

***Eliminating aid dependency and poverty
through development of broad based and
diversified productive and trade capacities***

Carlos Nuno Castel-Branco

**Trade and Development Board
Geneva, 18th of September 2008**

Structure of the presentation

- Introduction
- Main message of the LDCs report 2008
- Ownership as a political economy issue
- The need to seek new questions and answers
- Some practical helpers for ownership space
- MDGs: an aid dependent “development” path
- New focus: ending aid dependency
- New coalitions for eliminating aid dependency

Introduction

- Presentation meant to put forward some key messages regarding aid and development
- Looks at the key messages from the UNCTAD LDCs report 2008 and moves forward to discuss some of the implications that can be drawn from the data and analysis provided in the report and from the practical experience in Mozambique.
- Author's full responsibility for ideas, interpretations, analysis and suggestions.

Main messages of the LDCs' report 2008 (1)

- Over the last 3 years, the average rates of GDP growth in LDCs have been high (more than 7% per annum)
 - Exceeding international targets for poverty reduction (7%)
 - Highest averages of the last 30 years
- **BUT...**
 - Growth has been propelled by abnormally high commodity prices and aid
 - Is highly unequal between countries and within countries
- **HENCE...**
 - Current growth patterns are not efficient and effective at poverty reduction.
 - Exceptions of Asian LDCs that have followed different growth patterns (articulated processes of broad based, diversified industrialization)

Main messages of the LDCs' report 2008 (2)

- Need for different growth models that emphasize the development of broad based and diversified productive capacities (including knowledge), rooted in the political, social and economic experiences and conditions of different countries and regions.
- Such models would need to look at, and eventually nurture and develop some fundamental *nexus*, namely
 - Macroeconomic-productive capacities
 - Economic surplus-productive investment (taxes, profits (domestic and external) and aid)
 - Investment-knowledge-trade
- Need for institutions, skills and political and technical capacities to articulate the state and the relationship between economic agents in order to create productive dynamics and to nurture and materialize linkages

Main messages of the LDCs' report 2008 (3)

- **BUT** LDCs have limited political space and *ownership* of political agendas, due to external dependency, domestic and international political economy dynamics and the orthodoxy of the development ideology and models that are imposed on them. Hence, space for experimentation and endogenous development is limited, discouraged and often penalized.
- **Therefore**, amongst other issues (such as, for example, seeking local and creative solutions away from dependency) there is the crucial need for LDCs to seek (fight for) *ownership* and adequate aid management policies (predictable, long term and steady aid flows; composition and allocation consistent with need for strengthening national governance and for developing key productive capacities and growth *nexus*; demand driven technical assistance; mutual accountability; better coordination and transaction cost reduction).

Ownership as a political economy issue

- *Ownership is a political economy issue*: who owns what, how, in alliance with whom and what are the implications of such social and economic dynamics? All social groups and interests seek *ownership* of strategy, policy, development agendas and institutions, as they *need* to influence direction of development to address their fundamental problems.
 - *Hence*, ownership is not a *panacea* nor an objective, technical and institutional capacity. Rather, first and foremost, *ownership is a political, social and economic process of conflict, contest and negotiation*. “It” cannot be offered to anybody, and anyone trying to remove “it” from anybody do so at its own risks.
 - *However*, donor practices can help the chances that ownership
 - Develops in a perverse manner (aid seeking, rent seeking, no mobilization of resources, no choices made, etc.)
 - Not develop at all or only develop as a formality
 - Have the space to be developed – if political, social and economic space does indeed exist

The need to seek new questions and answers

- Ownership *has no space at all* to develop when *development and growth orthodoxy* is imposed as the one and only “sound” way (the tired, discredited and desperate TINA (there is no alternative) model). What gives the developed countries governments the arrogance to tell the LDCs that “they know that there is no alternative”? The DCs can’t even manage their finances; out of each of their big crisis the concentration and centralization of capital increases and thousand of jobs are lost; despite the fact that phenomenal amounts of wealth are produced, in many DCs, including some of the most powerful ones, so many people have no access to proper education, health services, housing, sanitation, jobs and opportunities to value and develop themselves. Discrimination, lack of self-esteem, crime, corruption are also well present in many DCs. So, what gives them the right to believe that they know better? **Let us, instead, seek new and creative answers together, starting by acknowledging that what we know is far less than what we need to know.**

Some practical helpers for ownership space

- For real ownership of development and growth directions and choices to have a chance to develop, there are some issues that need to be seriously considered:
 - Space to develop and experiment with new development and growth models that: (i) link macroeconomic and productive capacity development; resource mobilization and investment for productive capacity development; investment, production and trade; (ii) are consistent with sustainable poverty elimination, not only by reducing the number of people with income below the poverty line, but by eliminating the fundamental causes of poverty creation; (iii) are broad based, diversified and articulated.
 - Focus the aid debate on the political, social and economic impact, and subject the discussion of processes and policies to the discipline of the results. Processes and policies should be in line with desired results and evaluated by the results, rather than being self-fulfilling and self-satisfying goals on their own right.
 - Be cautious about the meaning of “alignment with national systems”, as so often donors impose a system (TINA soundness) and then say that they are aligned with the recipient government national systems (example, procurement, and SWAp).

MDGs: an aid dependent “development” path

- MDGs set goals that are, mostly, consensually desirable. Who wouldn't like that the goals of universal access to education, health services, adequate housing and sanitation, drinking water, clean environment, social and gender equality and so on and so forth be achieved within one generation or two?
- The question, though, is how to achieve these goals in ways that are politically, socially and economically sustainable and meaningful.
- Currently, the achievement of the MDGs is a function of scaling up of aid and the absorptive capacity and political and institutional effort of the recipient countries. There is nothing developmental in the MDGs – no expression, in any form, of dynamic processes of accumulation that lead to the achievement of such goals and sustain them.
- This is a typical aid dependent path of “development”, by the end of which LDCs are unlikely to have achieved the desirable goals and, in addition, they are not going to be more productive and are going to be more dependent.

New focus: ending aid dependency

- If one wishes to identify one single and simple indicator for aid effectiveness and efficiency, it should be *the rate at which aid helps to end aid dependency by helping to develop broad based, diversified and sustained dynamics of productive capacities, economic accumulation and social development*. This cannot be a gift, but a right to be sought and fought for.
- We need to make the transition from aid dependency and aid dependent “development” to endogenous processes of political, social and economic transformation and sustained accumulation. So, we need to focus on broad based, diversified, innovative, articulated and inclusive productive capacity development and trade.

New focus: ending aid dependency

- Of course, infrastructure, education, health, housing and so on could be crucial components of this process, but only if they are explicitly and clearly articulated with the creation of productive capacity and innovation.
- Mozambique, as so many other LDCs, has spent billions of donors moneys in roads and energy, water and communications, education and housing and sanitation. However, a significant part of these infrastructures and capacities are not linked with a clear productive and trade development strategy – roads do not link farms, factories and markets, energy does not feed production, housing and sanitation infrastructures do not support production clusters to develop, education does not supply skills, abilities, capacities and new ideas.
- We need public investment and articulated public interventions to crowd in private investment, in an articulated and strategic manner.

New coalitions for eliminating aid dependency

- The key issue is how to eliminate aid dependency and how aid can be used to help this goal to be achieved. The central issue is not how to manage aid dependency, but how to eliminate it. It is true that achieving the goal of endogenous development requires, for LDCs, an interim phase of managing aid properly as a development resource that may help to pull or push them out of dependency. Managing aid for creating endogenous development is one thing, managing aid for the sake of keeping it flowing and seeking more of it is another thing.
- Hence, we need to move the focus away from procedures (although they are important) to economic and social development. In this respect, a coalition should be developed around issues like information about diversities, experimentation, policy analysis, development and implementation and its assessment on the basis of real social and economic development achieved. And organization focused on the analysis of LDCs development with a tradition of quality, high standards and heterodoxy, like UNCTAD, may be in a better position to host, or offer a platform for, such a coalition.

New coalitions for eliminating aid dependency

- One of the key roles that such a new coalition to ending aid dependency could play is to help LDC governments to negotiate and renegotiate their agreement with and refine their approaches to FDI. In many cases, like Mozambique, we do not need to be aid dependent now, if FDI projects are properly and reasonably taxed and far more of the phenomenal wealth they create is retained by our economies.
- Currently, tax payers money from donor countries is financing the extremely generous tax incentives that large FDI projects (including resource based and corporate, market-strategy based investments) benefit from.

New coalitions for eliminating aid dependency

- So, when mega firms (in minerals, energy and other such industries) announce levels of global profits that exceed the GDP of our economies several times, please, do remember that: one part of these profits results from the money of tax payers in developed countries and in LDCs; part of such profits results from the taxes that medium and small firms pay.
- We should also remember that these large corporations pay taxes in the DCs they are based or originated from. This means that the extremely generous tax incentives they receive from LDCs are also transferred to the treasury of DC governments. If a significantly larger share of this wealth was retained by the LDCs economies, they would not need aid.

New coalitions for eliminating aid dependency

- Some can say that LDCs negotiated bad agreements but signed contracts that should be honored. Well, DCs set bad rules for their financial markets, they are melting down and DC governments are working full steam to reform the financial market (the election in the USA is even been fought about who can reform the financial market better). So, if contracts contribute to destabilize the environment (political, social and economic) to the extent that risks for investors and the economy and society as a whole become unbearable, the contracts should be changed.
- Taxation of FDI projects is a aid dependency reducing approach, as well as a strategic decision that may help to change the direction of FDI by providing an incentive for diversification and for broadening the productive and trade basis.

New coalitions for eliminating aid dependency

- LDC governments, alone, will have difficulties to renegotiate contracts. These difficulties are related to power differences, institutional and technical capacities, information deficiencies, lack of confidence. An international coalition could well help to deal with these issue.
- We focused on taxation, because in most cases this is, in the short run, the most viable and readily available linkage (and a strategic one on its own right). Technological, productive, skill and employment linkages are more likely to develop in a significant manner if overall productive capacities (including related infrastructures and utilities) are broad based developed and diversified. Resources mobilized from taxation could well be used to promote such development of productive capacities.

New coalitions for eliminating aid dependency

- *Hence*, to take full advantage of the resources available (being it aid, tax revenues or others), LDCs need to change the structure and dynamics of their public expenditure to support and crowd in productive private investment and the development of viable, sustainable and competitive productive and trade capacities.
- This also requires that LDCs become much more capable to take advantage of FDI – they need to be informed and understand the dynamics, strategic interests and capabilities of the investors in order to devise their own negotiation strategies, develop their bargaining power, maximize beneficial linkages and externalities accruing to the national economy and accelerate the learning process.
- So, if the LDCs report by UNCTAD has to be useful in any way, let us all bet and put our efforts on eliminating aid dependency through broad based, diversified, inclusive and sustained growth and accumulation.