

# **International Development**

**Consultation Paper 98**





# Background

This consultation paper is presented as the first stage in the development of new Party policy in relation to international development. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the response generated and on the deliberations of the working group a full international development policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by Dr. David Hall-Matthews. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

Comments on the paper, and requests for speakers, should be addressed to: Louisa Latham, International Development Working Group, Policy Projects Team, Liberal Democrats, 4 Cowley Street, London SW1P 3NB. Email: [l.latham@libdems.org.uk](mailto:l.latham@libdems.org.uk).

Comments should reach us as soon as possible, and no later than 31<sup>st</sup> March 2009.

## **Federal Policy Consultation Paper No. 98 © February 2010**

*Published by the Policy and Research Unit, Liberal Democrats, 4 Cowley Street, London SW1P 3NB.  
Layout and Design by Louisa Latham.*

ISBN: 978-1-907046-15-5

Printed by Contract Printing, Rear of CMS Building, Unit 11, Whittle Road, Corby, NN17 5DX

Printed on 100% Recycled Paper

## Context and Goals

1.1 The Federal Policy Committee of the Liberal Democrats seeks to build on policy set out in Policy Paper 64, *A World Free From Poverty*, and Policy Paper 65, *Wealth For The World*. Both were adopted in 2004. Many of the policies set out in them still stand. However, much has changed since that time. To list but a few major issues:

- The Make Poverty History campaign in 2005 culminated in the Gleneagles G8 promise – as yet unfulfilled – to increase financial aid by US\$50 billion a year.
- The 2005 UN World Summit led to the creation of the Human Rights Council, Peace-building Commission and the Responsibility to Protect (R2P).
- Meetings in Paris in 2005 and Accra in 2008 set a new aid effectiveness agenda, which continues to be questioned in both donor and recipient nations.
- The World Trade Organisation's *Millennium Development Round* stalled in 2008 without any agreement being signed.
- The continued economic and political rise of developing powers, notably China, has challenged Western development paradigms.
- Awareness of the development obstacles and risks faced by fragile and conflict-affected states and regions has increased.
- The scientific and political consensus on the urgent need to tackle global climate change has been consolidated (though who should take responsibility for its costs remains still hotly disputed).
- Food and fuel prices have become more volatile and, in 2007-08, were extremely high.
- The global economic downturn has dramatically increased numbers of hungry and unemployed people, particularly in developing countries. It has also drastically reduced the volume of trade and financial flows, reducing opportunities for job creation.
- Over half way through, it has become clear that most of the UN *Millennium Development Goals* (MDGs) will not be met by 2015 and that poverty is increasing, not decreasing in the poorest countries.
- The G8 group of advanced economies has been superseded by the G20, including large emerging economies, but still not poorer nations.

1.2 Liberal Democrats believe that the moral case for helping the poorest people on the planet is stronger than ever before. However, the urgent need to promote global sustainable development is also in the national interest of the UK – and of every nation in the world. We are all interdependent. Poverty, barriers to trade and investment, food and energy price fluctuations, climate change mitigation and adaptation costs, human rights abuses, conflict and economic, social and political instability are all global problems, requiring global solutions.

- 1.3 The best way to reduce poverty is for poor people's voices to be listened to, and for political authorities and markets to be responsive to them. Relationships between aid donors and recipient governments that create external rather than local, democratic accountability are unhelpful and outdated. International Development goals cannot be achieved wholly, or even primarily, through financial aid. Policies on trade and climate change, for example, can make an enormous difference. Liberal Democrats would seek to use the UK's significant influence on development issues to forge wide alliances in order to attain global sustainable development goals. We will seek global partnerships with governments, organisations, companies, movements and individuals, in both developing and developed countries, that share our goals of promoting development and social protection through freedom, justice and equity. This consultation paper aims to explore ways in which this can be achieved.
- 1.4 We fully support the aims of the MDGs to reduce poverty and improve global levels of nutrition, health, education and equality. However, it is a limitation that the MDGs focus only on a narrow range of outcomes and not on processes. Too little account has been taken of social, economic and political obstacles to their attainment. Liberal Democrats would seek ways to enhance people's capabilities and sustainable livelihoods – in part by identifying and addressing structural and political obstacles to their self-fulfilment.
- 1.5 This would need to be based on smarter real time evidence-gathering and a far greater focus on locally-generated evidence in policy-making, in order to identify obstacles to political change. We need to understand better how poor people perceive their problems, experience change and develop coping strategies. We are interested in participatory data gathering, via social networking and mobile communications. At the same time there is an urgent need for better data collection and sharing at a global level. Liberal Democrats would push for coherent global monitoring of fluctuations in trade, aid, investment, remittances, inward and outward capital flows, prices and employment. These measurements could be combined with local knowledge to predict where and how seriously livelihoods will be affected during the current crisis and beyond.
- 1.6 Among the most serious obstacles to poverty reduction are conflict and poor governance. Promoting development is necessarily political. As well as economic growth, it is important to enhance social and political rights. A Liberal Democrat government would focus on ways to identify the underlying causes of conflict, in order to assist in prevention and resolution. We would also seek to extend enforceable rights and support grassroots networks that give poor people a greater voice, increase local accountability and attack corruption and clientelism.
- 1.7 Environmental degradation and climate change are not only significant obstacles to development, but capable of reversing it. In the interests of global and intergenerational justice, a Liberal Democrat government would accept responsibility, together with other industrialised nations, for financing both adaptation to climate change and clean energy generation in poor countries.

*Questions:*

1. *Should the UK's development assistance focus more on how poor people's needs can be met, and less on specific but apolitical targets for outcomes, such as those set out in the MDGs?*

## International Development

2. *What are the main obstacles to the creation of global partnerships or networks that can effectively address global issues?*
3. *Would it be appropriate for a Liberal Democrat government to seek alliances with social movements, civil society groups and campaigners in developing countries, as well as with states?*
4. *How can we better understand and address the political forces constraining progress in developing countries?*
5. *How can we make policy-making better based on up-to-date evidence? Through what data collection, dissemination and analysis systems could UK and global development goals be aligned better with the perspectives of poor people? How can social networking and mobile communications contribute to this?*

# Liberal Democrat Principles

- 2.1 A Liberal Democrat government would put liberal values at the heart of development and foreign policy – freedom, fairness, democracy, equity, justice, human rights and the value of human life.
- 2.2 Liberal Democrats believe first in the principle of freedom. A Liberal Democrat government would aim to increase the security and capabilities of individuals around the world, so they can achieve their own goals. We would adopt a rights-based approach to development, enshrining the basic rights of all people – and especially vulnerable individuals and groups – in enforceable laws, constitutions and global compacts. We believe in – and practise – putting power as far down the chain as pragmatically possible. We recognise that individuals’ ability to exercise basic rights and freedoms rests necessarily on democratic processes and institutions, and a certain level of economic development and access to services.
- 2.3 Liberal Democrats believe in internationalism. Many of the problems facing us today do not respect national borders – such as terrorism, migration, climate change, global and regional economic crises – and can only be addressed collectively at a regional or global level through the development of a consistent and binding body of multilateral institutions, rules and practices.
- 2.4 Liberal Democrats believe in dignity. That is one reason why, for example, we are committed to eradicating poverty and why we support the principle of the “Responsibility to Protect” – the international community’s responsibility to intervene in a state that is unwilling or unable to prevent or stop genocide, mass killings and other massive human rights violations. We recognise that basic human needs are a prerequisite for free, dignified lives.
- 2.5 Liberal Democrats believe in equality and equity. Our international development policy would seek to build a fairer world, in which richer and more powerful nations do not exploit weaker nations, but contribute to their sustainable development; in which richer and more powerful actors within both developing and developed nations do not exploit weaker populations; in which women and children in particular are not exploited. Under a rights-based approach to development we would uphold the conventions that the UK has ratified. This will mean taking decisions across all government departments that do not support British individuals’ or companies’ interests when they conflict with the interests of poor and vulnerable groups.
- 2.6 Liberal Democrats believe in people taking ownership of their own development strategies and holding their governments to account for their own policies. We support the implementation of the 2005 Paris Declaration and the 2008 Accra Agenda for Action, which seek to strengthen partner countries’ ownership of aid programmes, as well as the predictability of donor schemes.<sup>1</sup> We believe that financial and other forms of assistance

---

<sup>1</sup> **The Paris Declaration**, endorsed on 2 March 2005, is an international agreement, which saw over one hundred Ministers, Heads of Agencies and other Senior Officials commit their countries and organisations to increase efforts in harmonisation, alignment and managing aid with a set of measurable actions and indicators. The Accra Agenda for Action in 2008 built on this.

## International Development

should be in response to governments' or people's requests, not imposed. We also recognise that private enterprise is a vital driver of development.

- 2.7 Liberal Democrats believe in transparency. We believe that all aid should be provided to tackle poverty, whether directly, by removing obstacles to people's own development strategies or by facilitating their effective demands. All development efforts should be sustainable, in social, economic, political and environmental terms. Development assistance should never be directed towards objectives that run counter to development. A Liberal Democrat government would be transparent about its use of development assistance.
- 2.8 Liberal Democrats believe in accountability. A Liberal Democrat government would not measure its success solely in terms of the amount of money spent, or how it is spent, but also in terms of its long-term impacts. We would seek ways to monitor and evaluate the results of development assistance more robustly and effectively, and to hold individual agencies – including host governments, international organizations, UK government departments and NGOs – to account for the impacts of their work in different countries.
- 2.9 Liberal Democrats believe in increased participation. Due to many social factors, much of the British public has an interest in international development matters. We would seek to strengthen awareness and encourage increased and informed practical support, via NGOs and other channels.

### Questions:

6. *Are these the most appropriate principles? Have we left important ones out? Are some higher priorities than others? What measures could help put these principles into practice? What are the obstacles to their practical application?*
7. *How best can the UK government forge mutually respectful relationships – with poor people, civil society organisations, developing and developed national governments, international institutions and NGOs – that reduce poverty and enhance individuals' capabilities?*
8. *How can we maximise the attractiveness of liberal values and democratic systems in developing countries given the autocratic growth model pursued by China and others?*
9. *Could and should DfID be held directly accountable, jointly with partner governments, aid agencies and consultants for development results in specific countries?*
10. *How can public participation in international development be increased?*



# Governance

- 3.1 Development policy is increasingly focused on governance – the traditions and institutions by which authority is exercised. This includes the process by which governments are selected, monitored and replaced, the capacity of governments to effectively formulate and implement sound policies, and the respect of citizens and the state for the institutions that govern economic and social interactions among them.<sup>2</sup> It is widely accepted that bad governance is a crucial impediment to development.
- 3.2 Bad governance encompasses a range of ills. Most pervasively, it involves corruption – the misuse of public office for personal gain. It also includes the suppression of the rule of law, of the functioning of democratic institutions and of individuals’ human rights and civil liberties. More simply, it can also mean a lack of resources – people, equipment and money – to develop and implement government policy effectively.
- 3.3 Many developing countries – especially those with valuable natural resource endowments such as oil, minerals, gemstones or timber – have rich governments but poor populations. The availability of revenues from resource extraction mean that governments do not have to rely on income tax, making them less sensitive to public opinion and reducing incentives to invest in public services. A typical example is Equatorial Guinea, which ranks 29<sup>th</sup> in the world for GDP per capita, because of its oil wealth – but its expenditure on education is just 0.6 per cent of GDP, which ranks it 181<sup>st</sup>. Substantial flows of resource wealth are frequently associated with corruption.
- 3.4 At its most extreme, bad governance descends into conflict; no fewer than 73 per cent of the ‘bottom billion’ poorest people have recently been through a civil war or are still in one.<sup>3</sup> The consequences are dire, not just in terms of war deaths, but because of the damage inflicted on the economy, society and health outcomes. The rights of women and children are particularly vulnerable to abuse in conflict situations. Internally displaced people and refugees are among the hardest to reach to provide for their basic needs. The total financial costs of conflict in Africa from 1990 to 2005 have been estimated at \$284bn, roughly equivalent to international aid transfers over the same period. Around 40 per cent of all post-conflict societies return to violence within a decade. There is some evidence to suggest that economic growth reduces the likelihood of conflict.
- 3.5 Policy paper 86, *Security and Liberty in a Globalised World*, addressed some of these issues, calling for greater coordination both internationally and in Whitehall and funding for specialist training in conflict management. We support international approaches to conflict resolution, led by the UN, including R2P and the International Criminal Court, and advocate the creation of an international fund to finance rapid deployment of peace-building efforts.
- 3.6 Tackling bad governance and conflict is not easy, but various suggestions have been made:
- Aid should be closely related to standards of governance. In countries with poor governance, budget support should be replaced with support targeted at institutions

---

<sup>2</sup> Daniel Kaufmann, Art Kray and Pablo Zoido-Lobaton, *Governance Matters* (World Bank, 1999), p. 1.

<sup>3</sup> Paul Collier, *The Bottom Billion: Why the poorest countries are failing and what can be done about it* (Oxford University Press, 2007).

which may deliver development outcomes.

- Greater resources should be allocated to DfID's governance advice role.
- International military intervention is justified to protect democratically elected governments and to provide post-conflict security. When fighting ends, peacekeepers should not be withdrawn too quickly, and technical support – advisers and consultants – are needed more urgently than money.
- The activities of UK companies should be overseen to ensure they are not facilitating or participating in corruption, by paying bribes, aiding capital flight or tax evasion; nor supplying weapons to hostile regimes or combatants.
- Trade policy can be used to promote governance, by offering market access in exchange for reforms designed to reduce illegal and unsustainable commercial practices as well as corruption.
- Developed countries can promote revenue transparency mechanisms and international codes of conduct for particular trade sectors; examples include the Extractive Industries Transparency Initiative, focusing on oil, gas and mining, and the Kimberley Process, designed to exclude conflict diamonds from trade. Other agencies could be created to maintain international agreements, for example to oversee fisheries and the garment industry.

3.7 Where regimes have non- or anti-developmental strategies and low accountability, it is legitimate to direct aid towards the poorest people via NGOs rather than through bilateral channels. However, enhancing state accountability and legitimacy should always remain the ultimate goal. Regimes which do not meet basic international standards will be exposed and held more accountable for their actions under a Liberal Democrat Government, regardless of UK commercial and other interests.

### *Questions:*

- 11. Should Liberal Democrat development policy be more closely focused on improving governance? Or is this unwarranted interference in other countries' affairs? What priority should we put on resolving underlying conflict in developing countries?*
- 12. What measures can donors take to improve governance effectively, both in individual countries and at a global level?*
- 13. What more can the UK government do to address the global pandemic of tax evasion?*
- 14. What more can be done to support international capabilities on global conflict prevention and resolution? In particular, how should Liberal Democrats support the work of the United Nations, the EU's crisis management operations, the African Union, the Red Cross, the International Crisis Group, the International Organization for Migration and others?*
- 15. DfID has identified conflict stabilisation among its core areas of interest. Is its track record satisfactory? What challenges does it face and how could it improve? How good is cooperation between DfID and MoD in conflict-affected areas?*

16. *What is the proper role for financial aid in conflict situations? How serious are the risks of it exacerbating conflict?*
17. *Should we establish a 'Civilian Response Corps' for crisis management? Should we build slack into our police forces and judicial system to allow more overseas deployments?*
18. *What more can be done to build a global consensus to manage the production, transfer and stockpiling of small arms and light weapons?*
19. *What policies are required to kick-start growth, build governance capacity and promote liberal values in post-conflict societies?*

# Environment

- 4.1 The impact of environmental degradation on developing countries is more severe than on the industrialised world; poorer countries have fewer resources to tackle environmental problems and their populations depend more closely on natural products. Local air pollution, the lack of clean water for humans and agriculture, soil degradation and desertification are all serious and growing problems faced by poor countries.
- 4.2 Above all, climate change will have a disproportionate impact on developing countries. It is estimated that an average rise in global temperatures of two degrees Celsius (keeping global warming down to this level is probably already unachievable) will lower global production by 1 per cent, but African production by 4 per cent and Indian by 5 per cent. Eighty per cent of the costs of global warming will be incurred in developing countries, because of their greater dependence on agriculture; yet 64 per cent of historic carbon emissions have taken place in high-income countries, where just one-sixth of the world's population currently reside. A failure to mitigate climate change globally will subvert all other development efforts, increasing levels of disease, displacement and conflict.
- 4.3 The party's policy on climate change was set out in full in 2007 in the paper *Zero-Carbon Britain*. With regard to developing countries, we called for:
- The inclusion of targets for developing countries in the next phase of the Kyoto Protocol, varying by levels of development, with the poorest taking on carbon intensity targets (or no targets), rather than emissions targets.
  - The creation of a new UN Adaptation Fund to which developed countries would be required to subscribe funds based on their GDP and past contributions to carbon emissions.
  - The establishment of an 'International Leapfrog Fund', funded by international contributions, to facilitate the development of low-carbon technologies and energy efficiency in developing countries.
  - The introduction of payments for avoided deforestation (which accounts for almost 20 per cent of global greenhouse gas emissions – about as much as the US or China), and assistance with improving standards of forest governance in developing countries.
- 4.4 The greatest impact of climate change will be on agriculture, which employs the largest numbers of people in the poorest (and some middle-income) countries. Many of these are already unable to produce enough food for national consumption needs – and growing populations will make these problems worse. For several decades, international development strategies focused on the development of industry as a profitable alternative to agriculture. We now need to direct a far higher proportion of both ODA and private investment towards sustainable agricultural production, food security and food storage, including research into new agricultural techniques suitable for arid areas; and into changing geographical patterns of production due to climate change. We are also keen to explore forms of weather insurance assistance or pooling.

4.5 Although DfID has done a good job in many specific environmental policy areas, its record of integrating environmental imperatives into broader development policy is less impressive, as revealed in a damning report by the Environmental Audit Committee in 2006. The World Bank has also been criticised for the environmental impact of many of its projects. Environmental policy urgently needs to be mainstreamed into development policy and properly monitored at national and international levels.

*Questions:*

20. *How should we take forward our party's existing policies in light of the outcome of the Copenhagen Summit?*
21. *What should be the global mechanism for funding climate change mitigation and adaptation in poor countries? In a period of recession, is it realistic to expect the UK to increase its development aid even further for these new funds?*
22. *How best can aid support growing energy needs in developing countries without increasing global carbon emissions? Should middle-income rising powers like China and India also be supported financially in their efforts to adopt clean energy generation?*
23. *How should the UK respond to the increased numbers of refugees likely to be generated by climate change?*
24. *What crop innovations are likely to be most sustainable? Should genetic modification continue to be ruled out?*
25. *What should be done to develop and support weather insurance schemes?*
26. *What could be done to increase the rigour and independence of environmental appraisals on DfID's projects and programmes?*

# Managing Aid Better to Deliver Better Results for Poor People

- 5.1 Financial aid is only one way in which the UK government can contribute towards global sustainable development. It remains necessary but is not sufficient in the fight against poverty. Non-financial forms of aid, such as expert advice, can sometimes be of greater lasting value. Globally-focused policies on trade, conflict and climate change, alongside encouragement of private investment, enforcement of international standards and promotion of better international laws, are likely to have a greater positive long-term impact in developing countries. These will be addressed in the following sections.
- 5.2 Moreover, some aid can cause political and economic harm to recipient countries. Careful analysis of its purpose and impact is needed. It is particularly important not to distort local economies or burden recipient country bureaucracies. Wherever possible, agents of development at local levels should be trusted to know their situations and to deliver outcomes, with appropriate support. We do not believe that British voters are necessarily best placed to select development strategies. While all aid should be assessed in advance and retrospect for its impact, we recognise that some failures are inevitable, given the uncertainties and difficulties involved. It is vital to continue to direct poverty alleviation efforts towards those that are hardest to reach, rather than only spending on easier targets.
- 5.3 However, given the problems discussed in the Governance section above, a balance has to be struck between trust and accountability. While specific policy conditionality is often ineffective, it is legitimate to demand a clear commitment to putting governance standards in place, within an agreed timeframe. Aid can also be given for capacity building and training, both of state institutions that enhance governance accountability and transparency and of citizens groups. As development is political and requires poor and marginal groups to be empowered and protected, Liberal Democrats would be willing to direct aid towards political structures that would enhance sustainable development.
- 5.4 More needs to be done to improve the scrutiny, accountability and transparency frameworks in the UK that govern DfID expenditure. All agencies have a natural tendency not to publicise failures. Greater clarity is needed on where and how resources are spent, through which channels and with what specific goals. In principle, all UK aid should be targeted to achieve the greatest possible levels of empowerment and opportunity for the poorest people. Monitoring and evaluation systems need to be improved, disseminated and better acted upon.
- 5.5 Aid delivery is complex and different forms of – and conduits for – aid are needed in different circumstances. Where national governments are responsive to the needs of poor local communities, aid can help as a catalyst to growth, employment, social protection and the further enhancements of rights and empowerment, particularly for marginal groups, women and children. Predictable, non-earmarked aid in the form of direct budget support can be helpful, as can assistance for projects or social safety net programmes initiated locally. Again, there are risks of waste and diversion of budget support, which tends to be most effective in better off developing countries. In some circumstances, programmatic aid which is earmarked to a specific sector, e.g. education or health, may be more appropriate and

effective. Non-financial aid, including technical assistance and advice is also valuable, so long as the costs and impact – particularly of non-resident and short-term consultancy – are closely monitored and reported upon publicly.

- 5.6 There is currently an all-party consensus that the UK should spend 0.7% of its Gross National Income (GNI) on Official Development Assistance (ODA), in line with international commitments. This figure includes reduction of debts owed to the UK by developing countries (which does not represent a real transfer of resources). It also includes some spending in developing countries by the FCO, MOD and DECC as well as DfID. There is good reason to believe that the next government will come under pressure not to meet the 0.7% target, given current spending constraints, even though the needs of the poorest countries are greater due to the global recession.
- 5.7 In the long-term but foreseeable future, the significance of ODA is likely to diminish. Liberal Democrats would seek to accelerate the phasing out of aid dependent relationships. For some countries, according to Dambisa Moyo, development aid is already “dead.”<sup>4</sup> Where appropriate, we will therefore seek to build exit strategies into bilateral and multilateral aid programmes. We will work now to plan for a post-aid world, based around global alliances for sustainable development. Even for those countries which are likely to need financial support in the long term, we would seek ways to reduce dependency and restore local accountability.

*Questions:*

27. *What is the role for financial aid in development assistance? How useful are specific spending targets in supporting sustainable development strategies?*
28. *Should the ODA target of 0.7% of GNI be met wholly within the DfID budget? How can we best ensure that all UK development spending is genuinely targeted towards poverty reduction and/or the removal of obstacles to poverty? How and where do development objectives get distorted?*
29. *Can more be done to clarify the purpose of all aid? What can be done to improve aid monitoring, responsiveness to lessons learnt and accountability? Should a greater role be played by UK agencies, such as the National Audit Office, as well as parliament? Should results be publicised or ranked? What levels of failure are acceptable?*
30. *How can aid effectiveness be measured separately from other financial flows? How can we distinguish between short-term results and long-term development impacts?*
31. *To what extent and for what purposes is budget support effective? Does it help to build governance capacity in the poorest countries? Does it detract from the goal of directing all financial aid towards poverty reduction? How can we refine the use of political conditionality on it? Should direct budget support only be offered where a government has already met basic standards, in terms of public financial management, transparency and accountability and effective anti-corruption measures?*

---

<sup>4</sup> Dambisa Moyo, *Dead Aid: Why aid is not working and how there is another way for Africa* (Allen Lane, 2009)

## International Development

32. *Would it be useful to have a separate agency to administer technical assistance, similar to Germany's GTZ? Does the UK need an inspectorate to scrutinise and measure the cost effectiveness and performance of private consultancy?*
33. *How can aid dependency best be reduced without undermining poverty reduction? How can international development alliances and networks be developed?*



# Trade Policy

- 6.1 Trade is crucial to development. No country has ever been lifted out of poverty through development aid alone; developing economies need access to international markets to develop and diversify. Trade liberalisation has the potential to reduce poverty, extend choice and opportunity, improve environmental standards and reduce conflict between nations. However, the benefits and processes of trade liberalisation have been deeply uneven, benefiting rich economies more than the poorest. Industrialised countries still maintain higher trade barriers against many developing-country exports than they do against each others’.
- 6.2 The WTO’s Doha Round of trade negotiations – the ‘Millennium Development Round’ – was supposed to focus on direct benefits to the poorest countries. Even if the Round did not look as close to failure as it currently does, the most recent set of proposals offer very little to the poorest countries, though they would benefit medium-income developing countries with large export sectors.
- 6.3 Many of the poorest countries lack the capacity fully to benefit from trade liberalisation. Economies opened up abruptly to trade can suffer severe impacts on particular sectors and regions, and a loss of government revenue from import and export duties (on which poor countries, lacking efficient income tax systems, are often highly dependent). The deregulation and privatisation that tend to accompany trade and investment liberalisation open developing country economies to new stresses and create new requirements for regulation and enforcement for which they are often not well suited. Transnational corporations, particularly those in the extractive industries, can often prove resistant to regulation by their host-state governments, with negative social and environmental consequences. So while in the long term trade liberalisation will generally have positive consequences, in the short term it often engenders increased inequality, hardship and instability, undermining government authority and social cohesion.
- 6.4 Liberal Democrat policy on international trade was last debated in 2004, in the policy paper *Wealth for the World*. We called for:
- Continuing attempts to salvage the Doha Round, as long as the outcome is positive for developing countries – including a substantial reduction in agricultural subsidies, revisions to the General Agreements on Trade in Services (GATS) and Trade-Related aspects of Intellectual Property rights (TRIPs), and creation of a system by which countries in genuine medical need are allowed to manufacture or procure royalty-free drugs.
  - Much greater investment in ‘aid for trade’ assistance to the poorest developing countries, helping them to open up their economies to international trade without suffering excessive disruption.
  - Extending the structure of ‘special and differential treatment’ within the WTO agreements, through which the poorest countries can open their markets over a much longer timescale.
  - Reforms to the EU’s Economic Partnership Agreements (EPAs) with developing countries, allowing greater flexibility for their trade preferences and providing more generous

capacity-building assistance.

- Further research into the possibility of a currency transaction tax.

6.5 The fair trade movement aims to seek greater equity in international trade, by offering better prices to marginal producers – so far mainly of agricultural products – in developing countries. Global fair trade sales have grown rapidly over the past decade, reaching €2.4bn in 2007, 47 percent more than the year before; it is estimated that 7.5 million people benefit directly from fair trade prices. Local governments in Europe and North America have used their procurement policy to purchase fair-trade-labelled products, though central governments (including the UK's) remain more cautious, largely because of concern about the interaction with WTO and EU rules. There is scope here for much greater action if the rules can be clarified or revised.

*Questions:*

*34. Is this set of trade policies still appropriate?*

*35. Ought we to anticipate the likely demise of the Doha Round, and call for the launch of a new and more development (and environment) friendly set of negotiations?*

*36. Do the EPAs need further reform, and if so, in which areas? Do they need to differentiate more flexibly between ACP groupings and are these groupings appropriate?*

*37. Do we need to focus more on assisting the 'bottom billion' countries to participate in international trade?*

*38. Can the UK and EU do anything to promote the reduction of trade barriers between developing countries (which are often significantly higher even than those between developed and developing nations)?*

*39. What could the UK do to encourage patent pooling and sharing of technologies that reduce poverty and disease and/or promote development?*

*40. Is there a strong case now for a currency transaction tax? Should its revenues be earmarked for particular outcomes, e.g. health?*

*41. What can Liberal Democrats do to promote the procurement of fair trade products at local and national levels? Do international rules need to be revised?*

# Private Sector Investment

- 7.1 The private sector in both developed and developing countries has a major role to play in wealth creation; foremost through the development of a thriving, open and competitive private sector and the infrastructure to support it. This can generate increased employment opportunities and freer and fairer trade. In addition, public-private partnerships (PPPs), including donors, can raise funds for investment, and improve the effectiveness of public services such as healthcare and education.
- 7.2 Policy papers 64, *A World Free from Poverty*, and 65, *Wealth for the World*, called for national and international measures to encourage, enable and regulate increased Foreign Direct Investment (FDI) in developing countries. In the current economic environment, such investment has been greatly reduced. Long-term sustainable global development can only be achieved when the poorest countries are able to attract and retain significant private capital inflows, which are used to generate and enhance local jobs, incomes and capital accumulation.
- 7.3 Greater freedom of investment would be beneficial for both investing and recipient countries, so long as it is balanced by obligations to invest responsibly and sustainably. The UK government needs to ensure that human and natural resources in developing countries are treated fairly, not exploited, and that supply chains are sustainable. A Liberal Democrat government would promote responsible business conduct more strongly and specifically, in line with the United Nations Global Compact on Corporate Social Responsibility, the OECD Guidelines for Multinational Enterprises and International Labour Organization Codes of Conduct.
- 7.4 Many of the countries most in need of investment are badly equipped at central government level to make and implement necessary national and regional policies. UK initiatives to help develop such capacity should therefore work to support the design of investment enabling and promoting frameworks that are suited to specific local circumstances. There is no “one size fits all” framework, and successful economies exhibit a healthy variety of policy frameworks. It is up to each country to choose their own mix of public and private – and domestic and foreign – sources of investment in accordance with their own needs and capacities.
- 7.5 Private sector investment is most likely to be attracted by economic and political stability, a transparent and rules-based policy framework for investment and reasonable profit prospects. As these things are often hard to be sure of, the UK government can play a useful role by helping to reduce or underwrite commercial uncertainty. For example the International Financing Facility can be used to help countries to bolster legal and regulatory institutions.
- 7.6 Direct investment in developing countries that is wholly or partly funded by the UK government, such as that by CDC (formerly the Commonwealth Development Corporation), should be focused on the stimulating growth in areas of the greatest poverty – especially where this may not be profitable in the short term – not on safe bets. The Labour government’s sale of CDC’s fund management arm to its own managers at fire sale prices – and their subsequent withdrawal from many poverty-focused investments – are greatly regrettable. Equally the Export Credit Guarantee Department (ECGD) should only support industries that support development. Investments in new approaches to food production

and green technology, helping countries adapt to and mitigate the effects of climate change should be prioritised.

7.7 Personal remittances to developing countries from emigrant communities greatly exceed the value of both ODA and FDI. A Liberal Democrat government would seek ways to reduce the substantial transaction costs that these incur. We would also encourage government policies that attract such flows and incentivise saving and investment of household incomes in productive activities e.g. children's education and establishment of small businesses. Microfinance and business support to local entrepreneurs, notably women, has often led to strong development outcomes.

*Questions:*

- 42. Is there a need for a new international investment framework? What should it contain and how can obstacles to its adoption be overcome?*
- 43. How can the UK government encourage private investment (both foreign and domestic) in developing countries, particularly in areas such as education, healthcare and infrastructure? How can we assist developing countries in creating competitive market conditions and effective regulation? Should the UK support the World Bank's Comprehensive Development Framework approach?*
- 44. What more should be done to oversee UK business practices in developing countries; and to promote positive developmental and environmental outcomes?*
- 45. How should government deal with enterprises that are complicit in the abuse of human rights in resource-rich countries with weak or non-existent governments? Can difficulties in obtaining objective evidence be overcome?*
- 46. Can the ECGD play a useful role in encouraging appropriate finance for development? Will its impending privatisation reduce government control?*
- 47. What should the role be of the EU's Investment Facility?*
- 48. How and to what extent should we encourage investment in agriculture, green technology, microfinance and / or female-headed businesses? Should these be funded, directly or indirectly, by DfID? What other areas should be prioritised for investment?*

# Development Co-operation and Partnerships

## *Inter-departmental co-operation*

- 8.1 The UK is the only developed country to have a separate development ministry, the Department for International Development (DfID), led by a cabinet minister. DfID performs multiple functions, including funding, research and global policy influence as well as implementing its bilateral programmes. It has particular global expertise in several areas, including conflict, governance, regulatory frameworks and sanitation. Its leadership on a number of development issues is respected worldwide and Liberal Democrats would keep DfID as a separate department and strengthen its position in Whitehall.
- 8.2 However the ultimate ownership and effectiveness of its programmes is not always easy to determine. DfID staff used to have greater sector-specific expertise – e.g. in education, health, agriculture, food security and private sector development – than is presently the case. A return to that structure could enable DfID to provide tailored advice to governments. A significant proportion of British bilateral aid spending in recent years has been spent in Iraq, Afghanistan and Pakistan, where the UK has been actively involved in long-running and controversial conflicts.
- 8.3 Where conflict is occurring or states are fragile, DfID necessarily has to work alongside the Ministry of Defence (MoD) and Foreign and Commonwealth Office (FCO). Elsewhere DfID needs to collaborate with others such as the Department for Energy and Climate Change (DECC) as well as the Treasury. Further work needs to be done to establish effective inter-departmental structures to manage conflicts of interest, ensure collaboration towards agreed goals and make the decision-making process transparent.

## *Global partnerships*

- 8.4 DfID operates alongside myriad national (or bilateral) and multilateral partners in delivery of aid and related development programmes, many of which have overlapping goals and competitive approaches. Fragmentation of aid delivery can reduce its effectiveness. The UK needs to re-evaluate its relationships and identify ways to increase coordination at different levels.
- 8.5 Liberal Democrats believe in international cooperation. It is important, however, that financial aid delivered via multilateral institutions should accord with our goals, be fully accountable and effectively monitored. This is not always the case. Resources should not be allocated multilaterally just to reduce costs in DfID. We would undertake careful scrutiny of the extent to which different multilateral institutions – including the World Bank, International Monetary Fund, regional development banks, United Nations Organisations and European Commission – share our approaches and provide effective assistance, without setting burdensome conditions.
- 8.6 We would seek to strengthen coordination with other bilateral donors, especially using the European Commission's convergence approach. There is a case for DfID reducing the

## International Development

numbers of countries and/or sectors with which it deals – enabling deeper, longer-term relationships – as part of a coordinated division of labour. Both best practice and analysis of failures could be better shared with other development partners.

- 8.7 We would also seek ways to cooperate and with newer aid donors, forming alliances with those who share common ideals, such as India. We would encourage China to recognise its responsibilities as a global player.
- 8.8 Alliances and networks with varied groups within nations will also be important. We would invest more resources into developing alliances and partnerships with governments, parties, civil society organisations, NGOs and social movements – in both developed and developing countries – that share liberal democratic values. In particular we would support groups in developing countries that promote local accountability and democratic principles, such as trade unions, human rights watchdogs, environmental campaigners, development outreach workers and other policy organisations.
- 8.9 DfID could also do more to encourage the development work of UK-based NGOs and philanthropic institutions, both in developing countries and in raising awareness of development issues among the UK population. Ninety percent of DfID's funding in the latter area currently goes to schools, at the expense of the wider community.

### Questions:

49. *Should DfID remain an independent department? Is it appropriately structured and resourced to deliver its stated mandate? Should it be focusing more narrowly on its areas of core competence and comparative advantage?*
50. *How can inter-departmental coordination best be improved, both in country and at headquarters levels? How can the UK's development goals best be distinguished from security, diplomatic and commercial objectives, or should they be combined in a whole government approach?*
51. *How can we best align the UK's poverty reduction and national security goals? In the poorest countries, should the presumption always be that poverty reduction and development goals take precedence, with DfID taking a clear leadership role? In what circumstances would it be more appropriate for other departments to be the main implementing agency?*
52. *Would taking a rights-based approach to development help with international and inter-departmental coordination and clarity of purpose? Is there a need for inter-agency strategy committees in countries where obstacles to development are complex? How can it be ensured that decision-making processes between departments are transparent?*
53. *What is the right balance between bilateral spending and directing resources through multilateral agencies? Through which should the UK be channelling the most resources? How much should be delivered through EU institutions? Should the amount channelled be fixed or flexible?*
54. *What key reforms to international institutions should the UK be pushing for? How can multilateral development spending be made more accountable to the UK parliament?*

55. *Are there too many multilateral aid agencies? What are the advantages and disadvantages of a having multiple specialist agencies?*
56. *Can development be separated from politics? Would it be appropriate for DfID to finance democratic institutions (e.g. parliaments, anti-corruption bureaux) in developing countries? Is it appropriate to support like-minded advocacy groups, development campaigners or even political parties that share liberal democratic values, after due scrutiny?*
57. *Should DfID channel resources towards the development of competitive multi-party democracies, e.g. through the Westminster Foundation for Democracy or a similar organization?*
58. *Should more development funding be channelled through international and developing country NGOs? How can their local effectiveness and accountability best be ensured?*

Consultation Paper 98

ISBN: 978-1-907046-15-5