World Institute for Development Economics Research

# WIDER ANGLE

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## WIDER Conference on Debt Relief

On 17-18 August WIDER held a conference which attracted 145 participants to discuss debt relief for poor countries, a subject that has been much in the news. Nearly 80 presentations were made in the plenary, parallel, panel, and poster sessions of the conference. Papers on all aspects of the Heavily Indebted Poor Countries (HIPC) initiative were presented, with the conference paying particular attention to improving our understanding of the poverty and developmental impacts of debt relief.

Accordingly, discussion focused on the macroeconomic effects of debt relief (how debt relief affects inflation and growth) and the social impact (how the resources released by debt relief can be used for improving basic social services). The meeting also looked at how debt relief will affect the total volume of aid available to poor countries, the role of trade policy in resolving the debt crisis of poor countries, and the merits of a complete debt write-off.

Of those conference participants from outside Finland, nearly half came from developing and transition countries including 40 African nationals. Some 57 per cent of participants were from academic/research institutions and universities in developed and developing countries (including AERC, KIPPRA, North-South Institute, and ODI), 31 per cent were from international organizations (including ADB, IMF, UNCTAD, UNDP, UNICEF, UNECA, World Bank, and WIDER) or donor agencies (including DANIDA, DFID, Finland's Ministry of Foreign Affairs, and Sida), 7 per cent were from NGOs (including Christian Aid and the World Development Movement), and 5 per cent were from government organizations in developing countries (including the ministries of finance of Mongolia, Uganda and Rwanda).

Some 76 papers from the conference are posted on the WIDER Web site together with presentations and media reports:

www.wider.unu.edu

## 2001 WIDER Annual Lecture

## The Perils of Neglecting Horizontal Inequalities

### *by Frances Stewart*

Kari Räisänen

*Frances Stewart delivering the 2001 WIDER Annual Lecture*

Current thinking about development places individuals firmly at the centre of concern, the basic building block for analysis and policy. This is as true of the important recent innovations in thinking led by Amartya Sen, which move us away from a focus purely on incomes to incorporate wider perspectives on well-being, as of more traditional neo-classical welfare analysis which underpins most development policy. Both approaches neglect the key role of groups in human activity. Yet individuals' membership of groups—families, kinship groups, communities, ethnic and religious groups, social and work place groups—are a fundamental source of well- and ill-being, both directly and instrumentally (i.e. in the way they affect the achievement of other objectives).

Here I want to focus on 'cultural' groups: i.e. groups encompassing common cultural identities. These identities are generally based on common behaviour and values. The binding agent may be 'ethnicity' (generally associated with a common history, language, and mores), or religion, or race, region, or even class. Modern societies—in rich and poor countries—embody large cultural differences of this sort. In fact they seem particularly important today, partly because ideological differences have lessened with the end

of the Cold War bringing cultural differences to the fore, and partly because global migration has brought people of different cultures into physical proximity. Cultural differences lie behind most current conflicts—huge atrocities, such as occurred in Rwanda, many civil wars, much civil disturbance, and indeed, today's 'war against terrorism'.

J. R. Ripper/SocialPhotos

*Group inequality may become a source of conflict*

## Don't Neglect Groups

There is much discussion on whether such cultural differences represent long-term, fundamental differences between humans (the primordial view), or are constructed by leaders for political and economic purposes (the instrumental view). Many groups are fluid. Their members cross boundaries, individuals may be members of multiple groups (have multiple identities), the groups' characteristic behaviour can change over time, new groups are formed, while particular group distinctions gain and lose salience over time. All this tends to support the instrumental view, and makes it difficult to 'catch' the group definitively, either descriptively or statistically.

Yet group membership can have major effects, at the extreme causing people to kill or die for them. Individual members' perceptions of what the group is are what is important for action: group differences matter if their members perceive them to be important, and while differences may be constructed or accentuated by leaders for instrumental reasons, for their members the differences from others often seem very real. Its because of this perceived reality that group membership is an important aspect of well-being for so many people, and the group's *relative* position vis-à-vis other groups can become an important source of well-being or resentment.

The key issue is why in some cases one finds that cultural differences lead to a vibrant and multifaceted society which flourishes economically and politically, while in others development disasters ensue. My hypothesis is that *horizontal inequalities* are an important part of the answer to this question. Horizontal inequalities are inequalities between culturally defined groups. I call them 'horizontal' to distinguish them from our normal definition of inequality, which lines individuals or households up from top to bottom, generally ranked by income, and measures the dispersion in a vertical way (i.e. measures *vertical* inequality).

Horizontal inequalities have many dimensions. Three are particularly important: political, economic and social. Each contains a number of elements: on the political dimension, group members' role in the government, top bureaucracy, police or army are all relevant to the power of different groups to change conditions, and to the resentment groups feel if excluded. On the economic dimensions, incomes are one aspect, but probably more important are jobs and assets of various kinds. On the social dimension, access to education at all levels is of fundamental importance, for itself and also for the prospects it confers for jobs and incomes. It is no accident that in many conflicts, the educated members of opposing groups are deliberately targeted (for example, in the 1970s, the Tutsi in Burundi killed many educated Hutus). Other important aspects of the social dimension are access to health services and housing. It is clear that the significance of particular horizontal inequalities will vary according to the conditions in a given society: for example, land inequalities may be a source of conflict in agrarian societies (as in Zimbabwe), but are unimportant in more industrial societies, where jobs matter much more.

Where there are sharp horizontal inequalities in important dimensions—i.e. where there are significant differences in political, economic and social resources among groups differentiated on cultural lines—then the society will be conflict prone. We only need to turn to the cases of Rwanda and Burundi (with the economically and socially privileged Tutsi living side-by-side with the impoverished Hutu), to Northern Ireland, where the same situation applies to the Protestants and Catholics, or to economic, social and political differences between Israelis and Palestinians, to show how powerful inequalities between groups can be in provoking violence when there are cultural identities which coincide with the inequalities that bind and mobilise the various groups to fight.

## Keep an Eye on Horizontal Inequality

It follows that monitoring horizontal inequalities—and devising policies to reduce such inequalities where they are large—should be an important aspect of policy, *within* rich and poor countries, and *between* them. Yet this is not the case in most societies. Horizontal inequalities are rarely measured; rather efforts are devoted to measuring vertical inequality, which is, of course,

important as a cause of poverty, but which rarely provokes violent conflict. Neither the IMF nor the World Bank pays attention to horizontal inequalities in their monitoring or policy advice, despite the fact that violent conflict is one of the worst causes of poverty and underdevelopment.

There are, of course, severe difficulties when measuring horizontal inequalities and introducing policies to reduce them. One is the fluidity of cultural groups, mentioned above, which sometimes makes it difficult to define the relevant groups. Another is that the process of measurement itself can be provocative. Policies to correct such inequalities may be thwarted because governments themselves are often dominated by one group and unwilling to share political or economic power. Moreover, the relatively privileged groups may resist any attack on their privilege, themselves sometimes taking violent action.

Yet the objective of monitoring and reducing horizontal inequalities is of such fundamental importance if we are to secure a peaceful world and flourishing economies, that these problems need to be tackled rather than regarded as a reason for abandoning efforts to incorporate horizontal inequalities into policy-making.

The horizontal equality dimension should be an important aspect of all political, economic and social policy, for every multicultural society—not just those thought particularly vulnerable to conflict at the moment. It should also be applied at the international level, to correct the worldwide inequalities which fall along cultural lines. Recent events particularly emphasise the importance of horizontal inequalities at a global level.

*This article is a summary of the 2001 WIDER Annual Lecture on 'Horizontal Inequality: a Neglected Dimension of Development' given by Frances Stewart in Helsinki on 14 December 2001.*

Horizontal inequalities are inequalities between culturally defined groups

Important groups include families, kinship groups, communities, ethnic and religious groups, social and work place groups

Individuals' membership of groups is a fundamental source of well- and ill-being

Horizontal inequalities lie behind most current conflicts, including today's 'war against terrorism'

To reduce conflict, monitor horizontal inequality both nationally and internationally

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*She was also co-director (with Judith Heyer and Rosemary Thorp) of the WIDER project on 'Group Behaviour and Development' which will be published by Oxford University Press in 2002, as 'Group Behaviour and Development: Is the Market Destroying Cooperation?' Further research on conflict and papers from the Group project are available in WIDER's Discussion Paper series which can be downloaded from the website: www.wider.unu.edu.*

WIDER's Annual Lectures are published and are available on the Web site. The 2001 lecture was videotaped and is available to view online at: www.wider.unu.edu.

**2000 WIDER Annual Lecture**

'Globalization and Appropriate Governance', by Professor Jagdish N. Bhagwati, Arthur Lehman Professor of Economics and Political Science at Columbia University.

**1999 WIDER Annual Lecture**

'Is Rising Income Inequality Inevitable? A Critique of the Transatlantic Consensus', by Professor Anthony B. Atkinson, Warden of Nuffield College, University of Oxford.

**1998 WIDER Annual Lecture**

'More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus', by Professor Joseph E. Stiglitz, Stanford University, 2001 Nobel Laureate.

**1997 WIDER Annual Lecture**

'The Contribution of the New Institutional Economics to an Understanding of the Transition Problem', Professor Douglass C. North, Washington University in St. Louis, Missouri, 1993 Nobel Laureate.

**2002 WIDER Annual Lecture**

'The Impact of Globalization on World Inequality' (provisional title) will be delivered by Professor Jeffrey G. Williamson, Harvard University, at the University of Copenhagen on 5 September. This lecture is sponsored by the Danish Ministry of Foreign Affairs.

## By Invitation

# Debt Relief and the Development Architecture

*by Nancy Birdsall and Brian Deese*

The now famous international movement to reduce the debts of the world's poorest countries (culminating in the HIPC, or Heavily Indebted Poor Country initiative) is part of a larger effort by the international donor community to redefine the business of development assistance, or better the 'development architecture'. This effort is based on an acceptance of historical fact: over the past two decades, despite billions of dollars in development assistance lending, there has been little growth or poverty reduction in many of the world's poorest countries.

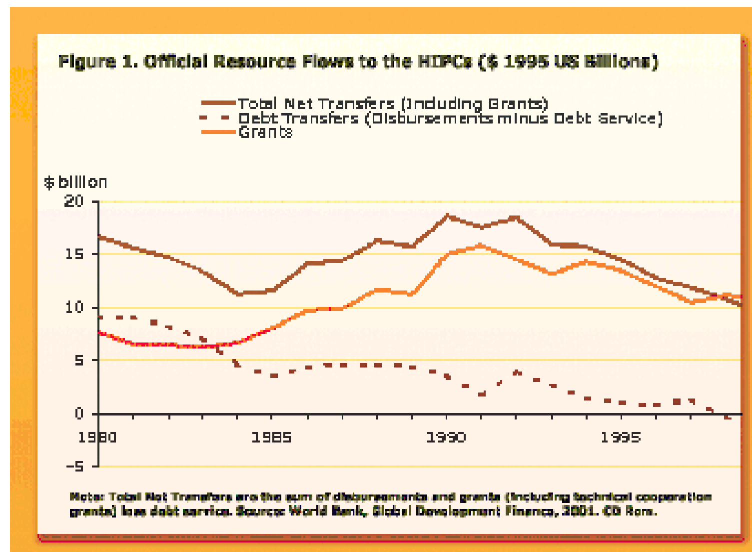



Figure 1. Official Resource Flows to the HIPCs ($ 1995 US Billions)

Note: Total Net Transfers are the sum of disbursements and grants (including technical cooperation grants) less debt service. Source: World Bank, Global Development Finance, 2001. CD Rom.

There is an emerging consensus that part of the reason why so much development assistance contributed to so little development was that the donor community was not very selective. That is, official creditors and donors did not lend based on an assessment of a country's policies, institutions, or capability to use resources effectively to stimulate the private investment and social institutions critical to growth. Therefore, much of the money went to governments who were ether unwilling or unable to use it for the benefit of their citizens. The success of debt relief, then, involves two leaps of faith. First that the internal problems of recipient countries—corruption, lack of accountability and in some cases absorptive capacity—are receding. Second that the official donor community will reform its entrenched bureaucracy and be more selective in its new lending and grantmaking.

## Debt Relief for Development

Faith aside, there are good reasons to believe that debt relief can be an efficient mechanism to transfer resources to poor countries and may help transform the development architecture to leverage positive change in the way the donor community engages with poor countries.

The first has to do with past donor and creditor behavior. Over the past two decades the HIPC countries received massive amounts of external assistance—almost all from official donors and creditors—while achieving low or negative per capita growth, which resulted in an ever-increasing stock of outstanding official debt. In the 1990s, the donor community resorted to a combination of rescheduling and fresh additional resources in a good faith effort to help these countries avoid arrears and stay eligible for the benefits of multilateral lending and engagement with the international community. As Figure 1 shows, these additional resources exceeded the countries' debt service burdens, and indeed there was no 'debt tax' on the HIPC countries.

But in the resulting debt game, the donors increasingly transferred resources based on a country's debt situation, rather than on its potential to use resources well. Birdsall, Claessens, and Diwan (2001) show that in the 1990s those countries in Sub-Saharan Africa with the highest debt (and specifically a high portion of that debt owed to the multilateral institutions) received the bulk of transfers, independent of their policy or institutional environment. In this group, only the lending by the World Bank's IDA remained 'selective'. (Among the lower debt countries, the donors as a group were reasonably selective.)

Reducing the debt stocks of these countries provides an opportunity for donors to get out of this vicious refinancing game and reintroduce selectivity in their new lending and grantmaking. This is good news even if debt relief does not end up being additional—if instead debt relief simply substitutes one form of 'aid' for new loans and grants. Why? It would liberate donors to channel more funds to countries with reasonably good economic management and adequate absorptive capacity. That could initiate a virtuous circle, crowding in private investment in these countries and generating growth. But while reducing the debt stock opens the door for this positive change indonor behavior, it in no way

**Table 1: Assistance to Sub-Saharan Africa: project versus non-project activity (%)**

| | 1977 - 1987 | 1988 - 1998 |
|---|---|---|
| Project | 71.5 | 74.3 |
| Non-Project | 16.55 | 13.6 |
| Creditors (debt relief) | 11.9 | 12.1 |
| Total (%) | 100.0 | 100.0 |

Source: Birdsall, Claessens and Diwan (2001)

**Table 2: Continued Aid Dependence of post-completion point HIPCs**

| | Net Official Transfers 1997 - 1999 annual average | Debt Service Relief 2000 - 2004 annual average |
|---|---|---|
| Uganda | 647 | 50.8 |
| Bolivia | 482.3 | 125.8 |
| Mozambique | 926.3 | 119.3 |
| Tanzania | 907 | 77.0 |

Source: Birdsall and Williamson (2001). 'Completion Point' is when HIPC countries receive full unconditional debt stock relief.

guarantees it. Those most passionate about securing debt relief for the poorest countries should now be equally adamant about demanding that the donors change their past behavior and that selectivity is one of the pillars of the post-HIPC development architecture.

## Ownership of Development Strategy

A second virtue has to do with the nature of debt relief itself. In recent years the donors have begun to emphasize the need for the recipient countries to take charge and 'own' the design of their development strategies (this is the goal of the Poverty Reduction Strategy Paper (PRSP), one of the central conditions for the receipt of debt relief under the HIPC initiative). But another result of the 'debt game' has been an increasing donor presence in the most indebted countries that flies in the face of this goal. Behind the positive net transfers in Figure 1 is a story of increased gross transfers and increased debt service. As Table 1 illustrates, most of those gross transfers in the 1980s and 1990s have apparently come in the form of discrete project support, which means an increasingly large aid bureaucracy for poor country finance ministries to manage.

Debt relief is a form of untied budget support that may help reverse this trend. For countries with good policies and institutions, debt relief will reduce somewhat the burden of coordinating with an endless list of donors and aid agencies on dozens of projects, and, along with the PRSP, can encourage ownership and domestic management of the poverty reduction and growth strategy. Here again, debt relief provides an opportunity, but no guarantee, as the resources released from debt relief are only a small fraction of the resources needed by the highly aid dependent HIPCs if they are to have any shot at achieving the development goals put forth at last year's Millennium Summit. For example, in the four countries that have received full debt relief under HIPC, the annual debt service savings represent only 14 per cent of official net transfers in recent years (Table 2). Yet if the PRSP really does represent a new way of doing development planning in poor countries (and initial assessments are guardedly optimistic on this point), then the untied budgetary resources released from debt relief may help solidify an 'ownership' pillar of the development architecture, working in concert with increased donor selectivity.

*This article draws on Nancy Birdsall, Stijn Claessens and Ishac Diwan 'Will HIPC Matter: The Debt Game and Donor Behavior in Africa', presented at the WIDER conference on Debt Relief in Helsinki in August 2001 (available at www.wider.unu.edu under debt conference papers) and Nancy Birdsall and John Williamson with Brian Deese 'A Golden Opportunity: From Debt to a New Development Architecture', Center for Global Development/Institute for International Economics (forthcoming).*

*Nancy Birdsall is President of the Center for Global Development in Washington DC, and was the Executive Vice-President of the Inter-American Development Bank from 1993-1998. Brian Deese is a Research Assistant at the Center for Global Development. Further information on CGD can be found at www.cgdev.org.*

# Where do we Stand a Decade After the Collapse of the USSR?

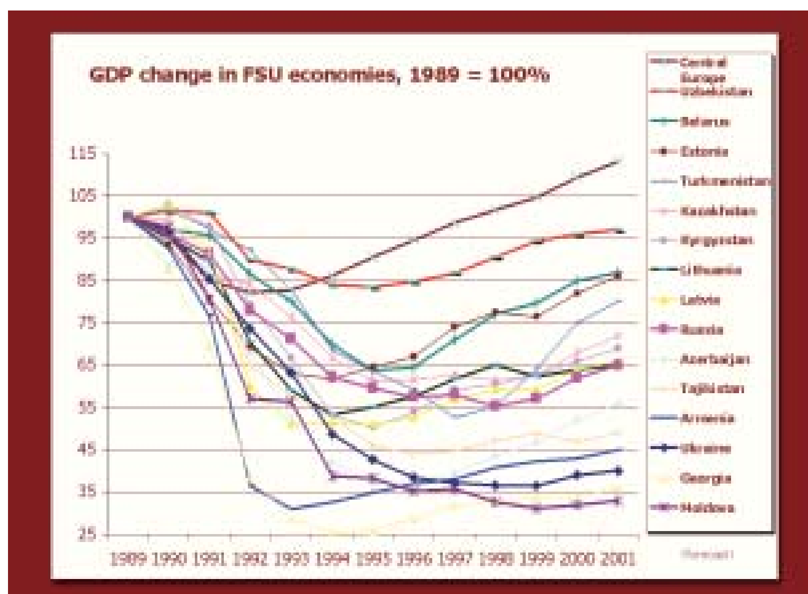
*by Vladimir Popov*

The economic performance of the successor states of the former Soviet Union (FSU) has been disappointing. GDP has fallen by roughly 50 per cent in the FSU from its pre-recession level of 1989 (see Figure). Investment fell by even more. And income inequality has greatly increased—so that most people have seen a real income decline—and life expectancy has dropped sharply (death rates have risen by about 50 per cent).

Russia's GDP fell by 45 per cent over 1989-98 and death rates increased from 1 per cent in the 1980s to 1.5 per cent in 1994. They stayed at this high level thereafter, which is equivalent to over 700,000 additional deaths annually, a population loss that is equivalent to a major war.

In FSU states that were severely affected by conflict (Armenia, Azerbaijan, Georgia, Moldova and Tajikistan), GDP was only 30 to 50 per cent of its pre-transition levels by the late 1990s. Even in the Ukraine (which wasn't affected by military conflict) GDP fell by nearly two-thirds (see Figure).

This output loss is unprecedented in recent history. During the Second World War the national income of the USSR fell by 20 per cent over 1940-42. But national income recovered its 1940 level by 1944 and—despite falling again by 20 per cent over 1944-46 as military industry was converted—it was 20 per cent above its 1940 level by 1948. GDP in Western countries fell by an average of 30 per cent during the Great Depression (1929-33). But by the end of the 1930s it had recovered its pre-recession levels.




## Explaining the Severity of the Output Collapse

Why has the FSU experienced one of history's worst declines in output and living standards? Is the collapse due to initial conditions and circumstances (i.e. predetermined and hardly avoidable)? Or do poor policy choices play a greater role?

Most other transition economies did better that the FSU states. In Eastern Europe, the fall in output continued for 2-4 years and totalled 20 to 30 per cent. But at least Central Europe is now above its pre-transition output level. In China and Vietnam there was no transformational recession at all—on the contrary, economic growth accelerated from the start of reform. Was the exceptional length and depth of the FSU recession inevitable?

There is considerable disagreement about which policies are at fault. Those advocating shock therapy emphasise policy inconsistency: in particular the inability of governments and central banks to fight inflation in the early 1990s. In contrast, supporters of gradual transition blame the attempt to introduce a conventional shock therapy package.

The WIDER book *Transition and Institutions: The Experience of Late Reformers* (edited by G. A. Cornia and V. Popov, OUP 2001) offers an alternative perspective. It argues that the speed of reform *per se* (shock versus gradual transition) did not matter a great deal.

Instead, the depth and length of the recession had three main causes. First, greater distortions in the FSU's industrial structure and external trade patterns on the eve of the transition. Second, the collapse of state and non-state institutions, which occurred in the late 1980s and early 1990s, resulting in crisis management instead of organised and manageable transition. Third, poor economic policies: macroeconomic instability and import substitution, irrespective of whether the reforms were gradual or radical.

## Supply-Side Shock Caused by Correcting Severe Distortions

The FSU recession partly arose from the need to reallocate resources in

order to correct the distortions inherited from the era of central planning: an over-large military sector; overindustrialisation and underdevelopment of the service sector; inefficient trade flows between the former Soviet republics and between the USSR and Comecon countries; and the excessively large size and poor specialisation of industrial enterprises and farms.

These distortions were generally more pronounced in FSU than in Eastern Europe—and more so than in China and Vietnam. The larger the distortions, the greater the reduction of output that was to be expected. The effects are those of an adverse supply shock (like the USSR's post-war recession caused by the conversion of its defence industries or the world recession resulting from the 1973 and 1979 oil price hikes).

## Institutional Collapse Magnified the FSU Output Collapse

Institutional capacity includes the government's ability to enforce rules and regulations, collect taxes, protect property and contract rights, and provide law and order. The failure of FSU states to perform these traditional tasks imposed costs on companies and therefore reduced growth.

To put it differently, the Gorbachev reforms of 1985-91 failed not because they were gradual, but because the state's institutional capacity weakened, undermining its ability to control the transition process. The Yeltsin reforms in Russia, as well as reforms in most other FSU states, were so costly not because of shock therapy, but because of the collapse of the institutions needed to enforce law and order and carry out the manageable transition.

The collapse of the USSR's state institutions that started in the late 1980s (and which continued in the successor states in the 1990s) explains the extreme length, if not the extreme depth, of the FSU's recession. The exceptions—Uzbekistan, Belarus and Estonia—only prove the rule: the share of government spending in GDP in these countries did not decline as much as the FSU average.

Ara Kazandjian

*Many elderly people have been hit hard by economic transition*

In contrast, strong institutions explain much of the success of gradual reforms in China and shock therapy in Vietnam—in both cases strong authoritarian regimes were preserved and the institutions of central planning were not dismantled before the creation of new market institutions. Robust institutions also explain much of the relative success of radical reforms in Eastern Europe, especially in Central European countries (where strong democratic regimes succeeded in creating new market institutions).

## Weak Institutions led to Weak Policies

Given the inability of the state to enforce its regulations, economic policy could hardly be 'good'. Institutional capacity depends not only on the efficiency of the public administration, but also on the existence of a degree of social consensus that enables governments to carry out policies that are opposed by particular interest groups and lobbies. As a result, weak state institutions usually imply import substitution and populist macroeconomic policies (subsidies to non-competitive industries, budget deficits resulting in high indebtedness and/or inflation, together with over-valued exchange rates). These have a devastating impact on output.

In much of the FSU macroeconomic policy was far from prudent: specifically, high inflation in the first half of the 1990s and exchange-rate based stabilization leading to the excessive appreciation of real exchange rates and currency crises in 1998-99. Industrial policies still favour energy intensive industries, thereby hiding (but not resolving) structural inefficiencies. In Russia, domestic fuel and energy prices are only 20 per cent of their world levels. If these prices were allowed to increase to the world level (i.e. if restrictions for oil and gas exports were lifted), then a painful restructuring leading to a recession would result. If they are not increased, energy intensity levels will remain among the highest in the world. Eventually, policy-makers will have to bite the bullet and it will be painful.

Recent years have seen a resumption of growth in the FSU. After the pain of devaluation, the Russian economy grew at 3.2 per cent in 1999, 7.8 per cent in 2000, and hopefully 5 per cent in 2001. But this recent growth must be put in perspective. In 2001 Russia's GDP was still only 65 per cent of its 1989 level (after falling to 55 per cent in 1998). In contrast, China grew at 7 to 8 per

cent between 1997 and 2001 (and by 10 per cent annually over 1989-96), so Russia is falling rapidly behind. China's GDP is now 240 per cent of its 1989 level, demonstrating that transition—if it is well-designed and executed by strong institutions—can yield considerable benefit. This was unfortunately not the case in much of the FSU.

*Vladimir Popov is Head of the Research Section at the Russian Academy of the National Economy in Moscow and Professor of Economics at Carleton University in Ottawa. He is a former WIDER research fellow. Together with Giovanni Andrea Cornia (Professor of Economics at the University of Florence, and a former director of WIDER), he directed the Institute's project on transition, published as 'Transition and Institutions: The Experience of Gradual and Late Reformers' which was presented at a book launch hosted by the New Economics School (NES) in Moscow. Copies of press reports and related material from the launch are available at www.wider.unu.edu.*

The FSU's output loss in the 1990s exceeds that of the USSR in WWII and of Western Countries in the Great Depression of the 1930s

Correcting the distortions associated with central-planning led to a large supply side shock in the FSU

This was magnified by institutional collapse which turned transition into a chaotic process that raised business costs and undermined growth

And weak institutions led to weak macroeconomic and industrial policies that reduced output even further

Russia's output in 2001 was 65 per cent of its 1989 level, whereas China's output is 240 per cent of its 1989 level

Vladimir Filanov/Moscow Times

The editors of *Transition and Institutions: The Experience of Gradual and Late Reformers,* Giovanni Andrea Cornia (left) and Vladimir Popov, present the book to an audience in Moscow on 5 November 2001. The launch was chaired by Tony Shorrocks, Director of WIDER. The book launch was attended by Russian economists, academics, local and international media and government representatives.

WIDER was originally established to study the economies of developing countries. After the start of transition to a market economy in Eastern Europe and the former Soviet Union, WIDER launched research projects into institutional transition, the emergence of small and medium sized enterprises, regulation of the new market economy, transition's social dimensions, and the mortality and demographic crisis in transition countries.

WIDER research publications on transition include:

The Mortality Crisis in Transitional Economies, Edited by Giovanni Andrea Cornia, and Renato Paniccià, WIDER Studies in Development Economics, Oxford University Press, 2000

From Shock to Therapy: The Political Economy of Postsocialist Transformation, by Grzegorz W. Kolodko, WIDER Studies in Development Economics, Oxford University Press, 2000

Democratic Reform and the Position of Women in Transitional Economies, Edited by Valentine M. Moghadam, WIDER Studies in Development Economics, Clarendon Press Oxford, 1994

Post-Communist Reform: Pain and Progress, Olivier Blanchard, Maxim Boycko, Marek Dabrowski, Rudiger Dornbusch, Richard Layard and Andrei Shleifer, WIDER World Economy Group 1992 Report, MIT Press USA, and UNU Press in Japan and South East Asia, 1993

Reform in Eastern Europe, Olivier Blanchard, Rudiger Dornbusch, Paul Krugman, Richard Layard and Lawrence Summers, WIDER World Economy Group 1990 Report, MIT Press, USA, 1991

Please contact the publishers for information on ordering these books.

# New Urgency for International Financial Reform

*by Stephany Griffith-Jones*

The appalling attack on September 11th has moved the US administration towards seeking multilateral solutions in the fight against terrorism, which is now seen as a global problem. Similarly, the US administration has—after the terrorist attacks—started to move more in a multilateral direction in the economic field; this is reflected for example, in the new commitment to constrain tax havens, as well as improve their regulation. The US and others are also now far more committed to launching a new trade round, which is seen as essential to restoring growth and confidence.

This new attitude is to be welcomed. However, further steps on the road to better global economic governance are urgently needed, especially at a time when there is a serious threat of a marked slowdown in the world economy, with particularly negative effects for the poor and vulnerable.

In important fields like trade and international finance, global institutions—such as the WTO, the IMF and the World Bank—are already in place, providing some basis for global co-operation. These institutions need to be strengthened, and they need significant adaption if they are to meet the new challenges of the 21st Century. And they need to be made far more inclusive, to better represent the voices and interests of developing countries with the majority of the world's population.

## Capital Flows to Developing Countries

One part of the international economy where important fault lines have been opening up is in the international financial system. In the first half of the 1990s, private flows to developing countries grew very rapidly. This offered the hope that private flows would increasingly replace official flows, and help support speedier growth in developing countries, by complementing domestic savings and bringing in know-how.

Unfortunately, only foreign direct investment (FDI) has contributed to fulfilling that promise, although recent UNCTAD estimates (calculated before September 11th) predict a six per cent fall in FDI flows to developing countries this year. All other private flows—bank loans and equity flows—initially boomed, but were shown to be volatile, sparking off crises that were costly to development. Moreover, all private capital flows to developing countries are heavily concentrated in a few larger and usually richer ones.

Francis Dobbs/World Bank

*Argentina's debt crisis has disrupted the banking system*

Perhaps most worrying, non-FDI flows to developing countries have fallen significantly since the Asian crisis in 1997, and have remained negative (on a net basis), as risk perceptions of lending to—or investing in—developing countries rose significantly, whilst expected returns declined. Projections by the Institute of International Finance, made shortly after the terrorist attacks in the United States, point to a sharp fall of around 37 per cent in net private capital flows to developing countries this year, reflecting deepening problems in the world economy and a further increase in risk aversion.

The need for important changes to the international financial system has been clear for several years, during which they have been much discussed. Recent tragic events just make them far more urgent, given the increased risk of a global economic slowdown. Hopefully the new commitment to global co-operation will now increase their political feasibility.

## Ways Forward

First, imaginative measures are urgently needed to encourage a return of sufficient private flows to developing countries, especially of a more stable type. To help catalyse private flows, creation or better use of guarantee and co-financing mechanisms by multilateral banks can play a valuable role. The virtue of such mechanisms, if well designed, is that they can provide leverage in the use of official resources.

Second, measures that could further inhibit private flows to developing countries need to be rapidly revised. An important example is the proposed changes to the Basle Capital Accord. Although they have several positive features, there are serious concerns that measures such as the introduction of the internal ratings based approach could (as currently conceived) further and significantly discourage international bank lending to developing countries, and could further increase the pro-cyclical nature of any remaining lending as well as its cost. This could be very negative for

| Net Private Capital Flows to Emerging Market Economies 1998-2001 US$ Billion | | | | |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001f |
| Total | 143.3 | 141.2 | 166.7 | 106.1 |
| Foreign Direct Investment | 120.7 | 147.6 | 130.2 | 124.4 |
| Portfolio equity | 13.6 | 15.5 | 16.3 | 3.8 |
| Bank lending | -54.7 | -47.5 | -5.8 | -22.5 |
| Non-bank credit | 63.6 | 25.6 | 26.1 | 0.4 |

Source: Institute of International Finance, September 2001. Note: f forecast.

developing countries' growth prospects.

Fortunately, the Basle Committee is revising the current proposals. It is important that the revisions include changes that reduce, or hopefully eliminate, the excessive bias against bank lending to developing countries. Reducing the incentive towards pro-cyclical lending, which is harmful to both developed and developing countries, is also important.

Third, it seems important to ensure that sufficient official liquidity is available to developing countries, when private liquidity temporarily falls, especially when external shocks (such as a slowdown of the world economy) hit such countries. This would require a continued willingness for the IMF to supply large loans to countries in crisis, as well as some adaptation of IMF facilities, to make such loans more flexible and larger when required.

An improvement of the Contingency Credit Line (CCL) of the IMF could facilitate speedier and more automatic disbursement of IMF loans to all countries following very good policies but hit by capital account crises caused by contagion. For countries heavily dependent on commodity exports, especially heavily indebted poor ones, better IMF mechanisms should exist to provide automatic temporary liquidity, when their terms of trade deteriorate.

An expansion of IMF loans of the levels required, either through existing or new mechanisms, may require additional resources. Such resources could be provided by temporary issues of Special Drawing Rights (SDRs) to be used in times of severe economic problems, either globally or within a large part of the developing world. When the situation improved, these loans could be paid back. Such a temporary and self-liquidating issue of liquidity would help sustain growth, but would not pose the risk of creating inflationary pressure when economies recovered.

Indeed, recent events have shown the importance of preparedness for exceptional and unforeseen circumstances, such as the possible rapid slowdown of the world economy. It is important that mechanisms exist to allow rapid and appropriate responses to such changes, and that such mechanisms also help protect developing countries, and especially poor people, from unforeseen events. Measures that help encourage higher and more sustained growth in the developing world would help give greater dynamism to developed country economies.

*Stephany Griffith-Jones is a Professor at the Institute of Development Studies (IDS), Sussex University. Professor Griffith-Jones is, together with Ricardo Ffrench-Davis (UN Economic Commission for Latin America and the Caribbean), co-directing the WIDER project on 'Capital Flows to Developing Countries since the Asian Crisis: How to Manage their Volatility'. Further information on this project can be found at www.wider.unu.edu. The IDS Web site is www.ids.ac.uk, and ECLAC's Web site is www.eclac.org.*

Global institutions in trade and finance need to be far more inclusive, to better represent the voices and interests of developing countries

Private flows to developing countries are falling, and existing private flows are heavily concentrated on a few developing countries, usually the larger and richer ones

Encourage more private capital flows by strengthening the guarantee and co-financing mechanisms of the multilateral banks

Rapidly revise measures that inhibit private capital flows to developing countries, and take another look at the proposed changes to the Basle Capital Accord

Ensure that sufficient official liquidity is available to developing countries when private liquidity temporarily falls

# Institutional Capabilities and Reform Ownership in Africa

*by Steve Kayizzi-Mugerwa*

There is not a single African government that has not attempted public sector reform, including retrenchment, in the past decade. Decentralization is back on the agenda: governments no longer see themselves as sole suppliers of social services, and now frequently opt for partnerships with the private sector. Efficiency and choice have entered the language of the planning and implementation units of Africa's line ministries, and privatization is no longer the controversial subject it was a decade ago. The civil service is itself at a crossroads: the old ways of doing government business are now clearly inadequate, while upgrading the skills of the 'new' civil service is only just beginning. However, in spite of the recent and related moves towards democracy, African leaderships have been more willing to open up economies than political systems.

## Are Reforms Owned?

The issues addressed in the WIDER project 'Institutional Capabilities, Reform Ownership and Development in Sub-Saharan Africa' include the extent to which reforms undertaken in Sub-Saharan Africa (SSA) in recent years have enhanced institutional capabilities across the breadth of government. To what extent have the reforms been 'owned'? In other words how have donor-recipient relationships evolved? Can ownership and financial dependency coexist? The project also looks specifically at the impact of public sector reforms on economic development in SSA.

Looking at the evolution of public sector reforms in the past decade, it is relatively easy, with the benefit of hindsight, to criticise African governments for poor implementation strategies and for lack of commitment. However, in light of the nature of the reform tasks, African countries were probably more overwhelmed than uncommitted. Thus while the failure of reforms to improve policy implementation and generate growth has been blamed on the intransigence of African governments, the donor community shares some of the blame. Both sides clearly underestimated the serious lack of capacities in individual countries as well as the time required for completing the reform process.

Another problem relates to external financing and its implications for 'ownership'. Donor assistance has been a precondition for the success of public sector reforms in Africa. Many of the interventions, including retrenchment of the civil service, creating agencies for revenue collection, privatisation and utility regulation, have been very capital and skill intensive and few governments would have been able to undertake them without external support. However, financial dependency and domestic ownership are not compatible. Few countries can establish real 'ownership' when donors finance the bulk of their budgets (as in Mozambique for example).

Kari Rissa

*The livelihoods of Africa's people depend upon better institutions*

## Broad Participation and Democratization are also Important for Ownership

The idea that populations must be involved in the formulation of policies that affect them is very attractive. This in turn demands the devolution of power to increase the proximity of local populations to policymakers and to make it possible for citizens to monitor the performance of their leaders. However, mere proximity is not enough. Local democracy must be encouraged in order to strengthen local governments in their dealings with the centre. On the other hand, central governments must also learn when to let go. Many have held onto the purse strings claiming that this is the only way of ensuring accountability at the local level. Decentralization without local responsibility, including over finances, is bound to fail (see Table on decentralization in Uganda).

The above issues also relate to those of transparency and accountability. The lack of both has been blamed on poor remuneration in the civil services. However, since corruption continues to be a problem even in

the new agencies where wages and other benefits are far superior to those in the normal public sector, the causes of corruption are much more deep seated. Financial controls within the public sector remain weak. For example, the security sector continues to be a financial black hole in many countries. Although it claims substantial budgetary resources, military spending is often not subject to official auditing procedures. Parliamentary committees for public expenditure are often ineffective while the offices of the auditors general are poorly funded in many African countries.

## Rule of Law is Crucial

But perhaps more serious is the lack of a relevant body of law to ensure that corrupt officials are punished in a manner bound to be a deterrent. It is not surprising to find cases of corrupt officers punished under statutes from the 1960s. Thus besides the modernization of the financial and accounting systems, and raising the technical capacities for budgeting and financial analysis, the upgrading of laws relating to public sector functions will also be necessary. Second, governments have weak budgeting systems. In recent years, some attempts have been made to relate budgeting procedures to programme targets. Much hope currently rests on the donor supported medium term expenditure framework (MTEF), which it is believed will help countries to target their resources to poverty reduction. But this is a daunting agenda, nevertheless.

The current state of African institutions is thus conflict-ridden and predictions about the future must be guarded. The irony for Africa is that countries that seem to be making progress in their reforms are not necessarily those that were well endowed in earlier decades or those that had a capitalist base (for example Nigeria, Angola, Kenya and Zimbabwe). It is often countries that suffered serious setbacks in earlier decades, caused by civil war and natural catastrophes, that have made the most impressive institutional and economic turn-arounds (for example Uganda, Ghana and Rwanda).

Ultimately, successful reform demands strong political leadership. However, where influential bureaucrats remain largely indifferent or even cynical, reforms will make little headway. Examples of successful institutional reforms are characterized by enthusiasm across the board and not just at the top.

*Steve Kayizzi-Mugerwa is a WIDER research fellow and the project director for the WIDER project on 'Institutional Capabilities, Reform Ownership and Development in Sub-Saharan Africa'. He is an associate professor in development economics at Gothenburg University, Sweden, and has also worked at the African Development Bank in Abidjan, Côte d'Ivoire.*

**Table: Decentralization in Uganda**

| Goals | Policy innovations | Comments on outcomes |
|---|---|---|
| 1. Incorporate local people in the management of their own affairs. | Identify local problems and find solutions to be implemented by locally elected organs. | Raising local peoples' interest in the management of their affairs is probably the strongest outcome of the decentralization effort in Uganda. |
| 2. Democratization of the decision-making process. | Elect local leaders instead of having them appointed by central government. | Local level democracy is taking longer to take hold, probably for lack of precedent. Many chair-persons are said to be 'dictatorships' who are difficult to remove. |
| 3. Mobilization of local resources. | Make budgets and prioritise expenditure according to needs at the local level. | Few local governments are financially independent from the centre and continue to be beholden to government. |
| 4. Reduce costs for service delivery. | Improve social infrastructure and expand social service provision in the countryside. | Scarcity of resources makes the undertaking of extensive infrastructure and social service provisions difficult. |
| 5. Raise efficiency and accountability at the local level. | Enhance human resources by appointing professional staff to run local services. | The quality of staff recruit-ment at the local level is improving, although lack of resources implies that many positions are not filled. |

Source: Moses Golola 'Decentralization, Local Bureaucracies and Service Delivery in Uganda' *WIDER Discussion Paper* 2001/115.

By Invitation

# Aid and Global Governance

*by Rolph van der Hoeven*

Discussion of aid, both its level and effectiveness, overwhelmingly focuses on issues of national economic management. This is the approach taken, for example, in the World Bank's major 1998 report, *Assessing Aid*. But aid cannot be seen in isolation from the issue of global governance: the efforts of poor countries to develop, and therefore the effectiveness of aid to them, can often be undermined by global events over which they have little control.

We need a new system of global governance, and a new role for aid. That system must be able to deal effectively with development in general, global economic shocks and natural disasters. It can also be the basis for redistribution at a global level.

## Aid is Too Limited, Too Inflexible, and Too Bureaucratic

Less Developed Countries (LDCs), especially the smaller countries exporting mainly primary products, are often buffeted by negative external shocks. This frequently takes the form of a sharp fall in the world price of a key export. But the amount of development aid is small when compared to the negative effects of external shocks. For example, the Asian financial crisis of 1998 caused a 15 per cent fall in the producer prices of primary products. Together with a fall in the demand for LDC exports, and a contraction in capital flows, this led to a fall of 3-4 per cent in their GDP in 1998. This is substantially larger than the percentage of aid to GDP provided, which for all developing countries was less than 1 per cent according to OECD data. Only countries in Africa and some in Central America and Asia have a higher percentage of aid to GDP than 3-4 per cent.

Moreover, aid shows considerable year-on-year fluctuation. Many studies have demonstrated that aid flows are often pro-cyclical instead of anti-cyclical, the result of conditionality and donor inertia. Thus aid inflows often fall when public revenues decline during negative trade shocks, thereby aggravating the resulting decline in public spending rather than helping to maintain its pre-shock level.

Kari Rissa

*The global economy ignores many of the world's poorest people*

Finally, in countries with larger aid inflows (over 5 per cent of GDP), the process of managing the aid inflicts significant co-ordination costs on recipient governments, who must commit considerable amounts of scarce administrative resources to meeting the multiplicity of demands (often conflicting) of bilateral and multilateral donors. This gives rise to a paradox: aid is neither sufficient nor timely enough to cope with external shocks, but when it is available it adds another layer of bureaucracy to the decision making process of LDC governments.

## Towards a New System of Global Governance

Better global economic governance is needed to reduce the volatility of the world economy and to protect LDCs. This will increase the effectiveness of domestic reform.

But proposals for change have been too timid. The report in 2000 of the US congressional commission led by Professor Alan Meltzer is a case in point. A world financial authority is a better way forward. This would help to co-ordinate global growth and so reduce the frequency and size of shocks. It would provide the framework for a flow of increased concessional finance to LDCs, in which flows needed to compensate for economic and natural shocks are clearly distinguished from flows to build capacity for growth, poverty reduction, and human development.

But better global governance is not just needed to minimize shocks and their effects. It is urgently needed to reduce social tensions. The current global policy framework is based on two often contradictory principles. First, the existence (or the potential) of a national welfare state (including national redistribution) and, second, an international system of increasingly free trade and free capital flows. The latter unduly circumscribes choices in the former, and is increasingly reducing the power of the nation state to engage in pro-poor redistribution.

This is leading to a crisis in political participation: people feel that they

have increasingly little influence on national agendas—which seem to be overwhelmed by globalization—and virtually none over the international agenda. The protests and criticisms of international organizations reflect this. On the one hand they are criticized for doing too much and for destroying local participation and, on the other hand, for doing too little to reduce child labour and the influence of multinational enterprises on domestic policies.

## Towards Global Redistribution

Better global governance is needed to effectively implement an agenda of global redistribution (thus complementing the redistributions that take place within national boundaries). For, as Nobel Laureate Jan Tinbergen emphasized in his last writings: 'Redistribution is the core political issue of the 20th century'.

This brings us back to aid. Raising and distributing resources globally needs a better framework than the current one of voluntary pledges, be it bilateral development budgets or pledges to international development agencies. Instead, they should be collected as part of an international taxation scheme, which should include taxation of capital movements, air transport, Internet use, etc.

This new framework should also explicitly recognize the right of the individual to development, which includes labour rights and freedom from want. This acknowledgement would be a cornerstone of a rights-based system of international co-operation, which includes the right to a social minimum. At present most discussions on such rights take place in isolation, making it difficult to achieve complementarities and iron out inconsistencies. Including these agendas into a process for achieving a global framework would do much to move the issues forward.

This is also a better way to proceed than attempting to enforce the rights of the individual by putting more conditionality onto aid, or applying selectivity in the allocation of aid across countries—two arguments that are often made. Rather, under a global governance framework, national development pacts with respect to human and labour rights would be negotiated in consultation between national governments and national groups. The latter could then hold their governments both nationally, as well as internationally, accountable for the delivery of the national development pacts.

> 'Better global governance is critical to achieving global redistribution'

This would guide aid policy and, critically, provide the foundation for better institutions, the lack of which so often undermine aid effectiveness (a case in point being the limited success, and often outright failure, of aid to Africa in support of structural adjustment in the 1980s and 1990s). It would also, as Ademolo Oyejide and Gerry Helleiner have argued, provide for a system of *equal partners* in which consultation, rather than coercion, is the basis of the relationship between aid agencies and national governments.

## Monitoring Inequality for Better Global Governance

Global governance cannot be built if gross inequalities, both national and international, persist. These will tear any institutional structures apart. Accordingly, national development pacts must pay close attention to inequality, which means monitoring the global and national gaps between rich and poor.

And to ensure that the reduction in poverty and inequality is rapid, bilateral donors should provide budgetary support to help the implementation of national development pacts once they are agreed upon. Such a procedure would return the spending authority, control, and accountability to the recipient country and diminish current donor practices that often undermine national decision-making processes. A monitoring system independent of donors is necessary to deal with instances when the development pact is unfulfilled, or even violated. A model for such a system is American aid to Europe under the Marshall Plan after the Second World War, which was monitored by European countries themselves.

At the same time, there needs to be a general shift from many bilateral interventions to a more global and unified system of transferring resources to LDCs. Only in this way can large amounts of resources be speedily deployed to deal with the impact of adverse global shocks, as well as natural shocks, on vulnerable and poor countries. This calls for an improved set of global and regional institutions as lenders of last resort. These will complement ongoing and longer term efforts to create better (and more consultative) institutions for macroeconomic policy making, human development, and investment in basic infrastructure.

*Rolph van der Hoeven is Chief of the Macroeconomic and Development Policy Group, Employment Strategy Department, at the International Labour Organization, Geneva. The ILO Web site is www.ilo.org. Papers on issues of global governance can also be found on the WIDER Web site at www.wider.unu.edu.*

# The Evolving Diversity of Enterprise Ownership and Governance

*by Laixiang Sun*

There is a widespread belief that the only efficient ownership structure for a market economy is one in which firms are owned by private investors and that the existence of well-defined personalized property rights is a basic precondition for the proper functioning of a market economy. This perspective is based on the view that the placement of property under the exclusive control of private owners makes them liable for the consequences of bad decisions, but entitled to the rewards of good ones, and thus more willing to motivate managers and workers.

## Searching for a New Paradigm

However, in reality there has been a rich diversity in ownership structures even in those bastions of the free market economy, the United States and Western Europe. In the developed world, employee-owned firms have been widespread in the service professions including law, accounting, investment banking and medicine. Employee stock ownership is also spreading in the industrial sector. Institutional investors have become the dominant shareholders of large publicly traded corporations. Farmer-owned producer co-operatives dominate the markets for basic agricultural products. Mutual companies owned by their policyholders sell half of all life insurance and a quarter of all property and liability insurance in the developed world.

These facts indicate that the conventional perspective on the ownership issue is descriptively narrow. The claim that private investors should own the firm is not the logical consequence of free markets and free enterprise. We need to examine the emergence of unconventional enterprise ownership and governance structures across economies, and search for a new paradigm on the ownership and governance of firms. WIDER's research project 'Property Rights Regimes, Microeconomic Incentives and Development' addresses these concerns and seeks to advance the debate.

Following this perspective, we can say that in a traditional capital-intensive and vertically integrated enterprise, highly specialized inanimate assets—ranging from plant and machinery to world famous brand names—represent the most critical resource for future growth.

Curt Carnemark/World Bank

*Enterprise ownership takes many forms: microentrepreneur in China*

## Existing Assets versus Growth Opportunities

Provided that it has opportunities to grow, an enterprise should focus on cost minimization, that is minimizing the sum of all costs including organization costs and transaction costs. This leaves open the important question of how, at the firm's inception, the enterprise should attach growth opportunities to the assets it has. Moreover, from a dynamic perspective, the key to success is to build a web of specific investments around one or more critical resources that are most closely linked to the best growth opportunities. This suggests that the role of the ownership and governance system is to ensure that the power to make decisions is allocated to the people with the best opportunities.

The human capital of employees is largely tied to these assets and outside opportunities for this highly specific human capital are rare. The boundaries of this type of enterprise are clear-cut and represented by the ownership of its unique assets.

## Joint Ownership in Silicon Valley

In modern human-capital-intensive firms like those in Silicon Valley, the critical resource for future growth lies with the trinity consisting of the entrepreneur's professional human capital, the firm's inanimate assets, and a web of information encapsulation and sharing arrangements. As a consequence their property rights arrangements have complex elements of 'joint-ownership' with the provision of

bilateral option rights. That is, a cluster of the venture capitalists (VCs) have the rights to exercise an exit option against the entrepreneurs' interest in bad times (liquidation rights); and the entrepreneurs' rights to the issued options are vested contingent on subsequent performance. In terms of control rights, there is typically a shifting arrangement across their components. If the firm performs poorly, the VCs obtain full control. As the firm's performance improves, the entrepreneur retains/obtains more control rights. If the firm performs very well, the VCs retain their cash flow rights, but relinquish most of their control and liquidation rights.

## Adaptive Efficiency in Transition Economies

In reforming state-owned enterprises (SOEs) and township-village enterprises (TVEs) in a transition economy such as China, the critical resource for future growth lies not only with existing assets and the human capital of entrepreneurs, but also with the web of inter-organizational relationships (Guanxi). This web of relationships represents the firm's organizational and social capital. It is capable of mobilizing scarce resources from more than one existing channel, supplying an elastic contract mechanism to facilitate continuity and efficient adaptation, and thereby reducing uncertainty. This web has been closely tied to the government system and in the early stage of the Chinese reforms it was fully embedded within the old universal government system. That is the reason why joint-ownership in China has involved local government as one of the key partners. The crucial question arising here is: can this web be used to facilitate market development in general, and to set up new bases for the emergence of new market organizations and institutions in particular? Recent development suggests that, on balance, the answer is 'yes'.

For an enterprise to be dynamically efficient, its organizational structure (mainly ownership and governance) must be adaptively efficient. It must be able and willing to find new and creative solutions in order to overcome shortages of resources and other social/economic bottlenecks. If one path does not work, it must be able and willing to initiate organizational responses to try new paths until successful outcomes are achieved. Similarly, for an economy to be dynamically efficient its institutions must be adaptively efficient. Adaptively efficient social institutions are capable of providing economic and political flexibility for organisations and people to adapt to new opportunities. They must provide incentives for the acquisition of knowledge and learning, induce innovation, and encourage risk taking and creative activities. They must also encourage experiment and eliminate errors in a world of uncertainty, where no one knows the correct solution to the problems we confront. In brief, transition economies need transitional institutional arrangements that are adaptively efficient. In this light, the transition process could be quite long.

> The conventional perspective on property rights and ownership is too narrow
>
> The key to enterprise success is to build a web of specific investments around one or more critical resources that are most closely tied with the best growth opportunities
>
> Joint-ownership aims to mobilise scarce resources from more than one existing channel, supplying an elastic contract mechanism to facilitate continuity and efficient adaptation, and thereby reduce uncertainty
>
> Most Adaptively efficient organisational structures evolve from progress in know-how, economizing behaviour in adaptation to changes, and mutually reinforcing choices

*Laixiang Sun is a WIDER research fellow and director of the research project 'Property Rights Regimes, Microeconomic Incentives and Development'. He is also affiliated with the Centre for Financial and Management Studies (CeFiMS, School of Oriental and African Studies) at the University of London, the International Institute for Applied Systems Analysis (IIASA) in Laxenburg, Austria, and the Guanghua School of Management at Peking University in Beijing, China.*

## Selected Papers from the Project

Understanding the Silicon Valley Phenomena, by Masahiko Aoki and Hirokazu Takizawa (WIDER Discussion Paper 2002/11)

Institutional Investors, Corporate Ownership, and Corporate Governance: Global Perspectives, by Stuart L. Gillan and Laura T. Starks (WIDER Discussion Paper 2002/09)

Sharing Ownership via Employee Stock Ownership, by James C. Sesil, Douglas L. Kruse and Joseph R. Blasi (WIDER Discussion Paper 2001/25)

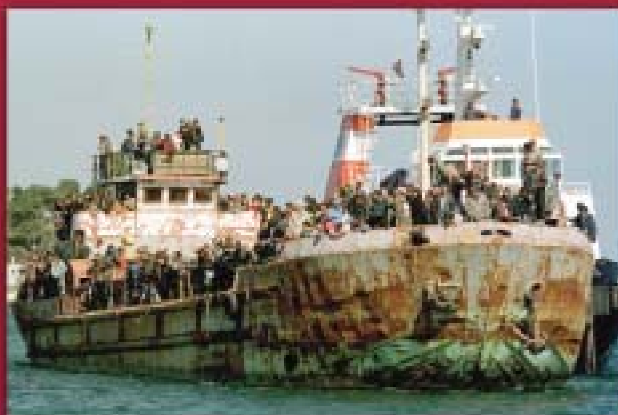
The Pattern and Valuation Effects of Corporate Diversification: A Comparison of the United States, Japan, and Other East Asian Economies, by Stijn Claessens, Simeon Djankov, Joseph Fan, and Larry Lang (WIDER Discussion Paper 2001/127)

Blooming Together or Wilting Alone? Network Externality and the Mondragón and La Lega Cooperative Networks, by Stephen C. Smith (WIDER Discussion Paper 2001/27)

These and other project papers are available on the Web site at: www.wider.unu.edu

WIDER Conference on

# Poverty, International Migration and Asylum

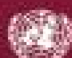


In recent years, substantial numbers of people have migrated—or sought to migrate—from regions that are afflicted by poverty and insecurity to more prosperous and stable parts of the world. By the year 2000, the United Nations estimated that about 140 million persons—or roughly two per cent of the world's population—resided in a country where they were not born.

Such population flows, involving increasingly tortuous and dangerous long-distance journeys, have been both prompted and facilitated by a variety of factors associated with the process of globalization: a growing disparity in the level of human security to be found in different parts of the world; improved transportation, communications and information technology systems; the expansion of transnational social networks, and: the emergence of a commercial (and sometimes criminal) industry devoted to smuggling people across international borders.

The conference will focus on two major themes: the economic consequences of immigration, and issues associated with asylum migration. It will seek to expand the focus of existing studies on the economic consequences of legal and illegal immigration to host countries and to source countries, to place the economic study of immigration in a global context, and seek to enhance our understanding of those migratory movements that are undertaken for the purpose, or with the consequence of, seeking asylum in another state.

**Helsinki, Finland, 27-28 September 2002**



The United Nations University

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# WIDER Publications

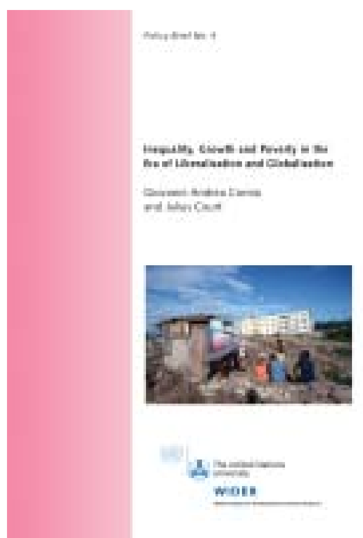
## *New Titles*

### WIDER Discussion Papers

Launched in May 2001, WIDER Discussion Papers (issn 1609-5775) are available from www.wider.unu.edu. All titles are listed and are available in PDF to be downloaded, and a total of 147 papers were published in 2001. If you are unable to access the Web site and would like a full list of the Discussion Papers please contact us; see Ordering WIDER publications. Printed copies are mailed to libraries in developing countries and regions that do not yet have generally good Internet access. Printed copies are also produced and mailed on request.

### Series Publications

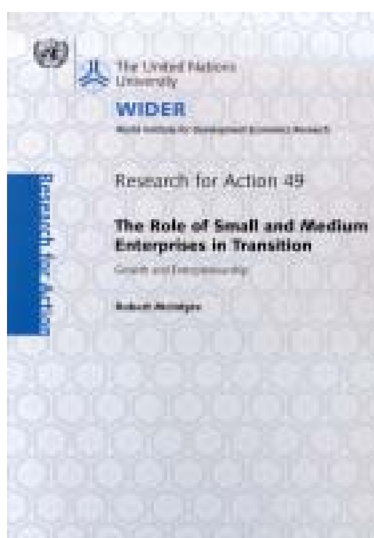
**Policy Brief 4** Inequality, Growth and Poverty in the Era of Liberalization and Globalization by Giovanni Andrea Cornia and Julius Court, November 2001



This publication is a policy-focused brief drawing on WIDER's research project 'Rising Income Inequality and Poverty Reduction: Are They Compatible?', jointly sponsored by WIDER and the United Nations Development Programme (UNDP), and directed by Giovanni Andrea Cornia.

The Policy Brief reports the main findings of the WIDER study on changes in within-country income inequality over the last two decades and on the links between poverty, inequality and growth. It focuses on inequality at the national level, i.e. the distribution of income among people within a country. As part of the project, WIDER compiled the World Income Inequality Database (WIID)—the most extensive database on inequality trends within countries (see page 20).

**Research for Action 49** The Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship by Robert J. McIntyre, December 2001

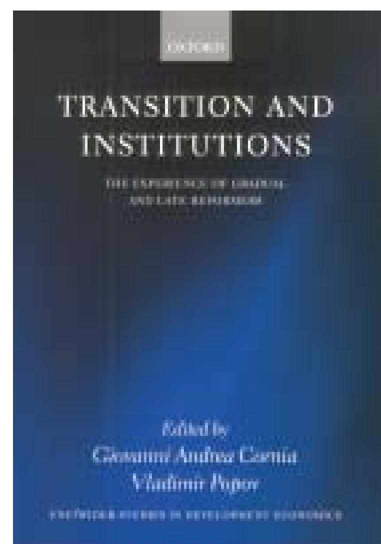



Although the RFA series is now discontinued, this study completes the in-house publications from the WIDER project 'Transition from Below: The Role of the New Private Sector', and is available in both PDF from the Web site and printed copy upon request from WIDER.

### Books

*Transition and Institutions: The Experience of Gradual and Late Reformers*

Edited by Giovanni Andrea Cornia and Vladimir Popov

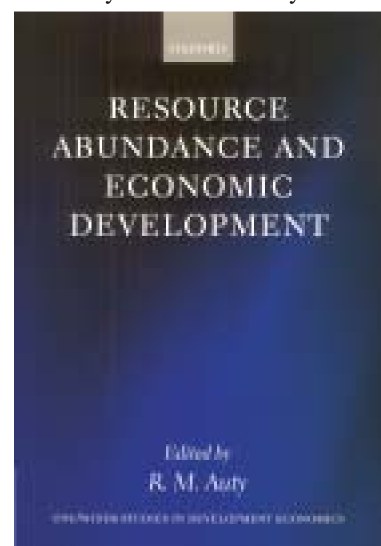



WIDER Studies in Development Economics, Oxford University Press, July 2001

This volume reviews the often-neglected role of initial structural and institutional conditions and their subsequent development during the course of transition. Focusing on China, Russia, Central Asia and Vietnam it also covers economies such as Cuba and North Korea which are in the very early phases of the reform process.

*Resource Abundance and Economic Development*

Edited by Richard M. Auty

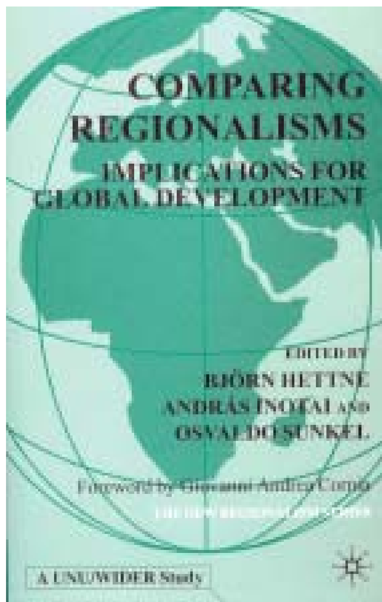


WIDER Studies in Development Economics, Oxford University Press, July 2001

Explaining the disappointing performance of resource-abundant countries by extending the growth accounting framework to include natural and social capital, this collection draws upon historical analysis and models to show that a growth collapse is not the inevitable outcome of resource abundance and that policy counts.

*Comparing Regionalisms: Implications for Global Development*

Edited by Björn Hettne, András Inotai and Osvaldo Sunkel

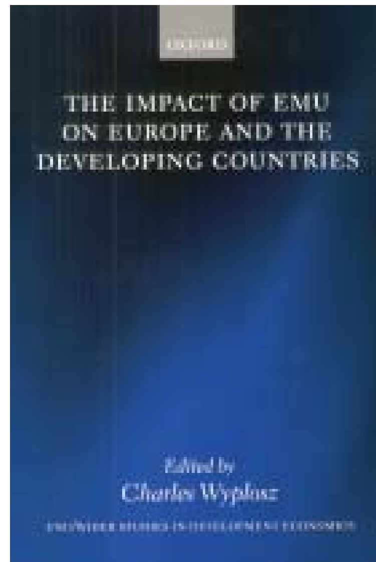



The New Regionalism Series, volume 5, Palgrave, November 2001

This summarizes WIDER's international research project on the formation of world regions, and what implications this process will have for the future world order, particularly as far as the issues of peace and development are concerned. This last volume in a series of five focuses on comparative research, covering all important regions of the world.

*The Impact of EMU on Europe and the Developing Countries*

Edited by Charles Wyplosz




WIDER Studies in Development Economics, Oxford University Press, November 2001

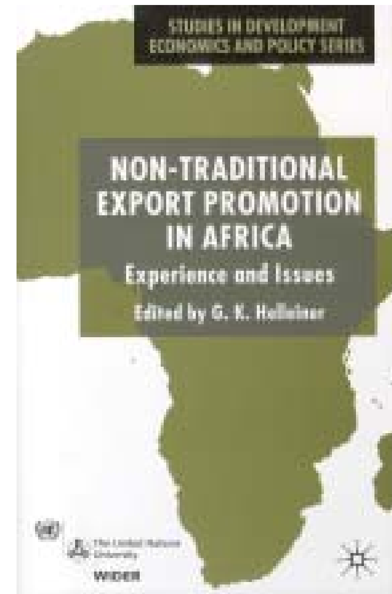
Now that EMU is here, the 'second generation' of research is under way. This volume presents a significant sample of that research and explores questions such as: How do central bankers who used to run their own banks now co-operate in the European Central Bank? Are labour markets going to shape up? Is the euro becoming a world currency?

*Non-Traditional Export Promotion in Africa: Experience and Issues*

Edited by Gerald K. Helleiner

Studies in Development Economics and Policy, Palgrave, December 2001

The volume contains original essays by authors who have worked together to derive lessons for African export prospects from the experiences of some of the more successful developing countries in East Asia and Latin America. They present up-to-date data and analysis on non-traditional exporting experience, problems and prospects in a sample of seven Sub-Saharan African countries.




## Forthcoming Books

*The Prevention of Humanitarian Emergencies*

Edited by E. Wayne Nafziger and Raimo Väyrynen

Studies in Development Economics and Policy, Palgrave, February 2002

Since the end of the cold war, civil wars and state violence have escalated, resulting in thousands of deaths. This book provides a toolbox for donors, international agencies, and developing countries to prevent humanitarian emergencies. The emphasis is on long-term development policies rather than on mediation or reconstruction after conflict ensues. Policies include democratization, reforming institutions, strengthening civil society, improving the state's administrative capability, agrarian reform, accelerating economic growth through stabilization and adjustment, reducing inequalities, and redesigning aid to promote stability.

*War, Hunger, and Displacement: The Origins of Humanitarian Emergencies,* volumes 1 & 2, edited by E. Wayne Nafziger, Frances Stewart and Raimo Väyrynen were published by OUP in 1999.

*Poverty, Income Distribution and Well-Being in Asia during the Transition*

Edited by Lu Aiguo and Manuel F. Montes

Studies in Development Economics and Policy, Palgrave, May 2002

The Asian road to the market has generally been seen as a model of success and the object of widespread admiration. This volume evaluates the actual experience and debunks some of the most widespread myths. It does so by identifying the link between alternative transition models, public policies and household responses on the one hand, and key welfare changes on the other. Even in countries experiencing sustained growth, there have been unmistakable signs of deep social strain.

## WIDER Inequality and Poverty Databases

*by Almas Heshmati and Maiju Perälä*

The World Income Inequality Database (WIID), launched in 2000, has been a much used and helpful tool for both policy-makers and researchers. WIDER is now updating the WIID, and is working on a new World Poverty Database (WPD) as well.

The WIID is the most extensive and up-to-date source for income distribution statistics across countries. At present the WIID has 15,208 observations on 151 countries. We are presently contacting national statistical offices and researchers for additional data to update the WIID, and further data and suggestions are very welcome.

WIDER also intends to create a World Poverty Database (WPD) to make available poverty data at the country level, in an easily accessed format similar to the WIID. The aim is to improve policy-makers' and researchers' access to data for monitoring poverty trends and for designing poverty-reduction strategies. We are asking individuals, research teams, and statistical agencies to help in the creation of the WPD by providing us with their databases together with ideas or information on locating data sources.

Please forward your information, comments and questions on the World Income Inequality Database to wiid@wider.unu.edu and on the World Poverty Database to wpd@wider.unu.edu.

The WIID can be downloaded in various formats with the accompanying documentation from two different Internet sites:
WIDER (www.wider.unu.edu/wiid/wiid.htm)
UNDP (www.undp.org/poverty/initiatives/wider/wiid.htm).

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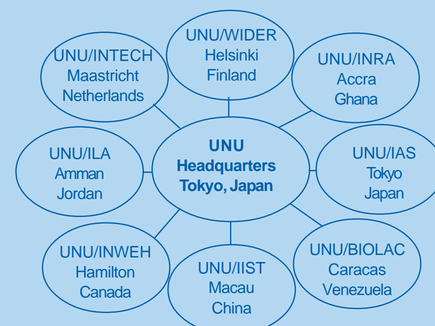


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