Directors, who have systematically neglected to bring them to the attention of national legislatures.

The World Bank has a better record than many donors in evaluating its projects, and pledging to learn from its mistakes. But in Oxfam's experience it appears that the Bank has done so with variable success. This has been underlined by a new project to construct a $770m dam in the remote and ecologically-unique Arun valley in Nepal which threatens to repeat the bad practices of the past, and could produce irreversible damage. Relatively few of the people living in the valley, who are from diverse ethnic and cultural backgrounds, will have to be relocated. But Nepali NGOs are concerned that compensation rates for families losing land are set too low, and that families are being persuaded to accept cash instead of replacement land. If this is the case, many will be left destitute after a few years and forced to leave. Nepali NGOs also fear severe social dislocation caused by the building of roads and arrival of construction workers. With the opening of the road, forests will be accessible for illegal logging activities, carrying a potential threat of deforestation, and soil erosion. This in turn will threaten the future viability of farming on the region's ecologically-fragile hillside slopes.

The World Bank claims that the Arun Dam has an excellent environmental protection scheme,79 and is pressing the Board to approve the project. Oxfam partners believe that the Bank has seriously exaggerated the export and employment opportunities which the project will bring, raising questions about its economic viability. The Bank has admitted that little has been done to consider alternative schemes, such as small and medium-scale private-sector projects, which would be better designed to meet local needs.

The protection of land rights
A further problem area is the protection of the land rights of indigenous communities. This is illustrated by the Rondonia Natural Resource...
Management Project (PLANAFLORO) in the Brazilian Amazon. The project, was approved hastily before the Earth Summit, despite warnings from NGOs that the state government of Rondonia had shown no commitment to enforcing its social and environmental provisions. These included, as a precondition for the World Bank loan, a commitment by the state government to halt illegal logging activities in Indian areas, and to stop invasions of ecological reserves by land speculators. Neither of these conditions were met. Oxfam warned that, unless the Bank took its own loan conditions seriously, PLANAFLORO would only repeat the mistakes of the past. This is precisely what has happened.80

Part of the rationale of PLANAFLORO81 was to mitigate the effects of a previous $457m integrated rural development project called POLONOROESTE, a major component of which was the paving of a 1,500km road. That road accelerated migration into the largely untouched western Amazon, devastated Indian communities, and provoked large-scale, indiscriminate deforestation. The failure of the project's plans to protect Indian lands and the environment was subsequently attributed by the Bank to Brazil's 'inappropriate policy framework', weak institutions, and inadequate monitoring. Barber Conable, the Bank's President, admitted in 1987 that POLONOROESTE was 'a sobering example of an environmentally sound effort that went wrong'.82

When the $167m PLANAFLORO was unveiled at the Earth Summit, the Bank confidently asserted that 'the current project incorporates the lessons learned by both the government and the World Bank during the past decade about the necessary ingredients for sustainable development'.83 Yet two years after its approval, PLANAFLORO seems set on the same disastrous course as its predecessor, with problems of non-compliance by the federal and state governments, and their official implementing agencies. The environmental protection agencies, despite receiving project funds, are not defending Indian areas and ecological reserves; the boundaries of many of the conservation units are being arbitrarily reduced; logging has intensified; and the state zoning regulations, which underpin the whole project, are being systematically violated.

The policy framework, which undermined POLONOROESTE, has not been amended. Moreover, the government land agency continues to recognise forest clearance as evidence of 'improvements', and on this basis awards definitive titles to land speculators. Peasant farmers, Indians, and rubber tappers are suffering in the process. Yet the Bank, although insisting it cannot afford another failure in Rondonia, seems unable to ensure compliance from the Brazilian authorities.

The Bank has repeatedly stressed the importance of the participation of local NGOs in project decision-making, but in June 1994 the NGO Forum of Rondonia wrote to Lewis Preston calling for the project to be suspended. The Forum complained that NGO participation had been limited to superficial discussions of the annual work plans of the implementing agencies, that 'grass-roots proposals were not being incorporated', and that Bank missions had ignored NGO advice and, crucially, failed to address the discrepancy between government policies and the state zoning regulations.84

The World Bank Inspection Panel
In September 1993 the World Bank established an Inspection Panel to investigate complaints from communities affected by its projects. The introduction of independent and effective scrutiny would be welcome. Unfortunately, the Inspection Panel, as currently constituted, will be neither independent nor effective. Firstly, the Executive Directors of the World Bank can arbitrarily block investigations into complaints. Secondly, the Panel can only make recommendations. It cannot demand compliance or compensation, which will be determined by the Executive Directors. Moreover, procedures are ambiguous and do not specify whether complainants will be able to comment on the
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response of Bank staff to their complaints. Finally, successful complaints will result only in corrective action by the Bank, rather than compensation to communities affected.

The shortcomings of the inspection panel were underlined by its very first case. In February 1995 the Inspection Panel, reviewing the Arun III Hydroelectric Project in Nepal, recommended to the World Bank's Board that the project should not be approved until there had been time to assess complaints from Nepali NGOs, who claimed that the Bank had failed to comply with its own policy on environmental assessment, disclosure of information, involuntary resettlement, and the treatment of indigenous people. Otherwise the Panel feared that there was significant potential of 'direct, serious long-term damage'. The Board's response was to agree to a limited three-month study, while proceeding with the project on the same timetable.  

An agenda for reform

Oxfam and its partners believe that major reforms are necessary in World Bank project lending operations, including:

- Remedial action for people affected by past projects. This should cover not only people displaced by large projects but those whose way of life was severely disrupted by immigration, through Bank support for road construction or colonisation projects.
- The cessation of loans for projects involving displacement, unless:
  - the environmental and social implications of the project have been properly explained, considered and approved by the affected communities;
  - the affected communities have been given access to the project's Environmental Impact Assessments, which despite new World Bank guidelines often remain undisclosed, and have been directly involved in drawing up the resettlement and rehabilitation plan, including mitigation plans for adverse environmental effects;
- the communities involved understand and have agreed criteria for paying compensation and settling disputes;
- finance for resettlement, rehabilitation and environmental protection is secured before the project is approved;
- an independent panel has been set up to monitor compliance with the loan agreements, and to protect the rights of affected populations; the panel should have powers to halt disbursements and delay construction of infrastructure;
- national laws, guaranteeing the rights of displaced populations are enacted and in force before the Bank proceeds with a project loan.

Participation and decentralisation

In its vision statement Embracing the Future published in July 1994, the Bank states its commitment to: 'increase local involvement in the design, preparation and supervision of Bank-Group financed activities'. To date, its main activities in this area have involved support for decentralisation. In Oxfam's experience, decentralisation and participation can be useful instruments for supporting community involvement. But success depends critically on the prevailing local conditions and the development of genuinely consultative mechanisms for dialogue.

The decentralisation model was followed by the World Bank in the Mexican Municipal Funds Program (FMS), which it helped to design. This project, which is part of the National Solidarity Program in Mexico, aims to increase the capacity of municipal governments to respond to development needs with greater efficiency and accountability. Although the FMS has achieved some successes in funding local projects among poor communities, it has been subject to political manipulation by Mexico's governing Institutional Revolutionary Party (PRI). Even so, the Bank is more optimistic in its assessment of this strategy than
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is justified by the evidence. An internal report about the functioning of the FMS in the state of Oaxaca, prepared for a World Bank Workshop on participation, noted that project selection under FMS did not necessarily prioritise the most pressing basic service needs; and a large minority of FMS projects seemed to have little impact on poverty alleviation, despite the fact that the funds were to be spent on projects that 'benefit the largest number of least favoured residents'. In 1991, in Oaxaca, for example, over 25 per cent of the project funding went into the category called 'urbanisation' (which included paving the town square and building park benches).

Whatever the successes and shortcoming of the FMS, its transferability to other countries is very much open to question. For example, in Brazil the Bank has seen 'municipalisation' as a mechanism for addressing problems associated with its projects. The PLANOFLORO project discussed earlier is an example. In this case, the World Bank has proposed transferring administrative responsibility from a state government notorious for corruption and the protection of vested interests, to municipal bodies. Unfortunately, municipal bodies in the project area share many of the problems associated with state bodies. Similar problems have emerged with the Small Farmers’ Support Project in north-east Brazil. This project is administered by local authorities, most of which are dominated by landed interests and have proved unresponsive to the needs of small farmers and landless labourers. What these cases illustrate is that, however laudable the aim of decentralisation, ‘municipalisation’ has all too often been a euphemism for disempowering the poor in the interests of the wealthy.

This is not to deny the importance of transferring decision-making towards accountable, local political structures. But while the benefits of locally-based participatory development are beyond dispute, real participation requires effective consultation with the communities affected, and is incompatible with a top-down approach to development. Yet World Bank staff are constrained by inflexible procurement and disbursement procedures, are mainly based in Washington, and have few real incentives to carry out participatory work, given the pressure to achieve lending targets.

In short, despite the efforts of reformers within the Bank, its practice is likely to continue to fall short of its aspirations without more fundamental reforms in its decision-making structures. In particular, the Bank, which generally has little field presence itself, needs to attach more weight to the views and experience of local, representative organisations in developing policy and in project-design, implementation, and monitoring. A ‘process approach’ to projects is needed, in which objectives are developed in the light of experience, and there is a readiness to accept changes proposed by local communities.

The need to listen to poor people and to be flexible in responding to their views has also been a critical area of learning for NGOs. In the next section, we take a critical look at the role of NGOs, the lessons they have learnt and the challenges they now face.

The role of NGOs

The end of the Cold War and the consequent rise in conflict, the globalisation of the economy, and the growing feminisation of poverty, have brought about many changes in the environment in which Northern NGOs work. These include an increased privatisation of welfare services, a devaluation of social reproduction, and increased need for ‘aid’ and ‘humanitarian assistance’, and an emerging view that a strengthened civil society, of which NGOs are a part, is essential to the healthy functioning of the state. In addition, the declining importance of the nation state, as large trading blocks emerge and transnational companies and capital flows grow, has been accompanied by questions being raised about the concept of sovereignty, as well as sovereignty being violated on the grounds of protecting human rights.
NGOs have not simply stood on the sidelines and watched these developments, but have been part and parcel of this evolution. Some would even argue that they have been major actors in bringing it about. The problem is that NGOs on the one hand, have not always understood the wider trends in which they have been implicated, and thus have underestimated their catalytic role; while on the other hand, they have often had a mistaken belief in their own operational importance. As a consequence, they can end up doing things that should be the responsibility of others, often governments and sometimes multilateral organisations, and not doing those things for which they are often well placed, such as lobbying at national and international level, and raising public awareness.

NGOs have become an increasingly significant source of development assistance. According to OECD estimates, NGOs in industrialised countries transferred $5.6bn to developing countries in 1993, only slightly less than multilateral donors. At the same time, there has been a spectacular increase in NGOs in developing countries, with the number of registered NGOs in Nepal alone rising from 220 in 1990 to 1210 in 1993. The World Bank estimates that NGOs in India now handle 25 per cent of all foreign aid, and the combined efforts of NGOs across the developing world are estimated to reach some 250 million people. The tendency to channel official aid through NGOs is likely to continue, with an increase in direct funding of Southern NGOs.

The reason why donors are choosing to channel more aid through NGOs is that they are perceived to be more efficient and cost-effective than governments. NGOs are believed to have a better record in reaching the poor, working in participatory ways, strengthening local institutions, and being flexible and innovative. Although NGOs, including Oxfam, would like to think of these as defining characteristics, they need to be wary of what more critical commentators see as a 'fashionable predilection for seeing NGOs as the panacea' for the more intractable problems of development, on the part of bilateral and multilateral donors.

Panacea they are not. In this and earlier chapters, we have looked critically at the role of governments and international financial institutions. At the same time, we are acutely aware of the need to be equally critical of our own interventions. NGOs, in common with the World Bank, official donors, and other development actors, are confronting complexity, diversity, and uncertainty. There are no simple answers, and there are huge dangers in trying to impose blueprints for development, whether from capital cities like Washington or the head offices of NGOs. There is a need for NGOs to get much better at evaluating their impact and learning from both successes and failures.

There are a bewildering variety of NGOs. They include people's or community-based organisations, whose members directly benefit from their actions; intermediary NGOs whose primary aim is to support the work of others; and donor NGOs which provide funds to either of the first two groups. Many organisations fall into more than one category. International or Northern NGOs may both be donors and play an operational or intermediary role in the South. People's organisations may form federations which develop into support structures with paid staff. Our focus here is primarily on Northern NGOs and how they can better support Southern NGOs and grassroots organisations.

Changing roles and challenges

The roles of Northern NGOs have changed considerably over a number of decades. Many started with an operational role in providing relief, welfare or services and then made a transition to a second phase during which they were primarily funding agencies supporting longer-term community development projects through a range of intermediaries and community-based organisations. Some, like Oxfam, have maintained both these roles, while now increasingly adopting 'third generation'
strategies, including a much greater emphasis on advocacy to tackle the root causes of poverty, networking, and strengthening the organisational capacity of Southern partners.92

At the same time, NGOs are increasingly under pressure to fulfil the role of subcontractors in the delivery of privatised welfare and humanitarian relief. There is a risk of NGOs becoming contractors at the expense of developing local capacity. Moreover, it reinforces the tendency of NGOs to become increasingly dependent on funds from Northern governments and multilateral agencies, raising serious questions about the extent to which they are becoming donor-led in their funding priorities, and about their independence and ability to campaign against government policies. Moreover, it reinforces the tendency of NGOs to become increasingly dependent on funds from Northern governments and multilateral agencies, raising serious questions about the extent to which they are becoming donor-led in their funding priorities, and about their independence and ability to campaign against government policies. Some agencies, such as Oxfam America, have made a policy commitment not to receive government funding in order to safeguard their autonomy.

Increased funding from official donors also further complicates the already difficult issue of accountability to multiple stakeholders. This is a major challenge because of the very different perceptions of donors and Southern partners and beneficiaries about the causes of poverty and therefore the most effective response. Whereas many of the former tend to see poverty as caused by lack of material means (aggravated by climate, 'overpopulation', and ignorance), Oxfam's partners are in no doubt that poverty is rooted in injustice and the denial of rights.

A significant investment in public education is needed in order to close this increasingly untenable gap. Northern NGOs raising funds in a highly competitive environment need to be honest about the extent of the difficulties they face, as well as demonstrating their successes. The messages NGOs give out about their 'speed, efficiency, and effectiveness' contradict the very nature of much of the work they do, or support, which is neither quick nor easy, and needs a significant investment in programme support and management to be effective. Moreover, as NGOs are taking centre stage in the midst of complex humanitarian emergencies, the consequences of their decisions, or recommendations to others (such as for the UN to intervene in a particular situation) start to have potentially huge ramifications.

All these issues raise difficult questions about the mandates of NGOs. What gives them the right to speak on behalf of the poor? How transparent and accountable are they to beneficiaries, partners and donors? A particularly uncomfortable question for NGOs is whether they are making a significant contribution towards finding development alternatives or only towards alternative rhetoric.95

The three case studies which follow attempt to answer some of these questions, and are chosen to illustrate very different approaches in different contexts, as well as different lessons drawn from Oxfam's experience. The first, from Burkina Faso, illustrates both the successes and limitations of the participatory approach adopted by an Oxfam project and its limited impact on underlying problems. The second case study, of a research initiative aimed at influencing the design of a large governmental flood protection scheme in Bangladesh, shows how NGOs are attempting to 'scale up' their impact; and the different understandings of what 'participation' means. The third case study looks at the Campaign against Hunger, Misery and For Life in Brazil, and interaction between NGOs, civil society, and governments.

Environmental protection in Burkina Faso
Declining food security and the closely connected issues of soil-erosion, environmental degradation and population growth have long been endemic in much of the Yatenga region of Burkina Faso. Attempts by a variety of external agencies to improve the situation focused mainly on different water-harvesting techniques. In the early 1960s a European soil conservation agency attempted to build several kilometres of earth bunds using bulldozers. Subsequently, the World Bank funded a local government initiative which involved village groups in constructing earth bunds along
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contours determined by topographers. Both of these initiatives failed although local farmers remember them vividly:

Even if they are well maintained, earth bunds are a complete menace, because they flood upland soils and dry up land below, turning it into rock. Stone bunds are better, because they are not easily damaged and require less maintenance. They also allow water to pass through, which enables you to grow crops in front as well as behind. (Ousmanne Ouedraogo a farmer of the village of Noogo)

They sent us fake engineers who came to destroy us with their huge machines. They only came to destroy our trees and leave. They did not even ask the opinion of local people. (The Rassam Naaba, Minister of Youth under the traditional administration system, who currently works for the animal husbandry department)

Returning from a visit to the Negev desert in Israel in 1979, the Oxfam assistant field director was convinced that more could be done in Burkina in soil and water conservation. As a result, Oxfam started researching possible ways of improving water retention, building up soil and slowing run-off. Discussions with local villagers in the Yatenga included the possibility of using stone bunds. Later, Oxfam staff suggested planting trees on the bunds for reafforestation purposes. However, it quickly became clear that farmers were not interested in planting trees. Instead, with some success, they were experimenting with growing cereals beside the bunds.

The major technical challenge was how to determine the contours along which to place the stone bunds, in order to avoid increased erosion through gullying. The solution they found was borrowed from another NGO in Senegal. It involved a very simple transparent plastic tube tied to two wooden poles. Water is poured into the tube and two people then pace the ground, whilst holding the poles and watching the water levels. When the water is level, the contour line is determined. This cheap and simple innovation meant they could dispense with the services of topographers, and local farmers were empowered by a technology they could control.

An Oxfam-commissioned study carried out in 1993 reveals that the project succeeded in increasing cereal production (average increases in yield between 1981-4 ranged from 12 per cent to 91 per cent), and in stimulating farmers to try out the technique for themselves. It succeeded because farmers themselves were asked for their views and opted for stone bunds, rather than uncritically copying the system of earth bunds used in the Negev. Oxfam development workers also showed flexibility in agreeing to change the immediate objective of the project from tree planting to increasing cereal yields. According to project co-ordinator, Mathieu Ouedraogo:

A participatory approach was taken to identify solutions to problems as they emerged during implementation, rather than anticipating problems and prescribing solutions in advance.

However, despite these successes, there were clear limitations to the project. Stones are hard to come by, as is labour, and a means to transport the stones. The bunding only touches one aspect of the farming system; other initiatives such as composting and the use of manure are also required. As is often the case, the solution to one problem created other unexpected problems. This makes it vital that any development initiative is designed to strengthen the skills of local people to devise their own solutions. As a local farmer put it:

We have two thorns: one in the foot and the other in the backside. Help us to remove the one in our backside first. Then we can sit down to remove the one under the foot ourselves.

Yet the evaluation suggests that, particularly in the early years when the project was run by an expatriate, it may have reinforced people’s loss of confidence in themselves.

A significant failure of the project was that it did not take into account the inequality between men and women in the local communities. As a result increased demands were made on the
women, particularly through their involvement in collecting and transporting stones. Women interviewed agreed that they had benefited from increased cereal yields, and some said that the project had provided them with a new source of income and improved their social interaction. However, the project failed to address the areas of daily life that concerned women most, particularly the collection of fuel-wood and water. For that reason, the project’s ‘participatory approach’ clearly had limitations.

Finally, the question has to be asked to what degree the project has attempted to grapple with the underlying causes of poverty in Yatenga. Any analysis of the causes of environmental degradation invariably raises problems about land tenure, and conflicting interests over land use, for example between farmers and herders; and the impact of macro-economic policies determined by governments and international financial institutions.

Moreover, within communities and within households, use and control of resources varies enormously on the basis of gender, class, age and ethnicity. These power imbalances are in turn determined by macro-level socio-economic and political factors, making it essential for NGOs to analyse how such external factors relate to micro-level household relationships, and vice versa, even if it is only to ensure that new initiatives do not fail because factors in the external environment preclude their development.

The Yatenga project has succeeded in involving some of those most affected by environmental degradation in defining problems and possible solutions. However, it has not yet been able to strengthen the capacity of local people (men or women) to enter into policy dialogue with decision makers about macro-economic and political factors affecting their rights and livelihoods.

Lesson:: Let the poor seek solutions to their own problems

The Burkina Faso experience underlines the importance of taking active steps to involve the beneficiaries, especially women, in project design, of being flexible, building on local solutions and not attempting to impose ideas from outside. It also tallies with the conclusions of one of the few independent studies of NGOs’ overseas work which was undertaken by the UK-based Overseas Development Institute. This drew on 16 case studies of NGO programmes in India, Bangladesh, Uganda and Zimbabwe and concluded that:

*NGOs play a significant role in efforts to alleviate rural poverty, even if their projects do not always reach the very poorest, are costly to implement and encounter problems of sustainability.*

This study also identified a number of common factors behind successful NGO interventions. They included genuine participation and empathy with beneficiaries, strong and effective leadership and management, decentralised decision making, committed and well-paid staff, good relations with government, and a favourable external environment. Ironically, despite the fact that a favourable environment was considered a key success factor, NGOs were judged to underestimate the wider environmental context in which they operate. The study found that

*Any positive changes in the lives of the poor are primarily attributed to the development projects initiated by NGOs, even though they might result from factors external to the project.*

This underlines the dangers of ‘projectitis’: fixating on project interventions to the exclusion of grappling with the complexities of the real world. NGOs need to have a thorough grasp of the local context and to have properly analysed the specific nature and causes of poverty their project seeks to address. Because of the complexity of the problems, any ‘intervention’, ‘grant’, or ‘project’ is going to have both negative and positive effects, many of which are unpredictable. So activities designed to solve problems can only be approximations towards a better response and need to be continually improved on. This requires a greater
degree of modesty on the part of NGOs, an ability to admit error, and a commitment to learn from experience.

**People's participation and the Flood Action Plan in Bangladesh**

As we have seen, flooding and tidal surges caused by cyclones are a serious problem in Bangladesh. Many different flood protection schemes have been tried. To date the most ambitious of these is the Flood Action Plan, on which construction has yet to begin, which has to date involved 26 or more studies, costing some $150m.

The scale of the project means that it will have a major impact on the lives of several million people, as well as on the natural environment. In response to growing concerns about the plan, particularly about the limited involvement of local people in its design, NGOs in Bangladesh, including Oxfam, decided to commission an independent study into popular participation in the Flood Action Plan.

The researchers had to start by disentangling very different views on what is meant by people's 'participation' and define criteria for assessing its effectiveness. For example, they had to determine whether people were consulted from the very outset in defining the problem, whether they had access to adequate information, and whether those managing the project were in any way answerable to the communities affected.

**Participation**

Over many years people had resisted inappropriate attempts at flood control by cutting embankments, in the same way that farmers in Burkina Faso had destroyed or broken earth bunds. Because of the actions taken by local people, by 1992 the project managers became convinced of the need to acknowledge people's right to be involved, and produced guidelines for their participation.

However, when local people were consulted about their preferred options, their choices were overruled. For example, public consultation in the Tangail area showed farmers were more interested in dry-season crops than the flood-protected monsoon crops proposed in the project. In response, the project managers began to express fears that the process was getting out of hand and would disrupt the project cycle. The project managers had a mental block to hearing local people's views when they contradicted their own preconceived notion that the critical issue was flood-control.

This made them completely un receptive to other ideas on how best to make the livelihoods of local men and women more secure. They also failed to consult some of the most vulnerable groups affected by the project.

**Wider issues and the role of NGOs**

These limitations and those of the Flood Action Plan as a whole meant that it was not addressing some of the wider social and political factors which had made earlier flood control projects fail. The study has been worthwhile in bringing about some changes in the project's approach. However, involvement in trying to influence the Flood Action Plan has been limited to a few NGOs, mainly those based in the capital, Dhaka. This was because NGOs were preoccupied with their own micro-level activities, and doubted their ability to influence a 'technical' programme. Moreover, many feared getting drawn into head-on confrontation with powerful vested interests.

In order for NGOs to have an impact, they would probably need to work both within and outside the programme, at several levels simultaneously, building better links between international and local NGOs and developing different skills for dealing with non-traditional clients. All of which requires enhanced collaboration, networking and the pooling of skills and information between NGOs.

**Lesson: the need to define genuine participation and to encourage learning**

The research into the Flood Action Plan jointly commissioned by NGOs in Bangladesh illustrates some of the new avenues open to popular
organisations and NGOs seeking to protect the interests of poor communities. The study has had a significant impact in raising awareness about the Flood Action Plan and promoting debate about popular participation. It also points to ways in which NGOs can attempt to scale-up their impact by trying to influence the design of large projects funded by governments and multilateral agencies.

The Flood Action Plan study shows that very different things are meant by the term 'participatory', making it very hard to determine what is or isn't 'genuine participation'. As a result new criteria need to be developed in order to assess the quality of participation. These criteria should deal more explicitly with issues of difference such as gender and class, and in many contexts, race and ethnicity, and the degree to which external agencies are enhancing the capacity of different groups to determine their own future.

Looking beyond the specific parameters of the Bangladesh study, it is clear that participatory approaches cannot thrive without significant cultural change within organisations. NGOs are not immune from the problems confronting other bureaucracies, including complacency, hierarchy, inertia, and poor information flow. These can lead to loops of self-deception as feedback from activities is distorted or manipulated by individuals seeking to protect themselves. Senior managers in the 'if it ain't broke, don't fix it' mode will tend to go along with the positive news and carry on regardless until the something 'breaks'. As Robert Chambers has suggested, this kind of institutional blindness has led to the most remarkable feature of development efforts over the last few decades: how wrong 'we' were when 'we' thought we were so right.\(^9\)

One of the crucial changes that is required is a greater emphasis on learning within NGOs and a sharing of learning between NGOs. Recent work in other disciplines and in the private sector suggests that 'front-line' programme-level learning systems need to be developed to improve the effectiveness of relief, development, and advocacy work. This approach to more decentralised learning needs to be based less on large one-off evaluations and more on smaller, regular assessments of programme development that make it easier to identify problems early and makes changes.

NGOs are also increasingly under pressure from donors to develop better systems for assessing the impact of their work. This should include seeking more reliable guidance as to whether things are going well or badly, from the community-based organisations and NGO staff involved, who are already monitoring impact in their own way. Above all, the beneficiaries should be asked for their assessment, as it is increasingly clear that sustainable changes in the lives of poor women and men must be based on their own values and priorities, and their freedom to assert their needs.

Brazil's Campaign against Hunger, Misery and for Life

The global trend identified throughout this book is of an increasing divide between those who have a clear social, economic, and political stake in society, whose voices count; and those who have not. This divide is particularly stark in Brazil, where some 32 million people (20 per cent of the population) are unable to meet even their basic food needs. This inequity is now being actively challenged by a new force in civil society: a broad-based anti-poverty campaign. The aim of the Campaign against Hunger, Misery and for Life is to raise awareness within Brazilian society of the rights and responsibilities of individuals and social groups, and of the need to tackle poverty. It began in 1993, following on from the Campaign for Ethics in Politics, which was instrumental in bringing about the impeachment of President Fernando Collor.

The campaign now brings together a broad spectrum of Brazilian civil society including NGOs, trade unions, private sector companies and banks, church groups, students, teachers, and other professionals into a broad anti-poverty coalition. Oxfam's involvement, along with other international NGOs, has been in
providing very small amounts of seed money in the early stages.

The aim of the campaign is to bring about change by involving people in practical action at the local level, for example through job creation schemes or making food donations, and in mobilising them to put pressure on municipal, state, and federal authorities to tackle some of the structural problems which cause poverty. It has achieved government support, including the setting up of a National Food Security Council, with representatives of NGOs amongst its members.

There are now over 3,000 local committees, with some 30,000 volunteer workers. Through the campaign as many as 2.8 million Brazilians (from a total population of 150 million) have participated in the local committees, 3.5 million have made cash donations, and 21 million have donated food or clothes.

The campaign has been extremely successful in challenging apathy about poverty and in galvanising ordinary citizens to take responsibility in responding to the denial of rights of their fellow citizens. As Herbert de Souza (known as Betinho), founder of the campaign explained:

In 1993, misery gained a name, a place, and an address. National hunger, the product of a society proficient in excluding the many and benefiting the few, invaded prime-time television and showed its ugly face even to those who had refused to look, and put itself on the national agenda. Hunger made citizens and society begin to take responsibility for a problem that up until now had been treated only as a question to be resolved by those who are hungry and by those who govern. This change of perception, the understanding that hunger and misery are items on society's agenda, is a major development in the public life of a country that, when it looks at itself in the mirror, sees itself as apathetic, unethical, indifferent, selfish, and cunning. In every gesture of solidarity, every kilo of food donated, every new effort in the Citizens Action against Misery and for Life, Brazil has demonstrated that it still can be put off the road to disaster.

The new campaign focus in 1994 was on creating employment and gaining acceptance of the principles of work for all and a just wage. In a country with 2.4 million unemployed and some 12 million receiving less than the minimum wage, this is a tall order. Some of the Citizens' Action Committees have been successful in creating community work for local unemployed people.

During 1995 the campaign is highlighting the plight of Brazil's 4.8 million landless rural workers and the fact that, while 1 per cent of property owners control 44 per cent of the land, 67 per cent of landholders occupy just 6 per cent. The campaign has succeeded in keeping poverty issues on the agenda and has stopped the state from back-tracking on issues like agrarian reform. As a result, the government now sees more of a role for civil society on poverty issues and has, for example, invited NGO involvement in new poverty programmes. The campaign is
raising critical questions about the relationships between NGOs, civil society, the market, and the state, getting people to debate them and begin to redefine them.

**Lesson: NGOs, the state, and civil society can work together against poverty**

The Campaign is an unusual example of the extent of public response to the erosion of social and economic rights, and of co-operation between civil society and state. It has awakened a spirit of solidarity and public responsibility, which is important against a background of growing fear, violence, insecurity, and lack of hope. It also serves as an important reminder that NGOs are only one actor amongst many. If NGOs are serious about trying to bring about change, rather than attempting to substitute for the state or the private sector, they need to enter into new partnerships, as has happened in Brazil.

Neo-liberal economic policies have been premised on a reduced role for the state, with NGOs seen as the preferred channel for social welfare provision. Many NGOs, by their actions, if not in their policy statements, have supported this trend. Others, including Oxfam, see the role of an enabling state as critical and will not get involved in service provision, unless building local capacity and strengthening institutional development is integral to the programme. There are now welcome signs of a new recognition amongst official donors that governments, not markets, have the major role to play in providing essential social services to the poor.98

The debate often remains couched in either-or terms; but the neat separations between citizen and state, markets and government, NGOs and official donors, are not as clear cut as they appear. For example, the citizen and the state ‘make’ each other to a lesser or greater degree, and the stance that each takes defines the stance of the other.

In the West notions of liberal democracy are based on the idea that society only exists in so far as it satisfies individual ends and in the process of these ends being met harmony will emerge through the invisible hand of the market. Politics in this situation exists to reconcile competing interests. It becomes less and less about creating the conditions for citizens’ groups to identify solutions for the common good and more and more about claimant politics as different groups struggle for their own advantage. Developing a national or global consensus on critical issues of poverty and the denial of rights becomes increasingly difficult.

At the same time, there is now a global search for a new development paradigm, which involves all the critical actors and gives greater meaning to the notion of citizenship, and to the potential for individuals and groups to effect change. As in the case of the Brazilian campaign, throughout the developing world citizens’ groups and new social movements are organising for change and trying to identify alternative development policies.

Women, particularly in Latin America but also in other parts of the world, have become key actors in forming social movements that question the traditional way of engaging in politics and society. Women’s attempts to become full ‘citizens’ have come to include struggles for political rights, social and economic rights, reproductive rights, and the elimination of all forms of discrimination. In situations of conflict, women have often been at the forefront of peace-making initiatives. For such struggles to succeed in the long term an environment for effective participation is required. This can be achieved both through the struggle itself, for example, in gaining equality before the law; and through institutional reform, civic education the acquisition of literacy and organising skills, and achieving secure livelihoods.99

Equally important in these social movements is the search for identity:

*The objective...is not only equality of rights but rather the right to be different. The struggle is against discrimination, and in favour of a more equitable distribution in the economic market and, in the political*
Aid, debt, and development finance

realm the struggle is for citizenship. The right to be recognized as different is one of the deepest needs in post-industrial and post-material society.100

Without such social movements, without an environment for them to develop, the subsequent loss of identity and idea of the common good leads to a loss of faith not only in our political systems but also in ourselves. In some societies the result is fundamentalism, nationalism, tribalism, and ultimately, violence.

NGOs by no means have all the answers. Their greatest strengths are their values and their proximity to the poor. But they need now to become more 'strategic' and to form new alliances with each other, as part of wider civil society, and with other development actors. This is essential if they are to play an effective role in strengthening the ability of poor people and their organisations to participate more fully in society. They also have an important role in helping state structures to become more responsive and to change. This means taking on an advocacy role and, for Northern NGOs, engaging within their own societies in public education and campaigning to change behaviour and perceptions. If NGOs fail to live up to these challenges in the twenty-first century, or lose sight of their values and commitment to social justice, they will become more part of the problems than of the solutions.
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People are not developed, they develop themselves.  

JULIUS NYERERE

Working for an alternative approach to development has to be seen as a process... It implies continuous changes, as well as uniting people from across the entire social spectrum in a common purpose. There are many obstacles to be overcome, one of the main ones being to deal with the present situation, while simultaneously working to build an alternative to it.

EDUARDO KLIEN, OXFAM DEPUTY REGIONAL REPRESENTATIVE, CENTRAL AMERICA

Though the challenges are great and the situation is complex, we have hope that we can change conditions and build a better tomorrow.

DECLARATION FROM SOUTHERN WOMEN’S ORGANISATIONS  
PRESENTED AT WOMEN LINKING FOR CHANGE CONFERENCE, THAILAND, 1994

The challenge of poverty

There can be no greater indictment of our world than the fact that one in four of its inhabitants is consigned to poverty. This represents a denial of rights and a wastage of human potential on a massive scale. If the present pattern of development is allowed to continue unchallenged, the future is a frightening prospect, of a world of deep divisions, of societies segregated between the 'haves' and the 'have-nots'; between those with skills and opportunities, jobs and wealth, and those with none; between those who 'count' in economic, social, and political terms, and those who do not. This is a prescription for deepening instability.

The only enduring solution is to tackle poverty and injustice, so that all people have a stake in society. For without a cohesive spirit of social justice no society can achieve security and stability for its members. This requires not only the state, but individual citizens, as part of an active civil society, to take responsibility for ensuring that all can enjoy their full rights.

Creating a world order which realises the ambitions of the UN Charter and the goal of ending poverty will require a transformation in attitudes, policies, and institutions. It will necessitate a renewed sense of vision on the part of political leaders, and a willingness to sacrifice short-term political expediency in the interest of achieving long-term human development gains. It will mean creating equal opportunities, and sharing wealth in a more equitable manner, both nationally and internationally. It will also require a transformation of the post-war institutions of global governance, which have become increasingly irrelevant to the challenges of today.
An agenda for change

Oxfam's vision of transformation is rooted in the energy and creativity of people who are looking for alternatives and shaping a new agenda. It is based on a conviction that people have the power to effect change — whether they are part of a women's group in Mali organising to obtain credit, indigenous people in Brazil struggling to secure their land rights, Windward Islands banana producers trying to keep open their lifeline to the European market, or citizens in developed countries, who can exercise consumer power in the supermarket by buying fairly-traded goods, or lobby their governments to write off debt as part of a wider poverty-reduction strategy.

Community-based groups of peasant producers, shanty-town dwellers, women's groups, indigenous and ethnic minority groups, trade unions, and NGOs are all working to achieve change, whether in the household, or the community, at district, regional, national, and international levels. On the basis of its work with such groups, Oxfam is convinced that real change must come from the bottom up. Far from being powerless victims of poverty, poor women and men show extraordinary resilience in challenging inequitable power structures. Their success in bringing about positive change will depend on the creation of effective democracies and strong civil societies, which enable people to have a voice, to campaign, and to assert their rights. At the same time, a new sense of responsibility for the rights of others is needed, together with an emphasis on building new alliances to achieve change.

Fundamentally, what is required in order to realise Oxfam's vision of basic rights for all is the creation of an enabling environment at the local, national, and international level, in which people can act as agents of change. In this, the role of the state is critical. It also requires a fundamental redirection of policy on the part of other foci of power, including the UN, international financial and trade organisations, transnational corporations (TNCs), official aid donors, and NGOs.

The five critical elements of that enabling environment are:

- democratic participation
- enhanced opportunity
- increased equity
- peace and security
- a sustainable future.

Oxfam's agenda for change

Participation

Across its international programme, Oxfam works with community groups who are attempting to influence the policies affecting their lives. These range from women in Afghanistan trying to get a say in framing any new constitution, to Zambian grassroots organisations writing to finance ministers in Washington about the impact of debt and structural adjustment on their lives, and black communities in Colombia lobbying the government over their constitutional rights. All, in their different ways, are contributing to the creation of a vibrant civil society. Such initiatives can form the bedrock of genuine democratisation and more participative social structures. However, action is also needed at a national level.

There is no one form of democracy appropriate to all people and transferable between countries; but transparent and accountable government, and respect for the rule of law and for civil and political rights, are crucial ingredients of democracy and participation. Some governments claim that the dictates of economic growth demand the suspension of such rights until a higher level of development has been attained. But while several countries, notably China, have achieved high rates of growth while maintaining oppressive political structures, it does not follow that autocracy is necessary for development. More importantly, civil and political rights are inalienable rights which all people are entitled to enjoy, irrespective of the
stage of economic development in the country in which they live. In Oxfam's view, economic growth without respect for these rights does not constitute sustainable development.

**Institutional development**
To provide a framework for democratic participation, it is essential to strengthen institutions at all levels, from village associations to an independent judiciary capable of implementing the rule of law.

**Equality of opportunity**
Genuine participation also requires equality of opportunity. It is time for governments to take effective steps to implement all the principles agreed at the Vienna Human Rights Conference — particularly that the human rights of women and of girl children are an inalienable, integral and indivisible part of universal human rights — and eliminate all forms of discrimination, against women and other disadvantaged groups. They should ratify, and withdraw all reservations to, the Convention on the Elimination of Discrimination against Women. Similarly, steps to remove discriminatory measures based upon ethnicity, caste and religion are also vital.

**A stronger institutional framework to safeguard rights**
The UN remains the one global institution able — by virtue of its Charter and universal membership — to play a decisive role in poverty reduction. Charged with finding solutions to international social and economic problems, and promoting and protecting human rights and fundamental freedoms, the UN will be able to carry out its role only if the steady erosion of its power and authority is reversed. With the Secretary-General's Agenda for Development, the UN is set to put its own house in order, streamlining its procedures and cutting out waste and duplication. But reform will be useless unless matched by a renewed commitment from all governments to the UN’s democratic ideals. This implies both political support and secure financial backing. If we allow the only multilateral forum for genuine debate, consensus-building, and standard-setting to decline, it is the world’s poor and oppressed who will be the losers.

- The ECOSOC (Economic and Social Council) should have a strengthened role for monitoring the impact of global macro-economic policies on social development and basic rights. At the start of each session — the high-level segment — more time should be allocated for discussion of global macro-economic trends, including the impact of the policies and programmes of the international financial institutions on poverty.
- Participants in the high-level segment of ECOSOC should include finance ministers, representatives of the Bretton Woods institutions, other UN specialised agencies, and the chairpersons of the relevant treaty monitoring bodies, such as the Committee on Economic, Social and Cultural Rights, and NGOs.
- ECOSOC should adopt a system of periodic national reports which would streamline existing reporting requirements on governments and move towards a more balanced and integrated approach to civil, political, economic, social, and cultural rights, and implementation of the Earth Summit agreements. In order to ensure that such reports do not become token exercises, citizens' groups and NGOs should be encouraged to present additional relevant information to ECOSOC.
- Governments should support the long overdue creation of a complaints mechanism, open to individuals and groups, to investigate alleged denials of basic rights under the International Covenant on Economic, Social and Cultural Rights.

**Accountability of the international financial institutions**
There is increasing acceptance that IFIs as part of the UN family have obligations both to promote social and economic rights (which they themselves acknowledge) and to further the social development goals identified by the
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United Nations. The World Bank and IMF wield enormous influence over social and economic policy in developing countries, yet for too long they have operated outside the UN's human rights framework.

While recent IMF and World Bank initiatives to conduct poverty assessments are welcome, they should not be viewed as an internal exercise, divorced from the reality of existing programme aims. Such assessments would clearly benefit from input from other UN specialised agencies and expert bodies. It is crucial that the effect of the Bretton Woods policies on vulnerable groups are opened up to wider scrutiny.

- ECOSOC should develop a system of monitoring of global macro-economic trends, structural adjustment programmes, projects supported by multilateral financial agencies, and the implications of trade rules enshrined in the World Trade Organisation, as well as the trade and investment activities of TNCs.

- A report on global trends and the impact of international financial institutions on poverty should be presented each year to the UN General Assembly.

- More disclosure of information is needed to empower community organisations, NGOs, professional groups, and the media, to take part in discussion on critical policy issues. Moves by the World Bank and other multilateral agencies to develop participatory approaches with community groups and women's organisations on the design, implementation, and impact of their projects and policies on the poor, are encouraging. However, publication of important policy documents, including World Bank Country Assistance Strategies, is crucial, as is effective input into their content by such groups.

- If developing-country governments are to be held more accountable for structural adjustment policies and investment loans which affect the lives of their citizens, they must be given greater power to shape these policies in the World Bank and IMF. Consequently, the voting structures of the IFIs need to be reformed to allow more democratic representation, which more accurately reflects the composition of their membership.

Citizens' movements and campaign groups

The problems of poverty and denial of rights can seem insurmountable. Yet taking campaigning action to get poverty issues on the agenda and generate public pressure for change, as the Brazilian Campaign against Hunger, Misery and for Life has successfully done, or developing a co-ordinated approach to advocacy between groups in the South and North, can be both motivating and effective in changing attitudes and policies.

- Northern and international NGOs should concentrate more on building the advocacy capacity of community-based organisations and Southern NGOs working for change at national and international levels.

- To be effective in attempting to relieve poverty, NGOs should develop advocacy, research, networking, and policy dialogue with governments, multilateral agencies, and the corporate sector, as an integral part of fulfilling their mandates.

Opportunity

The eradication of poverty demands that poor men and women have control over the productive assets and resources on which their livelihoods depend. But to be capable of making use of opportunities, they also need enough to eat, clean water to drink and wash in, health-care, education, shelter, political freedom, and protection from violence.

Health-care, primary education, and other forms of welfare provision, are basic human rights, which governments should be protecting. Moreover, there is compelling evidence to show that investment in health, education, and basic-needs provision, apart from the immediate benefits, also makes good economic sense. Yet deep expenditure cuts and withdrawal of the
state from social-service provision, together with the introduction of user fees, have disadvantaged the poorest people. Women are particularly adversely affected by cuts in health-care provision because of their higher exposure to health risks. Young girls are the first to be withdrawn from education in the face of economic stress.

Community groups are organising themselves to improve basic services. They range from community-based organisations in Zambia building their own health posts and schools, and lobbying government to staff them, to women in shanty towns in Peru organising soup-kitchens for destitute urban migrants. Such efforts need the support of governments and financial institutions, who should protect expenditure in areas of concern to the poor.

**Provision of health-care and education**

- Governments should redirect resources so that at least 20 per cent of government expenditure is allocated to providing services of maximum benefit to the poor, including primary health-care and education, clean water, and sanitation.

- Official aid donors, as part of a ‘20:20 compact’ with recipient governments, should improve the poverty-focus of their aid so that a minimum of 20 per cent is directed towards these social priorities, and phase out the tying of aid by the year 2000.

- To ensure that the poorest people can benefit from service provision, governments should immediately withdraw user fees for primary health and basic education services.

- International financial institutions should introduce effective social conditionality, so that disbursement of structural adjustment loans is made conditional on government action to improve provision of basic services, including the withdrawal of user fees. That action should be agreed in local dialogue between governments, UN agencies, community groups, and IFIs.

**National poverty-eradication plans**

Governments should prioritise the development of poverty-eradication plans, making time-bound commitments to eradicate absolute poverty, as agreed at the World Summit for Social Development. They should encourage the active participation of NGOs and citizens’ groups in the elaboration of these plans and in progress towards achieving the targets set.

**Resources for enhanced opportunity**

There are a range of ways in which new resources could be found to create opportunity and an enabling environment for poor people. These include:

- **Increased aid:** Official aid donors should establish a timetable for reaching the UN target of 0.7 per cent of GNP for their aid budgets.

- **Progressive taxation:** Governments should introduce progressive and equitable taxation systems, with a focus on taxing income and assets. While any system of taxation must balance considerations of revenue raising against the need to encourage investment, most governments could do far more to expand their tax base.

- **Reduced military spending:** Significant reductions in expenditure on the military and on parastatals could translate into increased public investment in socially useful and productive activities.

- **Debt reduction:** An international conference on debt should be convened by the UN Secretary-General and charged with developing a concrete strategy for reducing the debt-servicing burdens of severely-indebted low-income countries (SILICs) to levels compatible with social and economic recovery by:
  - writing-off between 80 per cent and 100 per cent of the entire stock of official debt owed to governments represented in the Paris Club;
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• converting the entire stock of debt owed by SILICs to the IMF into IDA terms, with repayments beginning after 20 years at nominal interest rates;

• financing this operation from within the IMF, which could be done either by selling off part of the Fund's gold stocks and using the revenue thus raised to reduce debt, or by setting aside part of a new issue of Special Drawing Rights for this purpose;

• using World Bank reserves to convert into concessional terms the outstanding stock of 'hard' debt owed to it by SILICs;

• withdrawing the condition that governments are eligible for debt relief only by complying with IMF stabilisation programmes, and establishing instead more appropriate forms of conditionality.

All these debt-relief measures would be linked to concrete commitments by governments to increase provision in social priority areas through debt-for-development contracts negotiated with citizens' groups and the relevant UN agencies.

Concessional loans: The poverty focus of IDA and the financial resources available through IDA XI should be increased, and an intermediate facility established for countries which have 'graduated' from IDA status but remain unable to obtain financial resources from private capital markets.

International taxation: Most people in the industrialised world would be reluctant to have state welfare provision financed by voluntary contributions, since this would make essential service provision insecure and uncertain. Similarly, a case can be made for putting aid on a more secure footing, through the introduction of a progressive income-tax on OECD countries. Tax-based transfers would undoubtedly meet with political objections, particularly in countries where governments are committed to lowering taxation. However, in Oxfam's view, international aid should be seen as a financial entitlement, and as part of a compact between citizens in the industrial and developing worlds, as it is in the interests of industrial countries to enhance human welfare in the South. Moreover, in practice aid is already a tax-based transfer. Establishing a formal system would merely ensure that the burden was shared more equitably, and would make the provision of aid more secure. An international tax on currency speculation could serve the dual purpose of providing resources for development and deterring a form of financial activity which is deeply destabilising for all countries.

Equity

Inequity in the distribution of wealth and productive assets is a formidable obstacle to reducing poverty and creating social cohesion. So, too, is the battery of disadvantages faced by women. A nation cannot genuinely claim to be 'developing' where half of its population is marginalised and suffers discrimination. Nor can it expect economic growth to bring improvement in human welfare where vast numbers of people lack rights to the use of land and other productive resources. Patterns of development which exclude poor men and women are not merely socially unjust and politically unsustainable, but also inefficient. One of the central lessons from South-East Asia is that redistributive measures, including land reform, and moves towards more equitable wealth distribution (and investment in primary health and education), can lead to dynamic economic growth.

At an international level, low commodity prices, protectionist trade policies in the North, inadequate regulation of TNCs, and unsustainable patterns of resource use, make international trade less an engine of growth than an engine of economic decline and environmental destruction, for many countries.

Community organisations are working at grassroots level to address inequality. Women's
organisations across the developing world are working to remove the deep-rooted structures of gender discrimination. In Bangladesh, for example, Saptagram is tackling the violation of women's land rights and enabling women to obtain credit. In Brazil, landless peasants and Indian communities are trying to secure their land rights; and in Chile, women employed in sweatshops are organising to improve their working conditions. Small producers in co-operatives and producer groups across the world are trying to improve their position in the market, and consumers in the North are choosing to buy fairly-traded coffee, tea, and other commodities to help to secure the rights of small producers. To strengthen their efforts, action is needed in the following areas:

**Gender equity**
A major priority must be the elimination of all forms of discrimination against women, particularly in relation to land, credit, and control over productive resources; and implementation of the various ILO conventions to protect the rights of employees, including giving women the right to equal pay, free association, and maternity protection.

**Agrarian reform**
Reform of the rural sector is needed to create more equitable patterns of land ownership and make more efficient use of resources, including measures to:

- redistribute land in favour of poor men and women (in areas marked by extreme inequality in access to land) and prevent extreme concentration of land ownership;
- protect the rights of share-croppers and agricultural labourers;
- safeguard customary land rights and access to common property resources (including forests, fish stocks and waterways);
- enhance the land and inheritance rights of women.

**Management of markets**
If poor women and men are not to be disadvantaged in local and national markets, these must be managed in the interests of equity by:

- providing targeted investment in credit, extension services, and economic infrastructure for poor women and men;
- providing market information to help poor producers participate in markets on more equitable terms;
- regulating markets to prevent local, national, and independent monopolies working against the social interest;
- enforcing reasonable and non-discriminatory employment practices in compliance with minimum standards set by the ILO, particularly in the areas of living wages, and safety and security of employment.

**Redesign of structural adjustment programmes**
Structural adjustment programmes need to be redesigned in order to achieve macro-economic stability through progressive fiscal policies and wider redistributive measures which enable the poor to participate in economic growth and ensure that the costs of adjustment are borne by those in a position to pay. The central theme of stabilisation should be that of 'last call' on the resources of the poor. The aim should be to:

- create an expansionary economic environment oriented towards social and economic recovery, employment creation and poverty reduction;
- allow for the selective protection of labour-intensive industries, state intervention to manage agricultural markets in the interests of the poor, and effective protection of labour standards;
- include more effective monitoring of the effects of structural adjustment on vulnerable groups and on women in particular, through the involvement of community-based groups.
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and Southern NGOs in monitoring the design and implementation of economic reforms.

Refocusing the role of the IMF
The IMF's role should be re-assessed, to ensure that it plays a part in poverty eradication. The IMF should withdraw from structural adjustment programmes in low-income countries, with stabilisation measures integrated into consolidated longer-term recovery plans.

The IMF could take an enhanced role in providing balance-of-payments support on concessional terms to developing countries through a new issue of Special Drawing Rights.

Recasting the existing world trade order
There is an urgent need for reform of the international trading system, so that trade becomes an engine of equitable economic growth. The major priorities are:

• international co-operation to stabilise commodity markets at remunerative levels;

• the withdrawal of all discriminatory trade barriers, including tariff and non-tariff measures, targeted at developing countries;

• the introduction into the WTO of a social clause, based on ILO standards, establishing minimum conditions for participation in the multilateral trading system;

• new international trade rules to reconcile the potential conflicts at national and international levels between free trade and sustainable resource management;

• the organisation of an international conference held under UN auspices to negotiate rules on the regulation of foreign investment and protection of intellectual property, with a view to replacing the inequitable arrangements agreed under the GATT Uruguay Round;

• a comprehensive prohibition of agricultural export subsidisation, and the redesign of the agricultural policies of industrialised countries to encourage less intensive production, and to redistribute income support from the largest producers to small-holders;

• measures to improve the accountability of TNCs and prevent their activities from eroding citizens' rights, including the setting up of a global Anti-Trusts body, under the auspices of the WTO, to recommend and monitor action by governments where markets are distorted by monopoly power; action is also needed to strengthen governments' ability to prevent transfer pricing, and enforce socially and environmentally responsible patterns of investment through effective codes of conduct;

• a binding and strictly enforced WTO prohibition on the recourse to unilateral trade sanctions against developing countries.

Harnessing consumer power
Consumers in industrialised countries can play an important role in helping small producers to get a fairer return on their labour, by buying fairly-traded products and using their power as consumers to put pressure on retailers and suppliers to supply fairly-traded goods.

Peace and security
There is no greater challenge facing the international community than that of creating the conditions for peace and security. Without genuine development and poverty reduction, there can be no lasting peace. But without peace, efforts to eradicate poverty will fail. Poverty, widening social divisions, environmental stresses, and the long-standing suppression of the rights of different social, ethnic, and cultural groups are fuelling conflict, violence, and crime. Civilians, particularly poor women and children, are bearing the brunt of that violence, as rape victims, amputees, and refugees who have suffered the loss of their family and community networks, and their livelihoods.

At the same time, in countries as diverse as El Salvador, Cambodia, Lebanon, and Mozambique, people are facing new challenges
as they seek to rebuild their societies after decades of war.

Communities across the world are grappling with these problems. In Southern Sudan, pastoral communities have adapted their survival strategies to cope with the reality of 'permanent emergencies'; in Bosnia, groups are providing counselling and support for women rape victims; and in El Salvador, community organisations built up during the civil war are now involved in struggles for land, health-care, education, and a fairer return for producers. Ultimately, the only lasting solutions will be found within societies and through action at different levels to create the conditions for peace and security through greater equity, opportunity, and participation. However, far more can also be done at an international level.

Currently, the international community is floundering in attempts to find an appropriate response to conflict, having gone from counter-productive intervention in Somalia to inaction in the face of genocide in Rwanda. Much more effort is needed to identify an appropriate role for external actors in conflict, whether the UN, regional bodies, official donors, or NGOs. Below, we list some critical elements of a more appropriate international response.

Conflict prevention

More resources should be invested in helping to strengthen local and regional conflict-mediation and conflict-prevention initiatives.

The UN Security Council should respond promptly to early warnings of impending conflict and put much greater emphasis on preventive diplomacy and speedy deployment of human-rights monitors. This will involve the UN Secretary-General in streamlining UN machinery to provide timely information to the UNSC, possibly through the creation of an Office for Preventive Diplomacy and developing a roster of trained human-rights monitors.

Improved UN response to conflicts

When conflicts break out, the UN must be able to respond quickly and effectively. This requires:

- member states to establish 'fast track' standby arrangements (to provide the UN with the necessary troops, civilian police and logistical support), and the creation of a properly financed and adequately staffed permanent UN rapid-deployment force, deployable by the UNSC;
- financial and logistical support from member states to strengthen regional capacity for conflict prevention and peacekeeping duties;
- all UN interventions to have clear political and humanitarian objectives; troops to be under streamlined UN command structures and strictly observe human rights;
- a thorough and public evaluation of the work of all the UN humanitarian agencies and of the effectiveness of the co-ordinating role of the Department of Humanitarian Affairs, if necessary, exploring options for radical reform;
- the provision by member governments of adequate finance for UN operations (including humanitarian relief, conflict-prevention, peace-keeping, peace-making, and post-conflict reconstruction).

Post-conflict reconstruction

Greater priority should be given to supporting post-war reconstruction efforts in a manner which addresses the underlying causes of conflict and creates the conditions for permanent peace.

Reduction in arms sales

In order to establish an enforceable code of conduct on international arms transfers, a high-level expert committee needs to be created, reporting to the UN Secretary-General, to administer the UN Arms Register, with wide-ranging powers to investigate arms exports, and subsidies to the weapons industry, and to develop transparent systems of accountability.

The UN Register of Conventional Arms should be extended to cover all small weapons and used to levy a one per cent tax on arms
exports that would be channelled into financing UN conflict-prevention initiatives.

A ban on anti-personnel mines
A comprehensive and worldwide ban on the manufacture, stockpiling, export, and use of anti-personnel mines should be introduced.

Action to tackle human rights abuse
Consideration should be given to creating a permanent International Tribunal for genocide, war crimes, and other serious violations of human rights.

A sustainable future
There can be no sustainable future without peace and prosperity. Poverty is a major destroyer of the environment, since it forces local communities into unsustainable survival strategies. Poor people, and particularly women, who have to walk increasingly long distances to collect water and fuelwood, are all too aware that it is they themselves who bear the brunt of local environmental degradation. A range of community groups are taking action across the developing and developed world to try to conserve resources and protect the environment, such as Beja groups in Sudan taking action to cope with a rapidly changing and risk-prone environment, and the Zabaleen community in the slums of Cairo, who survive by collecting and recycling the city's waste. Their action is paralleled by that of local environmental action groups in the North, who are involved in recycling waste, and regenerating run-down inner city areas.

Citizens' action in industrialised countries is particularly important, because it is there that the bulk of the damage is being done to the global environment, through high levels of energy consumption and wasteful life-styles, which are emulated by the elite in developing countries. By the same token, the industrialised world has no right to demand environmental sustainability in the South until it sets its own house in order — and until it provides the financial resources needed to realise the objectives agreed at the Earth Summit.

It is therefore essential that countries in the North assume their full share of the cost of protecting the global environment, and that governments take tangible steps to reduce the depth of their ecological footprint on that environment by:

• following the Dutch example of assessing the scale and impact of their 'ecological footprint' in key sectors, including energy and agriculture, and committing themselves to setting specific, time-tabled targets to reduce the negative impact of their footprints; reporting on progress to the UN Commission on Sustainable Development, together with reports on implementation of Agenda 21, agreed at the Rio Earth Summit;

• demonstrating their commitment to Agenda 21 by allocating additional financial resources to fund its implementation, together with appropriate technology transfer and capacity building;

• introducing measures to meet more stringent targets on energy use, including a carbon/energy tax, tougher energy efficiency standards, programmes of insulation, investment in renew-able energy sources, redesigning the taxation system to tax over-exploitation of resources, rather than employment and investment;

• committing themselves to reduce CO₂ emissions by 30 per cent from 1990 levels by 2005;

• introducing environmental policies that use market mechanisms, including environmental taxes, import and export controls, and recourse to the 'polluter pays' principle, so that environmental costs are more accurately reflected in market prices.

Local environmental action
Action by local environmental groups and individual citizens in the North is needed to conserve energy, improve the local environ-
mentation and make more sustainable use of resources through recycling.

Ultimately, action by citizens and social movements in both South and North, coming together to put pressure on governments to act, provides the best hope of securing rights and ending poverty.