issue 26 October/November 2011

THE BROKER

Rebuilding fragile states

Changing the rules of the game

CHINA: Probing new prospects ★ EUROPE: The public goods conundrum ★ The Arab street revisited ★ The woes of budget support ★ Cheap money

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THE BROKER

***The Broker*, issue 26 October/November 2011**

The Broker offers knowledge of global development issues. *The Broker* aims to contribute to evidence-based policy making and action by encouraging exchanges between knowledge producers and development professionals. *The Broker* will be a reliable source of information for all those concerned with development and globalization, especially in the fields of economics, human security, governance, and science and technology.

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Support *The Broker*

The Broker is alive and kicking. Its editors and publisher have done their utmost to keep it this way. Our quality articles have won us readers all over the world. Thanks to *The Broker's* imaginative use of the web, its readers and writers are building a knowledge network that supports public debates about global issues.

Yet the support for global cooperation that is needed to deal with these issues is dwindling. Budgets for international cooperation are being cut in countries that previously advocated global solutions. The Netherlands is a case in point. Having demonstrated its commitment to international cooperation for years, the Dutch government has now decided to revise this commitment. Many programmes are facing financial hardship as a result, and *The Broker* should commend itself for its unflagging effort and thank its readers for their continued support.

International Development Publications, the magazine's publisher, also wishes to thank our donors for their support. The indicated cuts forced us to look for other means of funding in association with partners. But it became increasingly clear during the summer of 2011 that we were not going to find adequate support to continue operations. We therefore decided to temporarily suspend the publication of our magazine.

Thanks to the exceptional support of the Dutch government and our partner NWO-WOTRO Science for Global Development, and in collaboration with other Dutch partners, such as NCDO, Hivos, Cordaid, Oxfam Novib and ECDPM, we have been able to create a window for drawing up new funding plans for the years 2012–2016. This means that we could revoke the suspension of activities, and we hope to continue publishing the magazine as before in 2012. We also intend to strengthen our web presence with thought-provoking public debate.

We are counting on your insights and views as a member of *The Broker's* knowledge network. If this unique venture is to have a future it will be by virtue of the people that participate in the magazine's activities. Join the web debates on these issues that *The Broker* is conducting with its partners, such as the Bellagio Platform in association with The Rockefeller Foundation, and the Busan Platform sponsored by the OECD. Your reflections help us to expand our readership. So please use this opportunity to strengthen *The Broker's* knowledge network.

You provide the insights; we'll try to find the funding so you can share your knowledge and views with others.

Louk Box – Chairman of the IDP Board

Mainstreaming global justice

Frans Bieckmann
Editor in chief
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The future of international aid does not look bright. Development aid has always been surrounded by questions and controversy, but in recent years the tone of the debate has hardened. Sweeping changes are needed if efforts to help the world's poor are to amount to anything at all, and if aid budgets are not going to be totally eaten up by national interests or evaporate altogether.

There may still be some room for traditional aid instruments. The relatively new 'budget support' is an example. Just a few years ago, it was heralded as the way to go, whereas now some are writing it off just as eagerly, arguing that it is only fattening up corrupt regimes. One article in this issue, 'Too Much, Too Quickly', shows that the truth lies somewhere in between. Budget support is likely to have a longer-term impact in some countries.

This does not detract from my conviction, however, that we really need to change direction from aid to global justice, incidentally the subject of an extensive **debate** conducted by *The Broker* nearly two years ago.

We are currently hosting a **debate** on our website in cooperation with the OECD on the 'aid effectiveness' agenda, prior to the High Level Forum in Busan, South Korea, in November 2011. This will be the fourth consecutive conference of its type, previous ones having been held in Rome, Paris (the 'Paris Declaration' on aid effectiveness in 2005) and Accra (the Accra Agenda for Action in 2008).

These conferences are generally events for the converted, the community of people working in and narrowly focused on the aid sector. But preparatory meetings this year show that the Busan conference organizers and participants realize the need to look 'beyond aid' (to include wider foreign policy and global issues) and also to look beyond the traditional actors – donors and aid recipients. It will not be easy to find common ground between the old Western donors and new ones like China – whose nascent development policy is examined in this issue – or India, let alone the wealthy foundations that are increasingly joining the aid bandwagon.

The latter – private foundations and philanthropists – are also exploring new directions. Another **debate** currently hosted by *The Broker*, in cooperation with IDS and the Rockefeller Foundation, focuses on a more strategic approach to achieve 'well-being'. The debate falls under the heading of one of *The Broker's* thematic priorities: inclusive economy. It's a feisty debate between those who see 'human well-being' and associated concepts as a new and necessary paradigm, and others who consider it nothing more than another conceptual discussion and a waste of time: old wine in a new bottle.

I personally think that we need broad concepts such as 'human well-being' to define a common aim, which goes beyond either the dollar-a-day poverty line or the view that economic growth will solve all worldly ills. But, at the same time, development cooperation is about much more than clever concepts. It is about real change in a much more systemic, structural sense. Both on the local and the national levels, and on the global level.

This kind of change cannot be imposed from the outside, as Frauke de Weijer argues in this issue's special report on the complexities of rebuilding fragile states. Complex social systems are difficult to fathom, so external interventions have to be modest and fully understand the rule systems governing a specific country and society.

Effecting change on the global level is even more difficult, of course, but it is becoming increasingly urgent. The current systemic crises are affecting everybody, but it's the 'global' poor who are being hit the hardest.

New strategies developed by the aid industry should set their sights on this global, systemic level. They need to focus on change that creates a different, more just and sustainable kind of globalization. Globalization that bids farewell to the neoliberal economic model, and which curbs the unlimited power of the global financial sector and reforms the global financial system. Globalization that organizes global economic traffic in a more equitable way, and which softens the hard geopolitical struggle for ever-scarcer resources. Globalization that invents new instruments like a global **financial transaction tax** and which gives more policy leeway to national governments to steer their own economic and social policies, without resorting to a xenophobic, naïve and even dangerous form of nationalism.

Progressive internationalism is the only feasible and urgently needed answer to both neoliberal globalization, which has sustained a system of inequality for the last 30 years or so, and the populist tendencies that are gaining momentum throughout the Western hemisphere.

It should therefore no longer exclusively be the relatively marginalized – in terms of national and global political priorities – aid industry that tries to bring about this alternative form of globalization. **Global justice** should also be the key driver of broader foreign policies, or even of domestic policies as they are increasingly intertwined with international affairs, blurring the boundaries between domestic and foreign policy. One article in this issue examines the extent to which the EU is set to become a leader in such a global development outlook (see Mark Furness and Davina Makhan's article on the subject in this issue).

Of course, we are still far from attaining an alternative form of globalization, but 'mainstreaming' global justice concerns should nevertheless become the basis of the new aid paradigm. The old aid sector is isolated and in decline. It needs to seek alliances with other organizations and political sectors, with policy makers and with society at large. If it is to have a specific role at all, this will be to safeguard the interests of the world's poor in a concerted effort to create a more sustainable and just form of globalization. ■

China goes multilateral

Probing new prospects

China's explosive economic growth has made it a more prominent player in global development. The question is still open as to how China will respond to its new status.

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Deng Xiaoping's guiding foreign policy maxim, 'Maintain a low profile and never claim leadership', has served China well since 1978. It now appears outmoded, however, following China's economic transformation and its continuing rise in world affairs. But it has yet to be replaced with a clear alternative.

This question closely relates to China's rising prominence in global development. China is becoming more directly involved in global development, though this is not by any means reflected by any proactive Chinese imprint. The country's emerging role is at a relatively early stage and remains predominantly bilateral. Nonetheless, Beijing is increasingly expected by many around the world to play a more engaged role in promoting global public goods, one that assumes responsibilities more commensurate with its economic status.

Contending perspectives

China's foreign policy is in flux ahead of the 18th Communist Party Congress in late 2012, which will transfer power to a new, fifth-generation leadership. Uncertain power dynamics are playing out behind the political stage. Signs of tensions between, broadly, supporters of international cooperation and supporters of a more nationalist policy testify to the ongoing debate in China about its world role, including how its engagement with global public goods should evolve. It's not so much whether but how China manages the transition from a 'passive' to a more active foreign policy.

China's domestic situation remains its foreign policy centre of gravity. The country is undergoing transitions, at home, regionally and in the world. Its new 12th five-year plan (2011–2015) sets out a revised domestic growth strategy. Just as the impact of China's policy reverberates internationally, so its politics is less insulated from the world.

Academic analysis of Chinese foreign policy is divided about whether China is a status quo power supporting the present international system, or a revisionist power wanting to change the rules of the game. In other words, China is either a strategic partner or competitor, and merits engagement or confrontation.

Much debate continues to be framed by the words of Robert Zoellick, current president of the World Bank, who in 2005 called for China to be a 'responsible stakeholder' in international affairs. Beijing bought into this language and sought to answer affirmatively. Some discerned a clear trend towards promoting international public goods (economic growth, non-proliferation and regional security).

Much has changed in recent years, catalysed by global economic turbulence and events in China. There is a rising concern about the business climate, exemplified by Google's problems in China, the human rights crackdown and increasingly assertive regional military action. The previous Western broad consensus on constructive engagement, seen in the United States under the Clinton administration and in the European Union's 'strategic partnership' with China after 2003, is strained, amid calls for reciprocal engagement or strategic challenge. For some, China is 'a revolutionary power' or 'existential threat' to the United States.

summary

- China's rise as an economic power means it can no longer abide by Deng Xiaoping's foreign policy advice to lie low and not claim leadership.
- China is in the early stages of participating more directly and bilaterally in global development, but with evolving multilateral dimensions, such as participation in the forthcoming OECD-DAC Busan meeting.
- Accommodating China is becoming unavoidably important for sustainable global development.
- An open question remains on how far China will substantively engage in global public goods.

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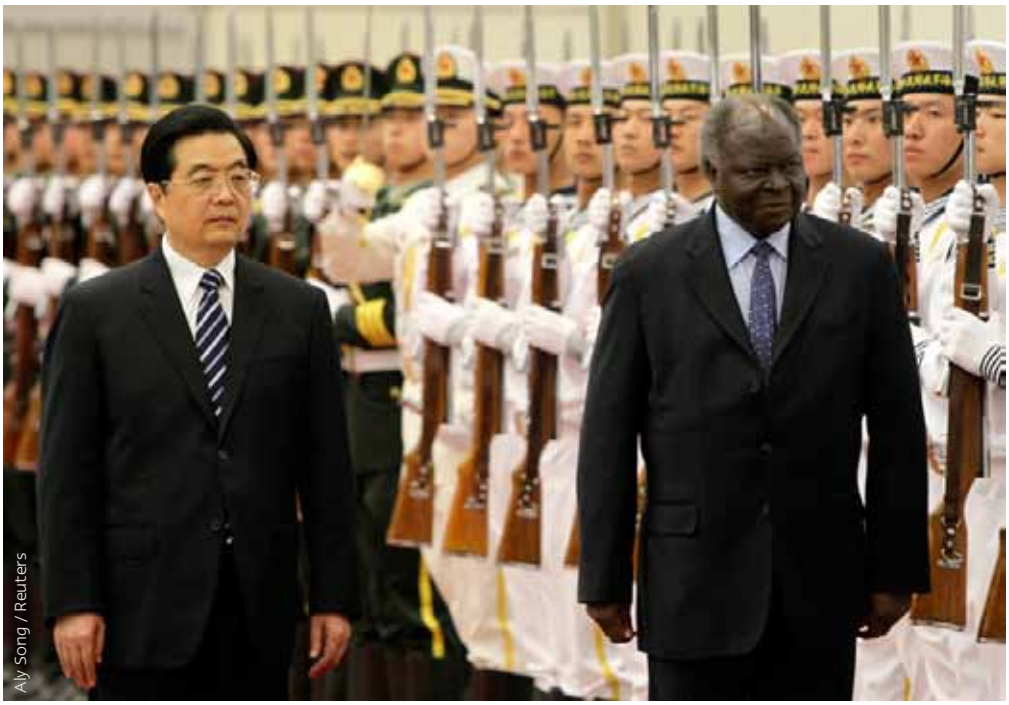

Aly Song / Reuters

African leaders who visit China receive the red carpet treatment

Beyond Washington, there is greater receptiveness to the apparent re-emergence of a more multipolar world. China's neighbours, notably India, harbour concerns about Chinese competition. Others, such as Iran, see China as a counterbalance to the United States. Attitudes vary widely. The anxiety of US or EU policy makers contrasts with the sense of opportunity China represents for many governments in the developing world.

Going global on development

Previously a hands-off champion of the developing world's collective right to development, China is becoming more engaged in global development. In effect, it is 'going global'. This trend is inseparable from China's world economic role.

Now the world's second-largest economy, with foreign exchange reserves of over US$3 trillion, China continues to invest abroad. Amid continued financial woe in the United States and the Eurozone, arguments about the valuation of the renminbi and Beijing's greater willingness to criticize Washington, China is central to an ongoing process of global economic realignment towards the East.

China accounts for a significant share of global manufactured exports (13.7% in 2010) but non-members of the OECD are projected to become China's primary export market in 2012. Chinese demand for natural resources and energy continues to rise, and its energy security is a notable part of regional engagements with the Middle East, Latin America and Africa. Developing countries look more to China for trade, investment, development assistance and policy inspiration.

The prevailing Chinese role in overseas development is economic but encompasses support for education, training, technology transfer and infrastructural projects, whose financing and construction are often undertaken by Chinese corporations. Core aspects of China's role, like new economic zones in Africa, are primarily driven by economic factors. The China-Africa Development Fund, for example, is an equity investment vehicle encouraging Chinese companies to operate in Africa.

Chinese 'economic cooperation' is linked more explicitly to poverty reduction efforts, however. Beijing has supported the Millennium Development Goals, providing crucial input into the process through its domestic progress. There has been increased interest in academic and policy quarters recently in the possibility of exporting select aspects of China's domestic experience. In this regard, the International Poverty Reduction Center, established in Beijing in 2004 with support from the UNDP and the Chinese government, stands at the fulcrum of policy research and international dialogue.

Much of its focus has been on Africa, where China's engagement continues to deepen. In April 2011, the Chinese government released its first white paper on its foreign aid, and in August, its efforts to engage civil society saw the first China-Africa People's Forum in Nairobi, Kenya. Many policy issues confronting China in Africa converge on the state. A quiet but potentially significant policy evolution with regard to the institutional aspects of development has seen Beijing engage more in 'enhancing African government capacity', which appears to herald capacity building Chinese-style.

Beyond poverty reduction

China's wider role is not part of a coherent global development foreign policy, but it does reveal an emerging set of policy engagements. This is occurring amid the reform of multilateral institutions, which reflects an underlying changing distribution of power. It is now the IMF's third-most-important member after the United States and Japan, following historic reforms aimed at making the Fund more representative. China's contribution to global public goods is a key barometer of its substantive international commitment. Despite participation in numerous development-related forums, its most active role, and default setting, remains bilateral.

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Food security is one area. With some 20% of the world's population, but only 7% of its farmland, China became a net importer of agricultural goods in 2003. Consumption has been growing significantly. Agricultural supply is a national security issue in the face of social unrest caused by rising food prices. China is more dependent than before on agricultural imports and international markets. The Chinese government has been encouraging an agricultural 'go global' policy.

Its new policy engagement in this area is partly informed by recognition that international cooperation in grain production is linked to maintaining food security within China. Having graduated from being a recipient of World Food Programme assistance in 2005, Beijing has made occasional gestures, most recently its August 2011 donation of US$16 million to the Programme for Somali. While not a major multilateral donor, China has been developing its own overseas assistance, sending wheat and rice to the Horn of Africa.

China's external environmental policy is prominent. The world's leading CO2 emitter, heavily reliant on fossil fuels, it was widely fingered as being at odds with global moves to tackle climate change after negotiations broke down at the 2009 Copenhagen Summit. This upstaged China's efforts to address the environment, propelled by an interest in gaining recognition for its role, but also pressing domestic factors.

China's domestic vulnerability to destructive climate change impacts, underlined by its first National Assessment Report on Climate Change in 2006, is widely accepted. The potential repercussions for long-term economic growth, social stability and the Communist Party's rule are clear, and have galvanized efforts to promote greener capitalism with lower carbon characteristics. Beijing's concern reflects a more pressing logic of global environmental interconnectedness.

As Copenhagen showed, China has also failed to convert changed domestic policy objectives into the international policy arena. Overall, despite better paper policy, and greener rhetoric, domestic implementation has been flawed; economic growth has trumped serious environmental action.

China's developing role in global security is anchored in its own military modernization, and it features expanding international horizons. China has been deepening its military experience abroad, as naval patrols off Somalia and the recent extraction of Chinese nationals from Libya shows. China's contribution to UN peacekeeping has also been growing. This allows China not just to demonstrate commitment to the UN but also to gain experience and project the benevolent face of the People's Liberation Army within and outside China. At present, China lacks the military capability of a superpower; it cannot project force on a global scale. However, recent military assertiveness in the South China Sea and expanding overseas naval facilities contribute to the persisting uncertainty about how Beijing will use its growing capabilities.

Conflict and political instability pose threats to China's economic interests in Africa. Military exposure in Sudan and political risks of economic assets in North Africa exemplify the vulnerability of more established Chinese economic interests. Beijing supports regional security organizations like the African Union. Elsewhere in the Middle East, China remains willing to let the United States assume the role of security hegemon. China has been developing its own engagement with conflict. This features a select role in conflict negotiations, humanitarian assistance and post-conflict assistance.

New South–South cooperation

China's participation in South–South cooperation is a defining aspect of its global development role. The seminal 1955 Asia–Africa Conference in Bandung, Indonesia, is a distant memory now. Anti-imperialism has long been supplanted by a new incarnation of Asian-African 'strategic partnership' in which technical issues, like trade and investment policy negotiations, are the norm. Beyond government or corporate elites, the post-socialist Chinese business expansion in the developing world is accompanied by opposition: it may offer benefits but also brings charges of exploitation.

Aspects of China's development participation cross-cut with, and support, South–South cooperation within established international organizations, some of which, like the UNDP, have their own South–South programmes. Beijing has been cooperating with governments and regional organizations of the global South and also with other international donors. The idea of a 'G2' with the United States was unpalatable and premature, but China's multilateral diplomacy within the changing G20 and G77 has become more involved.

This raises an overarching and, thus far, unanswered question about China and its changing world role. It remains a self-ascribed developing country (and WTO member). Yet clearly it has developed aspects and is a beacon for development aspiration around the world. More than its traditional role as first among equals, Beijing is looked to for leadership by developing country allies. It has yet to forge a role that assumes greater international leadership responsibility in a way that transcends its identity as a developing country.

Delicate balance

Far from operating in a vacuum, China's role is bound up in relations with others. Certain governments want to have their cake and eat it: they seek to 'engage' China on development, most prominently in Africa, and affirm their moral superiority in the process, but they also want to expand business – with China. Having led the largest British trade delegation to China for 200 years in November 2010, for example, Prime Minister David Cameron warned Africa against China's 'authoritarian capitalism' in July 2011 while in Lagos, Nigeria.

China is stimulating Western re-engagement in Africa, where China's role has been scrutinized most. It is still seen by some as anti-development, especially with respect to governance. US Secretary of State Hillary Clinton, speaking in Lusaka in June 2011, expressed her wish not to see a 'new colonialism' in Africa.

There are well-founded concerns about Chinese arms exports, its environmental footprint and the export of dysfunctional domestic issues such as rogue Chinese business practices to the developing world. Some of these concerns are shared by Beijing, whose ability to control distant Chinese corporations is being tested as it tries to address its business

Christopher Herwig / Reuters

reputation through regulation. Africa's economic development prospects, meanwhile, are being rejuvenated.

Some even argue, somewhat prematurely, that China is already transforming Africa through current business ventures, the potential export of industry and its integration into the East Asian economic model. China's role in Africa is still mired in controversy, but in development policy circles at least there has been a shift in attitude regarding development.

A striking process of political ferment is underway. Alongside efforts whose subtext seems to be aimed at socializing China into prevailing OECD development norms, there is mounting interest to better understand China's own development experience. Efforts to get Chinese support for established standards continue, through different forms of critical advocacy or more measured interaction.

In practice at a policy and academic level, however, the interchange of ideas and experience is becoming multi-directional. Mutual learning is more the tenor of the day, with Chinese academics and policy makers looking to the experience of others in Africa. The conversation about aid cooperation continues, including through the China–DAC Study Group prior to the 4th High Level Meeting at Busan, South Korea.

China is increasingly seen by development agencies and developing countries as not just an economic force but also a new, important development partner. Donor recognition of China's increasing centrality to a range of development goals is widespread. Established development agencies have a new reality to deal with, one that is multi-dimensional, and competitive, but one that offers scope for cooperation as well.

Policy engagement continues. Beijing is inundated by a development policy scramble to China. There has been much talk of trilateral cooperation between China, Africa and assorted development agencies. Examples include the European Union, the United Kingdom, and French and German governmental initiatives. There has been far less action, however.

There remain political barriers to China's involvement in development. Its competitive advantage partly lies in its very distinctiveness and safe distance from the traditional development system. Beijing can mobilize its own brand of development as a tool of soft power and legitimacy, and regards its bilateral track as being more cost-effective and efficient.

At the same time, China's role is pragmatic and adaptable. On the back of greater vested interests and questions about the sustainability of its economic links, it has more and more reason to engage. Its new prominence and perceived power means it can no longer simply call on the international community to do more on international development. Whether it can be different in terms of substantive outcomes, as opposed to political rhetoric, is an open question.

Vital engagement

China's role in global development is evolving. It remains subject to myriad pressures, constraints and challenges linking its domestic path with an uncertain overseas role. Furthermore, as seen in Africa, China is being redefined through experience: the unintended consequences of its open-ended role could well be as significant as its stated aims.

As yet, no clear foreign policy path is evident before the new Chinese Communist Party leadership assumes power. If recent trends continue, China could become a more active participant in shaping the post-2015 development regime and perhaps emphasizing development effectiveness – as opposed to narrowly conceived aid – in line with the thrust of China's economic approach. Development in this sense, however, remains a primarily economic, material phenomenon linked to, but bracketed off from, normative concerns and politics.

For the established development system, the challenges of accommodating China are now fundamental. Amid uncertainty about its political direction, the sustainability of China's global economic rise presents major challenges. For African governments, these importantly involve managing China's role to yield optimal development benefits in order to enhance broader, sustainable developmental goals.

Chinese engagement is vital and central, not optional or incidental, to effective multilateralism and the future of global trade, the environment, security and world development in general. An open question, however, remains how far China will substantively engage on global public goods. This would require China to energize its multilateral role in global development. China's approach to the international system has been largely one of instrumentally serving its own national interests. Despite domestic challenges, a more powerful China will need to square its rhetoric with greater practical responsibility, including assisting the developing world.

Maintaining a low profile on global development no longer appears tenable in the face of China's expansive role and elevation in international expectations. What will emerge from this transitional phase is less clear, but China must define the responsibilities of its changing status. Beijing may not wish to be encumbered by multilateral responsibilities, but they come with the territory. The more China is seen to advance (and the West decline), the more the world will look to China to act. ■

A longer version of this article can be found at **www.thebrokeronline.eu**

Rebuilding fragile states

Changing the rules of the game

Development organizations have yet to come to terms with the inherent complexity of institutional change. Institutional change takes time, and the kind of institution best suited to a given situation depends on the context. In other words, a successful institution in the West is not necessarily going to work in Afghanistan or Sudan. Institutions understandably tend to mimic other successful organizational structures, but this often only creates the illusion of capability and legitimacy. Development organizations therefore need to build a deep understanding of the rules systems at work in the society in question and acknowledge the unpredictability of change in the complex social systems of fragile states. Only then can they adapt their practices accordingly and help build institutions that work.

Foreign interventions in fragile states – whether aid donors or occupying armies – often try to create new and 'modern' state structures, mainly copies of Western institutions. But the assumption that good governance, democracy or indeed development can be imposed from the outside is increasingly being challenged. They can only succeed if rooted in local political, social and economic processes.

Building modern state institutions means having the right policies implemented by effective economic, political, judiciary and governance organizations. However, recent research by Lant Pritchett and Frauke de Weijer shows that creating effective institutions takes much longer than expected. Their 2010 background paper to the World Development Report 2011, entitled *Fragile States: A Capability Trap?* argues that at the average rate of improvement in bureaucratic quality, a typical fragile state would take 116 years just to get to the level of a country like Kenya.

Governments of countries such as Afghanistan, Haiti and South Sudan are not only overly optimistic about the possible pace of change, but they are also increasingly expected to perform an unrealistic range of functions. All in all, this places very high demands on the degree of institutional change that has to occur in a short time. Development programmes have therefore spent tremendous energy and resources on policy reform and capacity building, with the aim of facilitating institutional change. Unfortunately the results have been disappointing.

Recent insights into the dynamics of change in complex social systems show the inherent unpredictability and uncertainty surrounding change. The international community has yet to come to terms with this and adjust their approaches accordingly. International development organizations still operate on the premise that once an institution has been successfully established in one place, it will perform equally successfully elsewhere. They also believe that change is manageable from the outside. This leads to perverse incentives that may even reduce institutional effectiveness by creating fragile institutions that lack the necessary robustness.

There are other reasons why attempts to introduce institutional change from the outside have been so disappointing. Institutions are deeply rooted in social contexts, and new institutions have to operate in social contexts where different rules apply. These rules affect how these new institutions function. Patronage, for instance, does not immediately disappear when new recruitment procedures are

By **Frauke de Weijer**, associate fellow at the Center for International Development, Harvard Kennedy School, USA.

Kai Pfaffenbach / Reuters

Kunduz, Afghanistan

adopted. Rather, people find ways of working around these rules, and in the end their actual behaviour barely changes.

New approaches need to take into consideration the inherent unpredictability and the underlying values, norms and behaviours that shape people's responses. This requires a different mindset that creates the conditions for contextualized solutions. This new mindset has to recognize the value of local knowledge and problem-solving capabilities and use them as a starting point. It has to stress variety and a willingness to explore. But it also has to acknowledge that local knowledge and capabilities must be placed in a wider strategic framework that will give it direction.

When rules clash

Development can be defined as a historical process of economic, political, administrative and organizational, and social transformations. The essence of each transformation is a shift in the overall 'rules systems' – the established patterns, norms of behaviour and expectations – in which individuals operate. Development therefore necessarily implies a change in social norms and behaviours, and the transition from one system of rules to another (see Figure 1).

Formal rules systems are often only partly developed in many developing countries. There is a profusion of different kinds of systems, formal and informal, sometimes competing for resources, power and legitimacy. During times of transition, citizens are faced with multiple, potentially conflicting rules systems. This creates stresses in society, which can easily lead to conflict and frustrate development efforts.

Dani Rodrik, professor of international political economy at Harvard University, starts his executive education courses with three traffic videos that illustrate this point. One shows highly organized streets with traffic lights and clear lanes and a free flow of traffic. The second, in Hanoi, is highly informal with pedestrians, donkeys, cars and tracks miraculously and efficiently meandering their way across a roundabout. The third video shows the most dangerous intersection in St. Petersburg, where only half the people abide by the traffic lights. This mixture of formal and informal rules has disastrous effects, with accidents occurring regularly.

An example of a rules system often associated with development interventions is the value of individual rights and self-determination. Promoting this rules system can have a St. Petersburg effect, easily leading to tensions in a society where social structures are primarily meant to support the collective well-being of a group as a whole. Educated girls in conservative Muslim countries often find themselves struggling with their new-found sense of self and the role their families expect them to fulfil. Two value systems compete for legitimacy, and the long-term outcome is difficult to predict. >

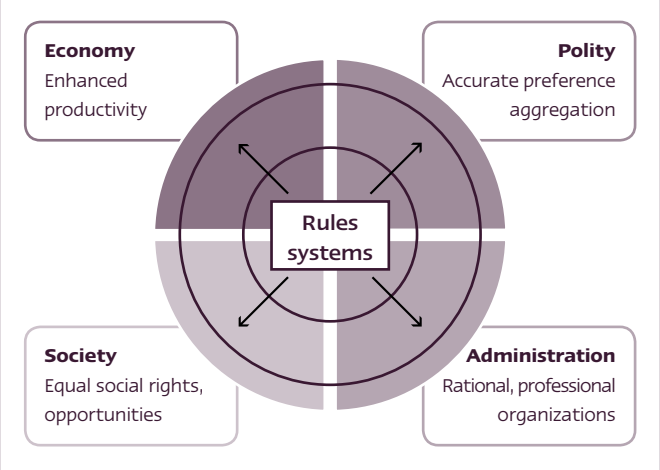

Figure 1: Development as a fourfold process

An example of a rapid transition from one rules system to another that clearly failed is the 'shock therapy' applied in former Soviet republics. The policy of privatization that was meant to increase competition led to more cronyism and monopoly. Because the rules systems among the powerful had not changed, the new institutions became 'contaminated' by the old way of doing things.

Though important lessons have been learned from failures such as these, the mindset behind most policy decisions has yet to change. The presumption that institutional change can be planned, directed and managed according to a predetermined plan needs to be re-evaluated. International development and foreign policy strategists have to realize that institutional change in complex social and political settings needs to be managed more dynamically.

Support for this recognition comes from unexpected quarters. Scientists from fields as diverse as physics, evolutionary biology, meteorology, organizational behaviour and many others have started to recognize this unpredictability and the non-linear attributes of change in complex systems.

Resistance to change

Implementing institutional change without a deeper understanding of the rules systems at its core is likely to fail. Indeed, resistance can be expected as most reforms aim to change the rules of the game. Think of empowering the poor, protecting minorities, stressing individual rights or adopting meritocratic principles. Political economy analyses are increasingly taking into account active resistance to change by current power holders based on their self-interest. However, these analyses overlook opposition that stems from alternative rules systems. Self-righteousness is more inert to change than self-interest.

Take patronage, for instance. Loyalty systems based on patronage are strong forces that are deeply embedded in social fabric and are not easily severed. Indeed, they are likely to undermine attempts at applying meritocratic principles in organizations. These loyalty systems may stand in the way of building transparent, accountable organizations – or governments, for that matter – but at the same time they may serve, or may at a certain point in time have served, an important function in society.

Thomas Barfield, professor of anthropology at Boston University, elegantly shows in his 2010 book, *Afghanistan: A Cultural and Political History*, that it is exactly these social structures and kinship systems that have made Afghan society highly resilient after 30 years of war and the absence of a functioning state. Regardless of our moral attitude to patronage, it is a strong force that cannot simply be wished away. Unfortunately, this wishing away is the attitude that prevails in international development.

In light of these realities of institutional change, it would appear naive to assume that the mere introduction of a new set of rules and procedures in an organization would immediately replace the old ways and make it start acting according to the new rules. However, much development discourse is still based on the notion that the adoption of a certain institutional form, one that works well in industrialized countries, will automatically lead to the same outcome elsewhere. This reasoning ignores the fact that the development of these institutions was the output of a complex and long struggle within a particular society. Institutions are an output, not an input.

Unfortunately, this reasoning may ultimately lead to a reduction in state capacity – the opposite of what was supposed to be achieved. Such a dynamics may be explained through the notions of *premature overload*, *isomorphic mimicry* and *capability traps*. Current development discourse, with its emphasis on good governance and effective institutions, overloads governments with demands and expectations that are simply not realistic; a case of premature overload. This may cause a reaction of isomorphic mimicry (see box) that can lead to capability traps (see Figure 2).

Made to mimic

Organizations often purposely adopt a strategy of isomorphic mimicry. They need legitimacy (and the associated financial resources) to survive and therefore need to ensure that they perform according to the standards placed on them. If this legitimacy is based on form and not function, then they may respond by creating the illusion of being capable organizations. In such cases, they adopt the outward form of a capable organization, with little regard for how well their organization actually functions.

A schooling system whose graduating students barely meet basic levels of learning – unfortunately a common situation in many developing countries – is one example. The education system seems intact on the outside. There is a school building, books are present and there is teaching. But the school's children leave barely knowing how to read and write. Functionality is not measured, nor are there consequences for low performance.

Similarly, many developing countries have adopted wholesale the form of many bureaucratic institutions that are

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Training national police, Kunduz, Afghanistan

expected to perform a broad range of state functions, with little regard for their actual performance. The *de facto* functionality of an organization or system (how it functions in practice) is often not measured, and the *de jure*, or legal, form of the institution is deemed sufficient. It is good to remember in this context that it is only in very recent years that results-based performance measurement has gained ground in the West.

One would perhaps assume that development assistance organizations have the necessary performance indicators in place to evaluate their *de facto* functioning. Unfortunately, reality tells a different story. Real outcomes are not always easy to measure, so donor agencies tend to limit themselves to measuring outputs such as policy recommendations, strategic planning workshops and public consultations.

Whether any of these activities really affects how the system functions remains largely unknown. As a consequence, organizations often lack the drive to improve their performance in real terms, as improved functionality is not explicitly recognized. Accountability flows upward, not downward, in a situation with donor funding. The external legitimacy of the organization is based on whether the donor boxes have been ticked, not whether genuine performance needs are met.

Isomorphic mimicry need not always be a bad thing. It may well perform a function, such as setting an example and creating exposure to a different way of doing things. It may create an institutional island that presents a window to an alternate possible reality. Moreover, a certain degree of divergence between what an organization looks like from the outside and how it functions on the inside is normal. Even in the most effective organization, there is a difference between official procedures and what actually happens on the ground. This acts like the grease between the wheels that makes a machine run smoothly.

Perfect storm

In many developing countries, however, and fragile states in particular, this phenomenon is taken to the extreme. The outside appearance of the organization and the internal operations become highly divergent, and two parallel, detached universes begin to co-exist. Policy changes made on paper no longer have any bearing on the lower tiers of the organization, which continue to play by their own rules. >

Isomorphic mimicry

Understanding how isomorphic mimicry works in relation to organizations can be explained by way of analogy. Lant Pritchett, professor of the practice of international development at the Harvard Kennedy School, uses bugs as an example in his 2010 presentation *Isomorphic Mimicry: What and How*? 'Bugs avoid being eaten by birds by developing glands that secrete poison and signal that they are poisonous. Once established, other bugs may simply develop the signal, [but] not the poison.'

In a background paper to the World Development Report 2001 published in late 2010, *Fragile States: Stuck in a Capability Trap*, Pritchett and De Weijer explain how this bug analogy can be used with organizations. 'It is much easier to create an organization that looks like a police force—with all the *de jure* forms organizational charts, ranks, uniforms, buildings, weapons—than it is to create an organization with the *de facto* function of enforcing the law. The danger of isomorphic mimicry is that it creates a powerful dynamic in which what survive are not functional organizations and institutions but mimics, which can adopt the camouflage of capable organizations without any of the associated drive for performance.'

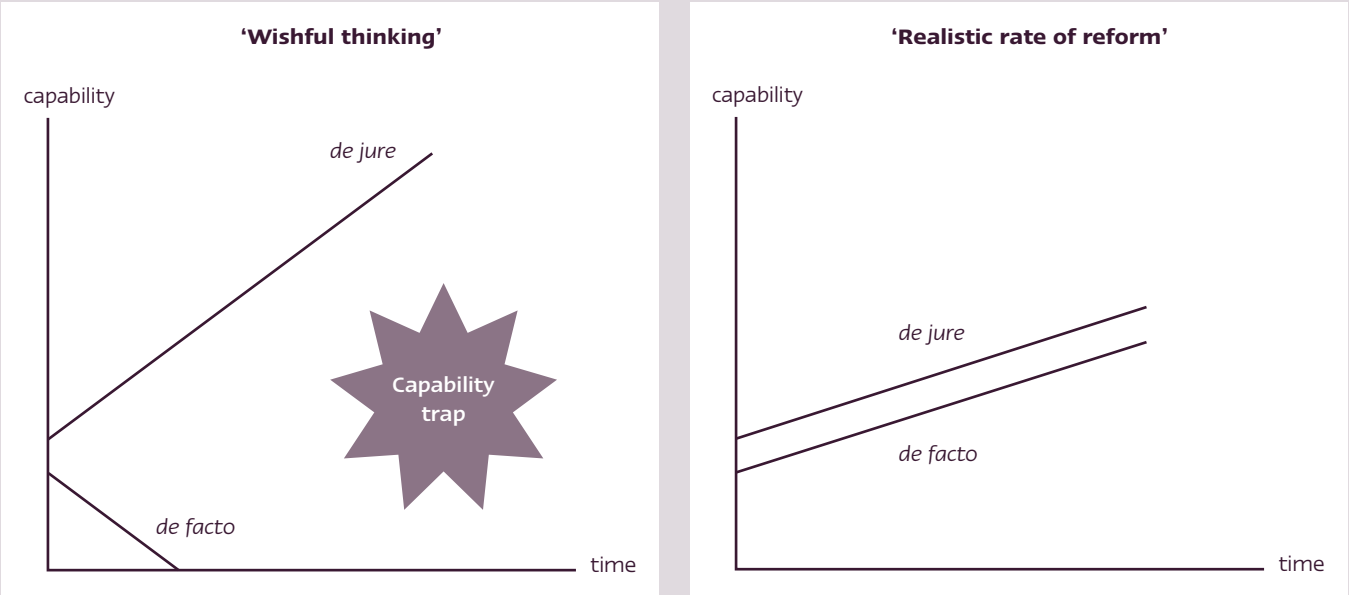

Figure 2. Excessively rapid pace of de jure *reform creates a widening gap between* de jure *and* de facto*, which can further worsen de facto capability*

This may lead to a loss of institutional integrity, whereby the outward *de jure* performance is no longer connected with the *de facto* performance. Take public sector reform, for instance. Advisors recommend changes to the organizational structure, retrenchment of a proportion of the civil service and the adoption of new meritocratic recruitment processes. Most of these recommendations stay on the shelf and never get implemented. Or they get implemented strategically, serving the purpose of the human resource officer in charge who uses the new procedures to keep unwanted candidates out, but recruits his own through the back door.

The perfect storm of premature overload, isomorphic mimicry and loss of institutional integrity can lead to a capability trap. The *de jure* and the *de facto* become disconnected from each other, and the organization gets stuck in a low-performance equilibrium with external and internal pressures conspiring to maintain the status quo. This is what may happen when pushing too fast for reforms that are incongruent with prevailing rules systems. Exactly the opposite of what is trying to be achieved.

Building effective states

These dynamics of institutional change, and the potentially perverse effects of outside intervention compel us to reflect on our strategies for building state capacity. It has implications for good governance, capacity building and the way development programmes are designed.

A scarce resource

Modern-day expectations of what the state must be able to deliver are high and growing, and these expectations are extended to fragile states via the 'good governance' agenda of donor agencies. Viewed through the lens of rules systems, a state that is performing well needs to be more than just a well-functioning state apparatus, as the ability of the state to perform is closely related to how well it fits with the social context in which it is embedded.

State capacity should therefore be defined as the ability of the state system to adapt its rules systems to changing circumstances and opportunities. And it should do so in a way that leads to positive economic, political, social and administrative transformations. Pushing too hard and too fast can actually reduce state effectiveness. The conclusion is that although one cannot overstate the importance of strong institutions, the road map for how to get there should be subject to a lot more debate.

A road map for building effective institutions needs to be guided by the likelihood that reforms will succeed. This needs to go far beyond the current frameworks of political economy analysis that focus mostly on identifying and overcoming resistance to reforms that are considered high priority by the mainstream development community. It needs to treat state capacity as a scarce resource – one that is fragile and needs to be nurtured.

Most governments in fragile states lack enforcement capacity. This could be because the state is inherently weak or because there are international conventions that restrict the use of force. In practice this means that for a government to successfully implement reforms, it needs to be supported by a sufficiently strong coalition.

Such a coalition can only be built if the proposed reforms have a certain degree of buy-in in the society, which means they must have a firm base in an existing rules system. They must be perceived as legitimate by the citizens for them to allow the state to impose its norms and rules when these do not overlap with existing rules systems. In addition, the government apparatus itself must embody these norms, which is often quite a challenge.

Take Afghanistan as an example. Does the state have the perceived legitimacy to station a police force in rural villages? Does the police have the legitimacy to conduct house raids? And what if the police force is known to be corrupt? Is advocating a strong national police force still such a good idea if the answer to this question is no, at least in large swathes of the country? It is important to have clearer expectations of what a government can realistically be expected to do.

It is time to move past ideological debates on the size and scope of government, and think pragmatically about what reforms are most pressing, what can be achieved realistically, in which order, time frame and at what pace. Small successes may need to be used more strategically to gain the credibility, legitimacy and trust necessary to move on to the next, perhaps more contentious, step on the reform ladder. Perhaps police should only be given broader powers once they actually start to improve people's security.

Paper tigers

The dangers of premature overload, isomorphic mimicry and the loss of institutional integrity need to be considered when designing a strategy for capacity building. In practice, however, capacity building programmes in government ministries in developing countries and fragile states tend to ignore these factors.

Local knowledge and capabilities are the building blocks of genuine capacity building. But more often than not, the international consultants and national staff leading capacity-building programmes make no connection with people's realities. Their formal policies barely reach the ground, and their development jargon falls flat with people used to local rules and value systems.

The opposite is also true. Local problem-solving capabilities and endogenous solutions rarely reach the top levels of policy making. And when they do, these solutions are generally discarded as non-strategic, too idiosyncratic, too steeped in local culture and not in keeping with the high standards of the donor agencies. These may be understandable responses, but they make home-grown, contextualized policy solutions that are an effective blend of international experience and local knowledge less likely to occur.

Another danger of the loss of institutional integrity is the weak organization it creates, a 'paper tiger'. Capacity is only present in a few individuals and does not filter through the organization. It is a thin layer of shiny varnish that can be easily scratched off. These organizations collapse quickly when the leadership is removed or they succumb to political pressures.

The case of the Ministry of Rural Rehabilitation and Development (MRRD) in Afghanistan is a good example. This ministry rose to prominence quickly after 2002, under the visionary guidance of its minister, Haneef Atmar. It became the poster child for rapid organizational change and state capacity building. Afghanistan's flagship programme, the National Solidarity Programme, was executed under the ministry's auspices. It began to make real progress in strengthening the links between communities, provincial departments and the central government.


Fabrizio Bensch / Reuters

An Afghan national policeman during a drill, Kunduz, Afghanistan

The ministry consolidated its position under the succeeding minister and started to show signs of robustness. Capacity had started to trickle down through the entire organization, and the different tiers had started to work together towards the same goals. Nonetheless, this way of operating had not yet acquired sufficient momentum to be able to operate without a visionary leader. This became clear with the appointment of the current minister, who does not share the same working method that MRRD had now acquired. Meanwhile, MRRD is starting to crumble. After nine years of solid effort, MRRD is still a paper tiger.

There are no easy answers here, let that be clear. The pressure to produce immediate results is high, while managerial and technical capacities are dangerously low in many governmental organizations. These are genuine constraints that may push organizations towards isomorphism. However, international development organizations need to accept partial responsibility for this reality, and limit the extent to which they are feeding into these patterns.

Programmes funded by large bilateral or multilateral donors are most guilty, but even small participatory-minded NGOs fall into the same trap. As much as they try to use evaluation criteria that are meaningful to the people they are trying to serve – which is a major step in the right direction – they are also unable to escape the rigid monitoring and evaluation frameworks that they are subject to.

Home-grown solutions

Assumptions about the degree of institutional change a society can absorb at a given time tend to be overly optimistic. Importing institutional models may cause resistance, and the development community's working method may undermine positive change rather than support >

it. However, this does not mean that external knowledge and imported institutions cannot play a role in development.

In this context it is useful to make a distinction between adaptive problems and technical problems (see box), a distinction made by Ronald Heifetz, senior lecturer in public leadership at the Harvard Kennedy School.

The current development models of centralized planning and imposing reforms from the top down work well for technical problems, where change is likely to be linear and predictable. But these models are not particularly well equipped to deal with adaptive problems, as they require more humility and an acknowledgement that the answers cannot be known beforehand. One of the biggest mistakes made in development is to treat adaptive problems as technical problems.

Change management and organizational learning literature identify three approaches for tackling adaptive problems:

- Collaborative problem solving
- Cross-boundary cooperation
- Encouraging local experimentation and innovation

What these approaches have in common is an emphasis on learning and the constant re-evaluation of the strategies and the assumptions underlying them. People have to work together to understand the norms, values and behaviour – the rules systems - impacting the problem at hand. They jointly devise strategies that have local support, build on local capacities and solve local problems. This process often requires changes in values and belief systems, as bridges between these rules systems will need to be built.

Technical and adaptive problems

Technical problems are technical in the sense that the necessary knowledge about them is known, has been digested and institutionalized in a set of organizational procedures. For example, influencing interest rates through monetary policy is a technical problem, whereas ways of increasing risk-taking and entrepreneurial activity are adaptive ones. Solving technical problems does not lead to serious losses for those involved, and values and behavioural patterns do not need to change in any significant way.

Adaptive problems, by contrast, are likely to cause losses for at least some of the stakeholders. Adaptive problems are deeply embedded in the complexities of the social system, where change is unpredictable and outcomes uncertain. Solutions are not clear-cut, and people's opinions on adaptive policy issues tend to strongly differ. The answers cannot be known beforehand, and the effects of each intervention cannot be adequately forecast.

Many problems in the developing world have a highly adaptive character. Most institutional change initiatives in fragile states address adaptive problems, as they are by definition aiming to change the rules of the game. They are therefore likely to cause serious friction between different rules systems, making change much more unpredictable. Imported solutions may work, but they may also cause serious resistance in the social system.

Based on Ronald A. Heifetz's 1994 work, *Leadership without Easy Answers*, published by The Belknap Press of Harvard University Press

Many non-governmental organizations (NGOs) have realized the power of home-grown solutions for decades, which has given rise to a wealth of participatory and community-based methods. Unfortunately few of these local innovative practices have been scaled up or institutionalized. NGOs document the lessons learnt, but mostly circulate them in report form, decontextualized and transformed into a new blueprint of best practices. Opportunities for diffusing such home-grown solutions and consolidating local innovations are lacking. Institutional connections between these experiments and centres of higher-level policy making are virtually non-existent.

The way forward

Looking at development and state building as complex processes of transformation has major implications for the way development programmes are designed. They can no longer be designed on the basis of what worked elsewhere. The impetus of the new development model will encourage the active search for localized solutions, rooted in realities on the ground. The emphasis will lie on encouraging local autonomy for actors within the social systems to develop contextualized solutions, and initiate local institutional change.

The challenge then lies in blending international experience and technical capacity with domestic capacities and insights into local realities. This would make it possible to harness local energy and put it to use. Operationally this means creating a learning infrastructure that can feed a process of continuous learning, adaptation and fine-tuning of emerging policy solutions.

One of the risks with this approach is that existing institutional structures tend to be relatively resistant to change, and often deeply characterized by isomorphic mimicry. Bureaucracies in many fragile countries are particularly prone to these risks, because of a lack of exposure to more modern management systems.

State-building efforts, supported by the international community, tend to be relatively state-centric. While a capable public sector is essential, public sector reform and capacity building is not likely to lead to adaptive policy solutions. Innovative capacity, and the willingness to devise contextual solutions can equally – if not more than equally – be found in the periphery.

This is perhaps where donors can best leverage their influence. They can ensure that policy solutions are not based on external best practice but work on the basis of what is already there and build on existing capabilities and innovative power.

A new accountability

Such a new development model will require a different accountability framework, which will exert the right pressure on local systems to perform, and pull them out of a state of isomorphic mimicry.

Whenever possible, clear quantifiable outcome measures need to become the cornerstone of the accountability framework, not outputs. It is self-evident that any

Picture Contact BV / Alamy

Kunduz Province, Afghanistan, February 2011

development programme will need to plan its activities, inputs and outputs in light of its targets. However, in current practice, these targets quickly become carved in stone, which precludes adaptation to changing conditions and blocks new insights from emerging.

The proposed new development model does not consider inputs, outputs and activities as targets, but simply as a best guess made at a given point in time. Inputs and outputs will still be tracked, but not used as the primary basis of accountability.

In addition to quantitative outcome measures, an accountability framework must broaden its scope to encompass unexpected outcomes. These will probably occur in situations where change is likely to be non-linear and unpredictable. Monitoring and evaluation techniques must scan the system widely, and pro-actively detect unexpected surprises.

Lastly, based on the argument that development is essentially about institutional change, we also need to think about how we can gauge behavioural change, for which a number of innovative methodologies have been developed.

These three types of data – quantitative outcome measures, unexpected outcomes and behavioural change – are all inputs into the learning infrastructure. A structured process of continuous assessment of progress, a re-evaluation of underlying assumptions, and ongoing adaptation to the realities on the ground is essential to maintain the flexibility required in an unpredictable context. Ultimately, the programme must not merely be held accountable for how well it meets outcome measures. It should also be held accountable for how well it interprets the data and whether it responds accordingly – in other words how well does it learn?

Using these mechanisms, policy or programme design becomes less rigid and more adaptable to the unexpected and the uncertain, and therefore more strongly grounded in reality. Flexibility will become the name of the game. Not as a wild card or an open invitation for corruption, but in a planned, structured and transparent manner.

Out of the comfort zone

Development organizations have yet to come to terms with the inherent complexity of institutional change, and adapt their practices accordingly. This requires a change of mindset that moves away from the notion that imported institutional models will automatically function in different social contexts, and towards more flexible and open-ended approaches. At the foundation of this alternative way of thinking is an increased humility and recognition that many answers cannot be known beforehand, and that uncertainty is the name of the game. Development cannot be planned in advance, and in particular not from an ivory tower in one of the OECD capitals.

This may seem like a daunting proposition as it takes us out of our comfort zone – namely thinking that we are the experts and have the answers, and that all we need to do is implement them. This so-called certainty, which in all likelihood has been a false certainty in the first place, has to be left behind.

Indeed, we have to recognize that we have been setting ourselves up for failure all along. Perhaps we can slowly replace this discomfort with a renewed sense of optimism about the opportunities this way of thinking opens up to us. We should let ourselves be surprised by the force of variety and the unexpected. Perhaps we can become inspired again, by working with the grain rather than against it. ■

The woes of budget support

Too much, too quickly

Budget support is relatively new, but already widely criticized. However, despite a lack of evidence that it has an impact on poverty reduction, it is too early to write it off. Budget support is likely to have a significant long-term impact in some partner countries.

summary

- The new millennium saw a shift from project aid to budget support, which channels funds directly to recipient governments.
- Budget support seeks to improve ownership and accountability in partner countries, and requires them to meet certain conditions, such as the development of sound economic policy, fighting poverty and good governance.
- Many have criticized budget support, however, arguing that it plays into the hands of corruption in partner countries.
- Studies on budget support tell conflicting stories, making it difficult to assess its impact. However, there is evidence that it is effective in achieving modest long-term objectives.

Development cooperation has already undergone two paradigm shifts in this new millennium. Initially, donors moved from project aid to budget support, if not in practice, then at least in name. But now, a decade later, support for the instrument is gradually waning, and budget support has become highly contentious. To make matters worse, much of the discussion about budget support is infused with misinformation and misconception.

On the rise

Budget support – which channels funds directly to recipient governments instead of to projects – is not a new instrument, but gained momentum in the first decade of this millennium. Several parallel developments contributed to its rising prominence. The first is the empirical assessment of the conditions needed for effective aid. In 1997 Craig Burnside, professor at the department of economics at Duke University, and David Dollar, the US Treasury Department's economic and financial emissary to China, concluded in their seminal paper, 'Aid, policies and growth', that aid has a positive effect on growth in developing countries that pursue 'sound policies', meaning sound fiscal, monetary and trade policies. Aid would not affect growth when these policies are absent.

This conclusion was reiterated in 'Assessing aid', an influential World Bank study published in 2000 and co-authored by Dollar. The conclusions – despite severe criticism in academic circles – were instrumental in promoting greater reliance on budget support as they stressed the need for stronger selection criteria. In other words, only 'good performers' were to be eligible for budget support. The conclusions also supported demands for stronger country ownership. And in a 2003 journal article called 'Can foreign aid buy growth?', William Easterly, professor of economics at New York University, showed how 'aid bureaucrats' accepted Burnside and Dollar's 'fragile' conclusions and used them to design aid policies in the new millennium.

A second development is that general budget support and sector budget support – which channel money to a specific government ministry for use in a specific sector – evolved as responses to project aid's perceived lack of efficiency and effectiveness. This was caused by the fragmentation of aid efforts, poor coordination and a lack of ownership. Partner countries were tired of the flood of uncoordinated projects in their countries. They, and the donors, felt that pooling aid funds would result in a more effective approach with a higher likelihood of achieving sustainable results.

Budget support was supposed to generate a number of improvements: more predictable aid, lower transaction costs, stronger government systems, more efficient aid allocation and domestic accountability. Partner countries reclaimed ownership of their own development by stating their preference for general budget support, not fully realizing that new conditions could actually impair this ownership.

Third, The Millennium Development Goals (MDGs) were also instrumental to the rise of budget support, as they could

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Andrew McConnell / Alamy

only be achieved by dovetailing development assistance with government structures in the recipient countries. A more informal, but no less valid argument for the move towards budget support was the limited capacity of embassies in donor countries to manage the growing number of projects.

One instrument, many objectives

On paper, donors agree that decisions on budget support should be unanimous in order to send consistent signals to partner governments. But the reality is different. Donors do not coordinate their approaches when it comes to the objectives and conditions for budget support. Often, specific political situations at home determine budget support's lifespan, rather than a joint assessment of developments in the partner country.

Budget support was introduced to enhance donor harmonization and coordination, on the one hand, and improve the ownership and accountability of partner countries, on the other hand. Increasingly though, donors have used budget support as a way of encouraging key political and macroeconomic reforms in partner countries, or to promote better governance and democratic principles. Sometimes, budget support has served other purposes. For instance, Ghana and Mali received budget support partly because of their military contributions to peacekeeping forces in Liberia and Sierra Leone, respectively.

The various objectives of budget support have led to the emergence of different conditions and expectations. Preconditions normally entail more 'technical' eligibility criteria, such as well-defined national policies and strategies for poverty reduction, stable macroeconomic frameworks and credible strategies for improving public financial management. Some donors stipulate other criteria, which require receiving countries to adhere to democratic principles and human rights, or fight corruption. These concepts are far from homogeneous and can be interpreted differently depending on the situation.

Bilateral donors such as Germany and the Netherlands have minimum governance requirements and use their contributions like a carrot to uphold minimum standards and extend them. Other donors, such as the European Commission, inject money into the system arguing that only through these actions will recipients' governance systems improve.

The lack of consensus among donors is also reflected in the different conditions they set for the funds they allocate, and in the overloaded performance assessment frameworks (PAF). These frameworks include donor countries' priorities and specialists' hobby-horses, but do not necessarily reflect ownership. Sometimes donors are deliberately vague about the eligibility criteria, because this gives them more freedom to manoeuvre.

Not a blank cheque

From the start, budget support has had its staunch critics, who argue that it is likely to favour corrupt regimes. These regimes, in turn, would have little incentive to alleviate poverty, since it may encourage political activism hostile to their regimes.

Djankov and colleagues argue in their 2008 article 'The Curse of Aid', published in the *Journal of Economic Growth*, that aid has a negative impact on democracy. One of their arguments, shared by Paul Collier, author of *The Bottom* >

Billion, is that budget support is afflicted by a 'resource curse': the funds provide a windfall but may result in rent-seeking behaviour. Moreover, the argument goes, budget support has a negative impact on domestic accountability and reduces incentives to raise taxes. In a similar vein, Dambisa Moyo, author of *Dead Aid* and *How the West Was Lost*, advocates a complete cessation of budget support because it only enhances corruption and has a negative impact on economic development.

The extensive focus on budget support in the public debate gives the impression that it has become the main aid instrument in many countries. For instance, Dutch daily newspaper *De Volkskrant* stated in an article published on 15 May 2011 that 'in the Netherlands, like in many other rich countries, budget support is the main aid modality'.

Nothing could be further from the truth. Not many countries provide substantial amounts of budget support. In Germany, it accounted for no more than 2.5% of the new bilateral commitments in 2008. In the Netherlands, 3.5% of total official development assistance in 2009 was provided as general budget support. In Sweden it was 6%. But the United Kingdom's budget support contribution constitutes about 20% of its total bilateral aid, and it comprises about 25% of the European Commission's total support.

Another misconception is the idea that budget support is a blank cheque. Countries receiving budget support are always obliged to comply with a number of conditions, including:

- Developing sound macroeconomic policies
- Showing commitment to fighting poverty
- Implementing public finance management reforms
- Showing commitment to good governance (including the fight against corruption)

Moreover, donors are extensively involved in the internal affairs of budget support processes. They hold governments accountable for achieving the targets. And these targets, set in the PAFs, are scrutinized in annual reviews. In other words, budget support is anything but a 'blank cheque'.

However, it is exactly because it is felt that these conditions are often not all met – exacerbated by a number of corruption cases – that budget support seems to be on the wane. Several countries, such as the Netherlands, Sweden, Finland and Germany, have tightened their rules for budget support. Governance issues, including election fraud, caused a number of countries to cancel their budget support to Nicaragua in 2008 and 2009. The Netherlands and Sweden did not disburse to Rwanda in 2009 because the country supported rebels in eastern Congo. The Netherlands suspended budget support to Tanzania that same year because of corruption, and the new Dutch government has further reduced the number of countries receiving budget support. Recently, Sweden cancelled budget support to Zambia because the government was deemed to be lax in its fight against corruption. Germany cancelled budget support to Malawi for the same reason. The United Kingdom and the European Commission, the main providers of general budget support, continue to be its main supporters, although the United Kingdom has become more critical as well.

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What the evidence tells us

Given the controversies, more evidence of budget support's effectiveness would be useful. There are several reasons why evidence is lacking. First, it is a fairly recent type of aid, so there is little data available. Second, the fact that the objectives of budget support are often not well defined and not necessarily coherent makes rigorous evaluation difficult.

And third, choosing an appropriate counterfactual – which examines what the situation would have been without the intervention – is controversial.

But what do the findings tell, even if preliminary?

Cross-country comparisons that analyse whether budget support works better than other types of aid tell conflicting stories. Some studies suggest that project aid has a more significant impact on economic growth than general budget support. Others, however, found the opposite was true, provided that donors and recipients shared the same preferences on budget allocations, and the support was relatively small in relation to the country's total budget.

To kick-start the new EU 'Discussion Papers' series, Jonathan Beynon and Andra Dusu analyzed the relation between budget support and the progress of the Millennium Development Goals (MDGs) in their 2010 paper, *Budget Support and MDG Performance*. They concluded that countries receiving a relatively large amount of general budget support deliver significantly better results on the MDGs for primary education, gender equity in education, child mortality reduction and access to safe drinking water and sanitation compared to countries receiving less.

In general, country case studies of budget support focus on the extent to which it creates an 'enabling environment' for better government policies, instead of assessing the contribution that has been made towards economic growth or poverty reduction. Admittedly, the case study approach also makes it difficult to attribute economic growth to the budget support (as there is no explicit counterfactual).

Several studies suggest that budget support has a modestly positive influence on donor harmonization, alignment, ownership and efficient allocation of public expenditure. However, in some instances, it has also led to a costly duplication of procedures. For instance, the budget support dialogue does not necessarily replace the dialogue between donors and recipient ministries at the sector level, but it generates new consultation and monitoring structures without necessarily abolishing the old ones. In practice, donors use the budget support dialogue structures to discuss specific sector issues. This creates tensions between governments, who seek targets they can easily achieve, and donors, who push for more ambitious goals.

Critics of budget support have suggested that it risks crowding out domestic taxation. As long as the money comes from abroad, there is no need to tax the citizens (voters) in recipient countries. So far, however, studies have not found evidence for this thesis.

One of the most cited impacts of budget support is its positive effect on public financial management and domestic accountability. Budget support gives donors a legitimate argument for insisting on improvements in these areas. However, in general, progress is much slower than anticipated and most results are evident in areas with 'low-hanging fruit', such as budget classification systems and reporting.

So far, country case studies have not conclusively revealed a correlation between budget support and corruption. In fact, corruption indicators have improved slightly in several countries receiving budget support. It appears likely that budget support has helped to reveal cases of fraud and strengthened transparency in government systems. Karel van Kesteren argues in his 2010 book *Verloren in Wanorde* (Lost in Disorder) that project approaches with a multitude of funding sources present higher fiduciary risks than budget support.

In line with Beynon and Dusu's findings, most case studies conclude that budget support has improved people's access to services, for instance in health and education, but in most cases this was not accompanied by better service. These studies strongly emphasize the need for increasing resources – such as building classrooms and improving health facilities – but often overlook the problems of delivery channels and incentives for front-line service providers. As a consequence, rural areas face enormous shortages, and it is difficult to recruit and retain local service providers.

Last, but certainly not least, even while several studies conclude that budget support has effectively contributed to national strategies for poverty reduction, there is still no conclusive evidence that it has an impact on poverty. In general, it appears that expectations were unrealistic given the limited resources and the limited time frame.

Less rhetoric, more pragmatism

The European Commission's Green Paper on the future of budget support, published in 2010, successfully stirred up the debate on budget support. If this debate has made anything clear, it is the lack of consensus on the rationale, objectives and expectations of general budget support. This lack of consensus has important political implications as it undermines the effectiveness of the instrument and complicates the evaluation of the actual success or failure of budget support.

It appears as if budget support is neither a panacea nor a bottomless pit. Evidence shows that while it is unable to bring about huge short-term changes, it does achieve more modest – albeit significant – long-term objectives. One of the problems with budget support is that people expect too much too quickly with insufficient funds. Countries with many core weaknesses, such as non-functioning markets, shortages of skilled labour, an underdeveloped infrastructure and malfunctioning institutions, receive aid. In many of them, budget support is of limited importance in relation to total aid, the government's own budget and the size of the population.

There are also limits to the conditions that can be realistically imposed. Budget support cannot turn autocratic regimes into champions of democracy. Dijkstra and Grigsby conclude that in the case of Nicaragua, donors were overly optimistic to think that they could change deep institutional and political structures in the country.

Budget support can be effective in achieving modest objectives, provided that donors manage to act collectively. However, experience shows that donors still largely act unilaterally, especially in times of crisis (when corruption cases are revealed or when reforms stagnate). In these instances it becomes clear that domestic considerations are more important than a unified assessment. In 2009 in Zambia, after the EC increased its support to the health sector, Sweden and the Netherlands froze their support because of a corruption scandal. That same year, the Netherlands was the only donor in Tanzania to withheld support, also the result of a corruption case. As a result, recipient countries receive confusing and contradictory signals, which undermines the instrument's effectiveness.

As early as 2006, the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs concluded that 'the difficulties identified in reaching the poor by giving support to the central government's sector policy are no justification for falling back on project aid.' This is no different for general budget support. There is a case to be made for less rhetoric and more realism and pragmatism in finding the right modality mix for enhancing development effectiveness.

Budget support is ineffective when there is no country ownership and when donors and recipient countries do not align their priorities and strategies. However, when these conditions are met, budget support helps to enhance transparency and public finance management. Moreover, it creates an opportunity to raise sector issues at a higher level. Budget support can be effective especially in combination with technical assistance, project support and a sector-wide approach. The discussion should not be centred on what is the right modality, but rather on what is the right mix of modalities in specific circumstances. ■

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The Arab street revisited

Petra Stienen reviews seven books that explore the nature of change in the Arab world in recent years. What role have young people, journalists and new technologies played in this process, and what effect will they have on post-revolutionary societies there?

For a long time, the proverbial 'Arab street' – a symbol for public opinion in the Middle East – did not live up to the expectations of Western observers. It was either considered too passive and apathetic, or too irrational and aggressive. In any case, the voices in the streets of Arab cities were not taken to reflect public opinion in the Arab world. This ambivalent view of the Arab street dovetailed perfectly with the idea of 'Middle Eastern Exceptionalism', which argues that change can only come from the outside and not from the inside.

This attitude gave Western powers the excuse to persist with the myth that it was better to support pro-Western dictators than be confronted with – what was considered the only alternative – the chaos of an Islamic revolution. Especially since 9/11, dictatorships in the region have played on the enormous fear of more terrorist attacks by Islamic extremists, and increased the belief in Washington and European capitals that they needed the leaders such as Hosni Mubarak in the fight against terrorism. In the meantime, the democratic deficit in the Arab world was generally blamed on the inherent anti-democratic nature of Islam and not on the corrupt nature of the regimes kept in power by the West.

Taking to the streets

The millions of people who took to the streets of Tunis, Tripoli, Benghazi, Cairo, Damascus, Manama and Sanaa in the spring of 2011 showed that the Arab street is much more politicized than many politicians, policy makers and journalists in Europe and the US have wanted to acknowledge. And to the surprise of many inside and outside the region, the people in those streets showed that the call for change definitely came from within.

While policy makers, journalists and academics in Washington, Brussels and other European capitals are doing overtime writing new analyses for the future of the Arab region, it is useful to pause and look at a number of books that were released just before the start of the Arab awakening in 2011. Each of them has the quality of foresight, which is still useful for explaining why millions of people took to the Arab streets to make their voices heard.

- *Life as Politics: How Ordinary People Change the Middle East*, by Asef Bayat, Stanford University Press, 2010, 320 pp.
- *Being Young and Muslim: New Cultural Politics in the Global South and North*, ed. by Linda Herrera and Asef Bayat, Oxford University Press, 2010, 448 pp.
- *The Media Relations Department of Hizbollah Wishes You a Happy Birthday: Unexpected Encounters in the Changing Middle East*, by Neil MacFarquhar, PublicAffairs, 2009, 388 pp.
- *Meccanomic$: The March of the New Muslim Middle Class*, by Vali Nasr, Oneworld, 2010, 320 pp.
- *The New Arab Journalist: Mission and Identity in a Time of Turmoil*, Lawrence Pintak, I.B. Tauris, 2010, 304 pp.
- *Cultural Encounters in the Arab World: On Media, the Modern and Everyday*, Tarik Sabry, I.B. Tauris, 2010, 240 pp.
- *What's Really Wrong with the Middle East*, Brian Whitaker, Saqi Books, 2009, 304 pp.

Concerns about the political, social and economic situation in the whole Arab region are still legitimate, of course, but these stories so prevalent in Western media and academia do not give the complete picture. There are other stories that need to be told, ones that have somehow never received much traction in Europe and the United States. Neil MacFarquhar tells such a story. He grew up as an expat child in Libya and came back to the region as a correspondent for *The New York Times*. His 2009 travelogue, *The Media Relations Department of Hizbollah Wishes You a Happy Birthday: Unexpected Encounters in the Changing Middle East*, is a perfect introduction for a general readership to other stories from the region.

The amusing title of this book alludes to the custom of Hezbollah's media department to send foreign journalists a birthday card. His choice of title shows that modernity and media savvy have not only reached groups the West would like to support, such as young people using Facebook and Twitter. Indeed, the real strength of his book is that he introduces the reader to alternative voices, such as the voices

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Paul Hackett / Reuters

Young men in Green Square, Tripoli, Libya

of people in Egypt, Saudi Arabia, Lebanon, Syria and Kuwait who struggle, at times at great risk to their own lives, to combine their own culture and religion with the temptations and challenges of modern times.

MacFarquhar's encounter with Fawzia Abu Bakr, a professor of education shows that rebellion comes at a price. She was one of the 47 women who participated in 1990 in a driving demonstration demanding the lifting of the ban on women driving. To this day, she has been denied promotion. In his chapter on Syria, he shows with understated distance how the few opposition figures, such as the human rights lawyer Anwar al-Bunni, are trying to build a vibrant civil society, but very often end up in jail because they are 'disseminating false information likely to undermine the morale of the nation in wartime'. MacFarquhar concludes his book with a plea to give people in the Arab region what they are entitled to: reform from within, rather than reform with conditions imposed from the outside.

Of course, this is a major challenge for the European Union and the United States: will they ever heed Edward Said's warning in his 1978 work *Orientalism* that the West's view of the Arab region is dominated by preconceived notions? Will they really listen to the voices in the many Arab streets without imposing solutions that cater to their own interests, rather than the interests of the people who have lived for decades under harsh dictatorships? If they can offer solutions that bear the interests of the Arab people in mind, they must develop inside knowledge of the Arab region, which will take time and effort.

New media landscape

One way to achieve this is to take a closer look at modern Arab media. Whereas MacFarquhar only touches on the role of the media in one chapter on Al-Jazeera, Lawrence Pintak focuses on the role of journalists and the media throughout his 2011 book, *The New Arab Journalist: Mission and Identity in a Time of Turmoil.*

For those who studied Arabic and the Arab world before 1990, Arabic media were not the means for discovering what was happening in the Arab street. They only printed the official party line. They were not allowed to write or talk about rulers, religious issues or sexuality. Successful journalists were literally on the payroll of people close to or inside the regime.

Pintak gives a good overview of how this has changed over the past decade and how Arab journalists have reassessed their own roles. Nowadays, channels such as Al-Jazeera, MBC and Al Arabiya are shaping the views and attitudes of >

the whole world about the Arab region and its people. They also feed on the enormous hunger of people in the region for real news, who often gather information by collecting bits and pieces of it from TV channels, newspapers and lately blogs, Twitter and other forms of citizen journalism.

Pintak acknowledges TV's key role as an agent of change, or more specifically as a tool used by the architects of change. It has now become clear that during the Arab Spring TV was the most important tool for people to follow the on-going revolutions (only a small percentage of the population had access to Facebook and Twitter).

The Arab media has definitely given a voice to the groups Asef Bayat focuses on in his 2010 book, *Life as Politics: How Ordinary People Change the Middle East*. Bayat introduces two important concepts that show the role 'normal people' play in the Arab world today: social non-movements and the art of presence.

To Bayat, these concepts encapsulate the powerful mobilization of millions of poor, urban Muslim women and young people, who quietly imposed themselves through sheer presence. The author comes back throughout the course of the book to what he calls 'the quiet encroachment of the ordinary ... the discreet and prolonged ways in which the poor struggle to survive and to better their lives by quietly impinging on the propertied and powerful, and on society at large.'

Bayat shows convincingly that it is exactly these groups who have transformed the Arab street into a Political street over the past decades, a change which went unnoticed by many foreign observers until the spring of 2011. Of course, the question remains what role Islam will play for people in the region in their political choices. Bayat identifies a trend in his book, which he calls 'post-Islamist'. To him this trend is 'neither anti-Islamic nor un-Islamic or secular. Growing out of anomalies of Islamist policies since the early 1990s, post-Islamism represents an endeavour to fuse religiosity and rights, faith and freedom, Islam and liberty'.

Julian Eales / Alamy

Bridging the modern and traditional

Tarik Sabry underlines the importance of the ordinary in looking at politics in the Arab world in his 2010 book *Cultural Encounters in the Arab World: On Media, the Modern and Everyday*. Although his book is less accessible than Bayat's, its focus on cultural encounters forces the reader to look beyond the idea that everyday life is mundane and therefore apolitical.

His book explores what it means to be modern in the Arab world by looking at popular culture in the region and asks whether one can be modern and traditional at the same time. For him the Qasr al-Nil Bridge is a case in point of how people deal with the question of modernity in their daily lives. He describes this bridge leading to Tahrir Square in Cairo as a 'working class cultural space' and a 'symbolic manifestation of the socio-economic and cultural change in Egypt'.

In July 2011, I crossed that bridge with one of the young Egyptian activists. Normality had returned to the bridge and young couples were flirting and enjoying each other's company and the view of the Nile. But for the activist, the Qasr al-Nil Bridge has changed forever after being part of an important battleground for freedom and dignity when he and his colleagues were fighting the Egyptian regime in the early days of the revolution.

The cover of *Being Young and Muslim*, a collection of essays published in 2010 and edited by Linda Herrera and Asef Bayat, shows a picture of young people taking a walk through Al-Azhar Park, near 'Islamic Cairo'. The park is one of the few public spaces where young people can have fun, and enjoy themselves within the boundaries of more clearly described regulations on decency at the entrance of the park. The cover shows how young Muslims are trying to simultaneously reconcile their youthfulness and their Muslim heritage. The editors of this book indicate that fulfilling these young people's longing for normality is anything but straightforward in the Arab world.

Unemployment statistics for the young generation – which are above 25% in the Arab region according to official figures – clearly show that 'for an average middle class youngster, not having a job means little income, slight chance of having independent accommodation, and low chance of marriage – in sum no meaningful autonomous life'. In fact, the demands of the demonstrators in the streets of the various Arab capitals were not exceptional at all, but in line with the grievances of many dispossessed groups and young people all over the South.

The words on their banners and in their YouTube clips during the Arab Spring were clear: they wanted jobs, they wanted to marry and above all they wanted dignity. But all of these normal demands were out of reach because graduates found there were no jobs for them, and widespread corruption enriched the few and excluded many. And

Zohra Bensemra / Reuters

Young women in Algiers, Algeria

remarkably for some, with a few exceptions the vast majority of the millions of demonstrators in Tunisia, Egypt and Syria did not call for the destruction of the West or Israel, or for the establishment of a new Islamic Caliphate.

Of course, there has to be a more open attitude to the voices in the Arab streets if there is to be genuine change from within. But the major challenge is whether the mentality of people in Arab countries will change in their dealings with each other. Indeed, the wall of fear erected by decades of authoritarian politics may have been torn down by the demonstrations and protests, but there still exists a wall of fear regarding the expression of personal liberties.

Personal liberties, democratic ambitions

Brian Whitaker, a *Guardian* journalist with extensive experience in the Arab world, asks pressing questions about personal liberties in his 2010 book *What's Really Wrong with the Middle East*. He focuses for a large part on the failing education system. To him, this is exactly the place where young people are confronted with a mixture of paternalism (at home and among teachers), authoritarianism (the state) and dogmatism (religion). He raises concerns that it will be difficult in the coming years for young people to break through this cycle and its consequences because they live in societies where there is little leeway for critical thought, creativity and active citizenship.

Vali Nasr is less concerned about these issues in his *Meccanomic$: The March of the New Muslim Middle Class (2009)*. He argues that if Western governments want to contribute to changing and modernizing the Middle East, they should really concentrate on the democratic ambitions of the rising middle classes. His enthusiastic call in the first part of his book to pay more attention to the economics of a rising Muslim Middle class is a real eye-opener.

This class's voice will not be shaped as much by religion as by the opportunities they will have to assert their economic rights as entrepreneurs, professionals and consumers. Nasr adheres to the idea that while commerce might not breed secularism, it will encourage moderation. He expresses great admiration throughout the book for Turkey, which he feels has created a sustainable balance between Islam and modernity.

In the coming months, the world will witness preparations for elections in Tunisia and Egypt. While events in other countries such as Libya and Syria, have not yet led to elections being put on the agenda, these countries are certainly undergoing transformations and transitions. It remains to be seen whether the calls in the Arab streets for dignity, an end to corruption and more jobs will result in sustainable and successful political solutions. One thing is certain: the new leaders in the Arab region, as well as Western policy makers, can no longer ignore the legitimacy of the voices in the Arab street, nor the calls of citizens who want to be heard and taken seriously. ■

EU global development policy

The public goods conundrum

The European Union has the opportunity to establish itself as a leader in the new, global development landscape. But to do so, its member states must agree on a distinct policy framework that addresses the need to provide global public goods.

summary

- Global power shifts are altering the development landscape, necessitating a parallel shift from a development aid focus to a global development policy that addresses priorities linked to global public goods.
- The European Union has the funds, expertise and experience to drive this initiative, but first its member countries need to agree on concrete goals and implement a common strategy for realizing them.
- Public diplomacy regarding EU development policy needs improvement. The EU and its members must convey to the public that global development is a long-haul process that does not immediately produce measurable results.
- The EU must also convey that the short-term costs will be outweighed by the longer-term benefits of equitable GPG provision.

The European Union (EU) has massive potential to drive the global development agenda in the 21st century. It has cash, technical expertise and its own post-war experience to share. Its economic size and range of activities mean it has a wide array of policy tools to bring to the table. Making the most of these advantages requires more Europe: a European strategy for global development, with collective action through the common institutional structures and actors that have been created for this purpose. However, in the current political and economic climate, many of the EU's 27 member governments are reluctant to act collectively, not only in development policy but in virtually every area of EU integration. This is a short-sighted view: in an increasingly interdependent world, where the global power balance of power is shifting rapidly, European countries have little option but to work together.

Global public goods

The global development landscape is changing fast. Power shifts in the 'new global society' are demanding traditional development actors to move beyond aid towards a 'policy for global development.' This means that policy strategies need to adjust to address global development priorities that are increasingly interwoven with global public goods (GPGs) challenges (for more on these issues, see Inge Kaul's special report, 'Collective Self-Interest', and Ellen Lammers' special report, 'Reshuffling Power', in issues 20 and 24 of *The Broker*, respectively).

GPG challenges such as climate change, biodiversity, food security, migration, financial instability and human security do not recognize borders. They affect rich and poor countries alike. GPGs such as peace, economic stability, environmental sustainability and social justice are both requirements for and outcomes of socio-economic development. The frequency and intensity of recent global crises, such as the food and financial crises, have underlined the global nature of development in an interdependent world. If dealing with development in isolation was ever possible, it is certainly not any more.

Policy for global development therefore means much more than what is traditionally understood as the remit of development cooperation. It extends beyond the narrow policy field of official development assistance (ODA) defined by the OECD–DAC. This does not mean that aid is an

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Fabrizio Bensch / Reuters

Berlin, Germany

outdated concept, despite predictions of 'the end of ODA'. Traditional development challenges such as aid effectiveness and policy coherence for development (PCD), which are aimed at eradicating poverty while discouraging policies that undermine this goal, are still part of the global development story. Policy for global development includes development aid, which is increasingly being used to fund GPG provision.

Policy for global development is bound up with equitable GPG provision in ways that are conceptually much broader than PCD. It also includes aspects of classical foreign and security policy – the 'high politics' of international diplomacy. Economic and trade policy, finance and investment policy, environmental and climate change policy, fisheries, agriculture, technology transfer, migration, and aspects of 'domestic' policies – such as consumer protection policy and food standards, which might affect producers and markets in developing countries – are all components of a global development policy package. The issue is not only how policies in these areas impact on aid effectiveness and policy reduction, but how they can be utilized at the global level to address complex challenges, entrench successes and move forward in hitherto difficult areas where globalization needs better management

If global development is to become the leitmotif for EU policy on developing countries, a clear and convincing strategy for providing GPGs needs to be articulated and implemented. This would pave the way for a harmonized approach between member states and Community interventions in developing countries, engagement with emerging countries, and cooperation in international negotiations. Such a strategy would need to involve several elements:

- Decisions about which GPGs to focus on
- Decisions about how to engage with countries or groupings of countries with varying development levels, needs and priorities
- Decisions about which countries should continue to receive ODA and which countries could rather benefit from partnerships based on mutual interests and the promotion of activities such as trade, energy, environment and investment cooperation
- Decisions about the way to organize within Europe so that member states and Community actors are all pulling in the same direction
- Decisions about how to get international agreement on the global regimes needed to entrench GPG provision

Such an ambition would also require that global development policy become the central element of the EU's international engagement – a strategic decision that would allow the EU to fully seize the potential of its external policies.

On the right track

Europe has long been a global leader on development-oriented issues and policies. The EU's development policy stems from the same founding moment that initiated the European integration process, the Schuman Declaration of 1950. In recent years, the EU has issued several policy declarations that have started a transition from Europe's >

traditional role as a group of 'donors' into a new role as a development 'partner' (see 'Timeline' box), thereby beginning the tortuous process of modernizing development policy to meet the demands of a changing world.

The EU appears to be on the right track to address a more complex world and formulate policies that support a GPG approach. All in all, its policy statements represent a comprehensive and innovative framework. Nevertheless, as is often the case with the EU, the challenge is to get all of the relevant actors to agree on concrete goals and to implement a common strategy for realizing them. Taken either in isolation or as a group, the EU's policy documents do not constitute a strategy for global development.

The EU has launched several initiatives aimed at underwriting GPG provision at the global and regional levels in the framework of its external action. Unfortunately, such efforts often fail to deliver on their promises. This is sometimes due to factors outside European control. The EU's new strategy for the Horn of Africa, for example, has four overarching 'public goods' objectives: to create security and build peace, to strengthen regionalism, to tackle fragility and support democratic governance, and to build prosperity. However, the strategy faces serious challenges stemming from tensions in the region itself.

As if 'external' challenges were not enough to deal with, the fate of the EU's grand regional and global visions often suffers from lack of commitment by European governments to empower the EU with the tools for implementing promises made in the policy declarations. This reluctance manifests itself in several ways.

Reluctance to commit

First, many of the EU's initiatives can only be taken on a best endeavour basis. For example, the EU supports the Extractive Industries Transparency Initiative (EITI), which aims to make commodity transactions between international companies and developing country governments transparent. Nevertheless, the EU has not yet managed to legislate to ensure European companies respect EITI guidelines.

Second, the nature of the global challenges requires a strong development-oriented approach and vision in order to be addressed sustainably. This is yet to emerge in the EU. For instance, in the peace and security field, the EU and its members have acknowledged the complex links between security and development and declared their intention to address these.

The EU has backed these words with several peace-building missions to developing countries in recent years. The mandate of the 18-month EUFOR mission to Chad and the Central African Republic, which ended with a handover to the UN in March 2009, was to protect civilians, facilitate the delivery of humanitarian aid and provide a secure environment for political transition. The mission nevertheless received criticism from many quarters for not addressing the complex factors behind the conflict.

Similarly, the EU-Atalanta naval mission in the Gulf of Aden has successfully protected UN humanitarian aid convoys to Somalia, but has not ended piracy off the Somali coast. The mission is in any case tasked only with dealing with the symptoms of a classic case of 'tragedy of the commons': the United Nations Environment Programme alleges that years of illegal overfishing and toxic waste dumping have destroyed much of Somalia's territorial fisheries and pushed skilled sailors into seeking alternative sources of income.

Third, the EU has struggled to build the broad coalitions required for getting signatures on binding international agreements for entrenching GPG provision. Whatever vision that the EU achieves internally, it needs to be able to mobilize support from non-EU actors. A stark illustration of the EU's failings in this regard was the fate of the EU's common position during the December 2009 Copenhagen Summit on Climate Change. European heads of state did not let the Commission negotiate on their behalf, and without the unequivocal backing of its members the EU was powerless to prevent the United States, China and India from sidelining its proposal.

Timeline: Europe's tentative steps towards global development policy

The 1992 Maastricht Treaty included provisions on coherence between foreign policy and development objectives.

The 2003 European Security Strategy stated that 'security is the first condition for development' and called for coordination of the various instruments at Europe's disposal.

The 2005 European Consensus on Development defined poverty reduction as the primary goal of development policy, benchmarked against the Millennium Development Goals (MDGs). The Consensus explicitly linked policy areas, including trade, human rights, good governance, education, health, environment, migration and security, with the MDG agenda and poverty eradication.

The 2005 EU Africa Strategy combined trade, aid and support for security and governance in a 'package deal' for partner governments in Africa.

The 2007 EU Code of Conduct on the Division of Labour has the objective of enhancing complementarity among EU donors (Community and member states) in developing countries.

Article 208 of the 2009 Treaty of Lisbon stated that 'the Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.'

The 2009 Council Conclusions on PCD and the 2010 12-point Action Plan for meeting the MDGs stressed the need for the EU and its members to deepen efforts to make aid more effective, whilst at the same time moving beyond the narrow focus of merely providing aid conditional on reforms, market access and other donor interests.


Gonzalo Fuentes / Reuters

Paris, France

Although the international process on mitigating climate change is far from over, the outcome of the Copenhagen Summit disappointed many who had hoped for a binding commitment to address this GPG provision problem.

Fourth, the EU's complex institutional and bureaucratic set-up has at times proved inadequate for mobilizing the political momentum to implement its ambitious global agenda. The EU is both a set of institutional actors on the one hand, and an arena for member state bargaining, on the other. Within this structure, multiple policy actors must reach common positions on a large number of issues, especially cross-cutting ones such as GPGs. It is a major challenge to reach compromises that are both acceptable to all actors within the EU *and* meaningful for development, in that non-EU actors affected by EU policies also benefit.

Often, the complexity of the EU decision-making processes has undermined efforts to link GPGs to development policy. Responsibilities within the EU are often fragmented and leadership diffuse. It is sometimes difficult to identify what the EU is trying to do – in most cases the many actors that make up the EU all need to agree before it can do anything, and a clear common position is not always possible.

Competences over specific policy areas vary from being exclusive to the Commission (trade), to being shared with the member states (development) or remaining in the domain of member states (foreign and security policy).The Commission acts as a donor in its own right, while bilateral development policy is still to a large extent considered a national prerogative driven by donor priorities and interests, especially in the larger member states. This tendency has increased noticeably in recent years amid the financial crisis and the accompanying rise of Euro-sceptic political discourse in many parts of Europe.

Why the struggle?

GPG provision involves costs. Security, free trade and pollution control do not happen naturally but require both active intervention and the preparedness to sacrifice individual gain in the interests of the common good. The question of who pays is sharpened by the 'free rider' problem: somebody has to pay the costs of providing a benefit that everyone can use, but some beneficiaries will avoid paying if they possibly can.

The problem with GPGs is that while benefits are often diffuse and difficult to measure, costs are often much easier to grasp, especially if these can be calculated financially. In a world in which resources are scarce, decisions to underwrite GPGs and orient their benefits towards inclusive development usually require making trade-offs between legitimate policy objectives and the legitimate interests of powerful political and economic actors.

This complex problem is not merely theoretical but has significant policy implications. In the EU context, promises to provide GPGs can be made at the community level, but the costs for ensuring they are provided must be borne by member states. At the minimum, democratically elected governments need to demonstrate that tax payers receive concrete benefits from the sometimes huge payments required to underwrite GPGs.

The recent euro crisis has highlighted both the free rider problem and the difficulty of resolving it: Greece, Ireland, Portugal, Italy and Spain have been accused of profligacy incentivized by the economic stability of the Eurozone, and, >

faced by the prospect that one or more of these countries will default, the German government has been forced to provide costly guarantees to protect the euro. This has not been easy because of strong domestic opposition in Germany, where many voters feel that they are being made to bear costs unfairly.

Similar dynamics can sometimes be seen in external policy. EU-driven efforts to underwrite 'peace, stability and prosperity' in the European Neighbourhood Policy (ENP) have foundered partly because the EU's member states have been unwilling to pay the costs of incentivizing political and economic reform, such as opening up to competition from North African agricultural exports, providing visas for citizens of neighbouring countries who want to work in the EU and increasing financial transfers to ENP partner governments. All of these measures would impose costs (real or perceived) on groups of voters in member states.

As the promise of the Arab Spring became frustrated in Egypt and Tunisia and turned into a violent summer in Libya and Syria, the EU found that its options were limited. Its main policy response to the turmoil in the Arab world, the 'Partnership for Democracy and Shared Prosperity with the Southern Mediterranean' released on 8 March 2011, offered southern neighbours very little that was not already on the table. The EU's High Representative for Foreign and Security Policy, Catherine Ashton, may have liked to do more, but her mandate is given by the member states – some of which have preferred to pursue change in the region through NATO rather than the European External Action Service (EEAS).

Pushing for reforms under the Lisbon Treaty

Article 208 of the Lisbon Treaty put development policy at the heart of the EU's external action, promising to improve the Union's effectiveness as a development actor while raising its international presence. High Representative Ashton welcomed the Lisbon Treaty as a 'once-in-a-generation opportunity' to improve the coherence of the EU's external policies in support of common global objectives.

In June 2010, EU Development Commissioner Andris Piebalgs told the European Parliament Development Committee that he believes that 'perhaps more than in any other sector, development reflects Europe's shared values and common willingness to implement them effectively… development rightly finds its place at the head and heart of EU external action worldwide.'

Following the Treaty, the EU made changes to the institutional framework for making and implementing development policy. The two most significant innovations are the launching of the EEAS in January 2011 after long and at times acrimonious intra-EU negotiations over its policy mandates, and the merger of the policy units of the Commission's DG Development and the EuropeAid agency into the new Directorate-General EuropeAid Development and Co-operation (DG DevCo), which is responsible for overseeing and implementing the EU's development programmes.

These new institutions have to meet the challenge of sharpening the EU's profile as a global player and improving the coherence of EU's external policies and actors. The institutional mergers should be welcomed at face value: bringing together policy analysts from the former DG Development and implementation officials from EuropeAid promises mutual learning as well as efficiency gains. Bringing all of the country and regional desks together under one roof in the EEAS will (when the Service finally moves into its new building) end an artificial administrative split between the ACP countries and the rest of the world.

The EEAS can play a key role in improving the EU's internal coordination, since it provides a focal point for member state and Commission policies. The inclusion of member state officials in the EEAS – especially at the delegation level – offers the prospect that better information exchange will facilitate closer coordination between bilateral and Community programmes. Its relationship with DG DevCo and other Commission directorates with external policy mandates that are not formally part of the EEAS, such as DG Trade and DG Environment, will also be crucial for Europe's policy for global development.

While it is still too early to draw concrete conclusions as to whether the new institutional framework will live up to the Lisbon Treaty's promises, there are already signs that Article 208's potential to refocus EU external policy on development may not be fulfilled. Although the EU's common institutions normally work together in international affairs, tensions have surfaced in the past between the Council Secretariat and the Commission in times of turf war.

From a development perspective, the European Parliament is a key player: at the insistence of the Parliament the Council decision establishing the EEAS was amended to include explicit references to the 2005 Consensus on Development and Article 208 of the Lisbon Treaty.

Despite reassurances, the allocation of development policy-making responsibilities to the EEAS entails risks for the PCD agenda and for the EU's work on GPGs. Thus far the EEAS roll-out has been dominated by the foreign and security policy bureaucracies in Brussels and member state capitals, raising concerns that development policy may be 'securitized' or subverted by short-term foreign and security policy concerns.

The Lisbon Treaty has not changed the fact that decisions under the Common Security and Defence Policy will still be taken on an ad-hoc basis in the European Council. Member states – especially the 'big three' (Germany, France and the United Kingdom) – are likely to continue to dominate external policy decision making and make the most of opportunities to promote national foreign policy interests through the EEAS.

Member states are in the driver's seat

January 2011 brought to an end three major public consultation processes – all initiated by the European Commission – on the funding of EU external action after

Stephen Hird / Reuters

London, the United Kingdom

2013, and on Green Papers on the future of EU development policy and the future of EU budget support. The consultations reflected a genuine effort to reach out to stakeholders, from whom the Commission received around 230 written contributions from EU member governments, national parliaments, partner countries, international financial organizations, civil society organizations, private firms and interested citizens.

The consultations process is to result in Commission communications on budget support and modernizing EU development policy due to be published in late 2011. So far indications from Brussels suggest that the results of the consultations are only partially being taken on board. It is likely that the development communication will argue that the consultations confirmed the relevance of the Commission's approach to development, and will focus mostly on aid effectiveness leaving the 'beyond aid' debate to the member states.

The paper is also likely to stress the need for distinct policy frameworks to structure the EU's engagement based on the development level of its partners, with priority given to sub-Saharan Africa and the ENP. The communication on budget support is likely to focus on governance and transparency, with measures to strengthen domestic resource mobilization in partner countries and reduce dependency on aid.

The next step is to use the consultations to formulate a more effective EU development policy linked to GPG provision. For this to bear fruit, member states need to commit fully to both the policy making process and its implementation. Although the United Kingdom, France and Germany are ahead of the European Commission in their thinking on GPGs, they are currently sending mixed messages. All have recently issued updated development strategies that stress the global nature of development challenges and the need to work with emerging countries on global issues from climate change to food security to financial regulation.

The 'big three', however, do not articulate a common strategy for addressing GPGs in the European context, which would require them to coordinate their policy positions not only at the national level but among the different line ministries as well, many of which have clearly defined national interest agendas. Until this happens, the Commission's mandate to move its own policy agenda beyond ODA is limited.

As Simon Maxwell noted in a recent piece for *Europe's World*, 'Why the EU's Aid Effort Must Escape the Budgetary Axe', Europhiles may need to temper their expectations. European consensus does not occur easily or naturally but is usually the outcome of arm-twisting and horse-trading between member governments. National interests have not gone away and still play a major role in development policy.

The big EU member states continue to programme aid in accordance with national prerogatives and regard the EU as complementary to their bilateral efforts. Visibility and flag planting remain very important – and justifiably so given that tax payers have a right to know what their governments are spending money on. Everyone agrees there needs to be more coordination, but nobody wants to be coordinated – despite the creation of the EEAS and DevCo for precisely this purpose. This has been a long-standing problem with aid programming, and it is only likely to get bigger as development policy moves beyond aid.

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Aid effectiveness necessary but not sufficient

The current negotiations on the EU's next 'multiannual financial framework' for 2014–2020 provide an opportunity for EU members to show greater commitment to global development. In terms of absolute numbers, it would not take much to signal to the rest of the world that Europe is ready and willing to take greater responsibility for solving global problems and thereby have more say in how these problems should be addressed.

In the current multiannual financial framework, 'heading IV' (which finances external policies, and of which the vast majority is earmarked for development) is around €56 billion for 2007–2013. This pales in comparison to the nearly €50 billion which is spent annually on the Common Agricultural Policy. If, as appears likely, EU member governments are unwilling to raise the EU's overall budget, even a small decrease in the Common Agricultural Policy would make a big difference if it were allocated to the EU's development budget instead. Such arguments are, however, unlikely to sway decision makers in Europe's agriculture and finance ministries, for whom the key question is often 'what do we get back when we transfer money to Brussels?'

Resources aside, the greatest problem for European development policy remains complementarity among EU-level actors and member states. Member states still do not have a common strategy for global development and for how best to use the EU to achieve it. Member states are starting to move towards GPG provision individually, but domestic opposition to real or potential costs cannot always be reconciled by promises of diffuse mutual gains. The EU cannot become a genuine partner for development if its members insist on remaining donors.

However, as noted above, 'more Europe' cannot be built on the uncertain foundations of 'best endeavour' language. The sluggish implementation of the 2007 EU Code of Conduct indicates that there is need for binding EU legislation, possibly in the form of a regulation, to strengthen the Lisbon Treaty's provision that member states should coordinate their aid programmes. This proposal was expected to be part of the 2011 spring package, but has dropped off the agenda for now.

The EU's first joint Commission–member states Country Strategy Paper (for Southern Sudan for 2012 and 2013) is currently being prepared. Further down the line, agreements on a shared intervention logic adapted to the partner country or region and including not only the management of aid modalities such as budget support, programmes and projects, but also GPG strategies, will be needed.

There is also room for improvement in the area of public diplomacy regarding EU development policy. Regular and clear communication with the European public is needed. It needs to be made clearer to voters, parliamentary decision makers, and officials in non-development ministries that development is a long-haul process, it does not produce immediately measurable results, it involves some risk taking especially to ensure ownership, and that the short-term costs will be outweighed by the longer-term benefits of equitable GPG provision. As the climate change debate clearly illustrates, building public consciousness about these complex issues is key to increasing the political will of decision makers. ■

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Article 208 of the Lisbon Treaty

On 3 November 2009, the Czech Republic was the last of the 27 members of the European Union to ratify the Lisbon Treaty. Article 208 states the European Union's joint objective of not only reducing, but also completely eradicating poverty:

1. Union policy in the field of development cooperation shall be conducted within the framework of the principles and objectives of the Union's external action. The Union's development cooperation policy and that of the Member States complement and reinforce each other. Union development cooperation policy shall have as its primary objective the reduction and, in the long term, the eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.
2. The Union and the Member States shall comply with the commitments and take account of the objectives they have approved in the context of the United Nations and other competent international organisations.

The Lisbon Treaty had predecessors in the 1992 Maastricht Treaty and the 1997 Amsterdam Treaty. The former established the following development cooperation objectives:

- To fight against poverty in developing countries;
- To enhance the social and sustainable development of developing countries, particularly the least favoured among them; and
- To further the integration of developing countries into the world economy.

It defined three principles upon which EC development policy should be based:

- Complementarity between development policies of the Member States and the European Commission;
- Coordination between Member States and the Commission at headquarters and in recipient countries; and
- Coherence of all Community policies so that they take development objectives in the South into account.

The Amsterdam Treaty added the following principle to the first three:

- Consistency of all external activities of the European in the context of all external relations: security, economic and development policies.

Source: The European Union

On the website

***The Broker* is proud to host two lively online discussions. The first asks how the concept of human well-being should be used as society moves towards building an inclusive economy. The other debate focuses on aid effectiveness in a multi-polar world.**

Human well-being in the 21st century

The Broker started an online discussion that is part of the Bellagio Initiative, a series of global consultations (led by IDS, the Institute of Development Studies, and the Resource Alliance, and supported by the Rockefeller Foundation) that aims to rethink the framework for philanthropy and development. *The Broker's* debate explores how the promotion of human well-being is related to building a global sustainable and inclusive economy.

According to Charles Seaford, head of the Centre for Well-being at the New Economics Foundation in London, growth should not be the primary objective of economic policy. 'To discuss whether you are for or against growth seems to me to be rather pointless. To discuss what targets economic policy makers should use is more practical.'

Commentators have kicked the discussion off by asking how to get there. Economist Nicky Pouw, from the University of Amsterdam, pinpoints part of the problem as being a lack of ethics and morals in economics, wondering how much inequality human beings are willing to accept? 'To the extent that people and countries grow disconnected forever?' she asks. Pouw's solution is to develop different economic models to 'capture the increased interconnectedness of uncertainty and risk'.

Dean Baker, co-director of the Center for Economic and Policy Research in Washington DC, also focuses on economists. He argues that economists' fundamental problem is their lack of accountability to the general public. He calls it the 'corruption of the economic profession'.

Charles Seaford mingles in this discussion, asking who should hold economists accountable and how? He sees measurement and accountability as compatible elements of the same problem, arguing that 'new forms of measurement are in essence accountability mechanisms, part of their function is to give politicians (and the public) the tools and the confidence to challenge the professionals.'

Economist Dirk Bol writes that economic growth and GDP are still crucially important, 'a necessary condition' for real well-being for the poor. Finally, David Sogge, board secretary of the Transnational Institute, a worldwide fellowship of scholar activists, suggests that one solution might be to devote systematic attention to the resource transfers that still flow from the world's poor to the world's rich.

What's beyond aid?

A second online discussion explores aid effectiveness after the Paris Declaration and Accra Agenda for Action, and ahead of the 4th High Level Forum on Aid Effectiveness that will take place in Busan, South Korea in November 2011. *The Broker* – in cooperation with the OECD – asks experts to discuss what's beyond aid as we know it, and to think beyond traditional donors.

Anthea Mulakala, from The Asia Foundation in San Francisco, writes that 'Asian countries conceptualize development differently from traditional donors ... It is perhaps not surprising that many Asian donors have an aversion to adopting aid effectiveness frameworks and principles that they did not conceive. Asian countries struggle to identify which, if any, of the multilateral aid bodies align with their interests.'

Dweep Chanana, a director of Philanthropy Services at UBS, a private bank based in Zurich, also takes the role of new actors as his starting point. He writes that emerging donors show 'no enthusiasm for embracing the developed world's coordination efforts'. Why? Because for them 'foreign aid is often a zero sum game with competition, rather than collaboration, the natural mode of operation.'

Michael Hubbard and Pranay Sinha, both from the University of Birmingham, argue in their contribution that China likes, as do other non-DAC donors, to include its export-import bank loans as part of their official foreign aid. 'Will China's new position challenge the DAC donors "ODA" architecture?' they ask. They argue that the forum in Busan should acknowledge the importance of creating transparency in 'other public flows for development' as well as aid.

From the editor's blogs

All of the editors at *The Broker* run their own blog, each of which concentrates on a specific theme that reflects on new research, publications, blog posts, conferences and current affairs. Editor Ellen Lammers tackles famine politics, whereas Evert-jan Quak explores the root causes of the current African food crisis. Maarten van den Berg takes a closer look at the impact Italian Marxist Antonio Gramsci had on the making of contemporary politics. Other issues editors raised in their blogs include how excessive inequality undermines democracy, the way trade negotiations limit the re-regulation and stability of financial markets, the changing face of citizen action, the role that 'memory initiatives', which help people process a past of human rights abuses and violence, can play in combating impunity in post-conflict countries, and so on...

By **Evert-jan Quak**, web editor.

Picking up the pieces

Two wars in 20 years between South Ossetia and Georgia have created a society in a state of flux with a flow of internally displaced people and returnees in the region. Dina Alborova, director of the Agency for Social, Economic and Cultural Development, talks about the difficult job of bridging the gap between ethnic Georgians and Ossetians and building peace in the region.

Denis Sinyakov / Reuters

Dina Alborova graduated in history from Belarusian State University. She began teaching political science at South Ossetian State University in 1993. In 1996, Dina was appointed project manager at the Norwegian Refugee Council, and in 1998 she became manager of a sustainability programme in the Georgian-Ossetian conflict zone for the International Rescue Committee. Dina has been director of the Agency for Social, Economic and Cultural Development since 1999, and teaches politics and conflict studies at South Ossetian State University.
Interview by **Anna Matveeva**

How did you get involved in peace work?
I have been working in the field of conflict resolution for the last 17 years. My own life as an individual and my peace-building work are so interconnected that it has become a major part of my identity. I got engaged in the peace process in South Ossetia as a young lecturer in political science. Then my work at the Norwegian Refugee Council plunged me straight into the plight of internally displaced persons, mostly ethnic Georgians who had fled South Ossetia during the 1991war, and whose return we sought to facilitate.

A legacy of violence and distrust made it very difficult for people to re-integrate. I felt I had to confront this issue. I learned new negotiation and conflict resolution skills, making me more prepared to reach out to the other side. In 1999, I founded the Agency for Social, Economic and Cultural Development, an NGO in Tskhinvali engaged in peace building and social development. My colleagues and I continue to operate despite discouraging conditions following the 2008 war.

Are there knowledge gaps that challenge your work?
Society paid a huge price for the wars and their aftermath, and there is no real, in-depth data on social problems. We know that security was foremost in people's minds initially, but now they have other concerns as well. Recipients of our agency's assistance – vulnerable groups, returnees and internally displaced persons among them – articulate a host of human needs, such as social problems, unemployment and low local salaries. All these issues remain vastly under-researched.

The area along the *de facto* border between Georgian and Ossetian territory is difficult. It is essential to monitor and analyse the dynamics of change there. Initially, the area was thought to be unsafe, so people started leaving and took their children with them. Schools began to close down.

Now security has improved, so people are returning. They have little choice but to work in agriculture again though. Many have already lost their skills and attachment to the land, so it is difficult for them to get back into a routine. To make matters worse, there is no agricultural credit to speak of, and poor road infrastructure makes it difficult to access markets.

The EU Monitoring Mission closely monitors the situation on the Georgian side. However, the mission does not have

access to the Ossetian side. Even if they were to go there, the distrust runs so deep that I doubt local communities would be willing to tell them anything of substance. It would take a more impartial body to undertake such sensitive field research.

We have our own findings about the intricacies of reconciliation, which would be interesting to compare with situations elsewhere. For instance, we believed people from mixed marriages would be a good peace-building resource for our activities. The opposite was true: under pressure from both sides, this group proved extremely cautious. The same goes for mixed Georgian-Ossetian villages, where mutual fear was greater than in areas composed of single ethnic groups.

What can the 2008 war experience teach us about peace building?

The war bitterly disappointed many South Ossetians involved in the peace process. Nevertheless, relations with our Georgian partners withstood the militarist hysteria, and people behaved decently across the conflict divide. In this sense, it was worth pursuing peace at the time. Perhaps the war was inevitable, as there were major interests at stake, fuelled by geopolitical rivalry. Local civil society did not have the power to resolve the situation, but it still has to pick up the pieces from the fall-out.

Much research went into analysing the conflict itself, but little was dedicated to the analysis of civil society's efforts to resolve it. Looking back now, there were three stages. There were many joint Georgian-Ossetian projects and peace initiatives from the 1991 war to the Rose Revolution in 2003. Interaction between communities was gradually getting back to normal. There was a vast black wholesale goods market, in which traders from both sides cooperated profitably. However, this created an illusion of resolution. In reality, there was a peace-making 'business' at work, and not a genuine resolution of the conflict.

Things have worsened since the new leadership came to power in Tbilisi in 2004, with more hostile incidents and road closures. Relations between ethnic communities in South Ossetia have also deteriorated. This new situation demanded our attention, so we shifted our focus to bridging the gulf between different groups in South Ossetia. What we now have is the third, post-war stage, in which society is still severely traumatized.

Has 'gender and conflict' played a role in your peace-building initiatives?

In South Ossetia, peace-building and civil society projects generally attract women, whereas politics is almost always in the hands of men. I wonder why, whether this is a conscious choice made by women, or whether their political participation is impeded by invisible barriers.

Too often, 'gender and conflict' implies women-related problems. However, women have proven to be quite resilient under the circumstances. They seem to draw energy from their survival instinct and sense of family. Many men, meanwhile, have experienced psychological traumas and feel lost. Health records and life expectancy data confirm this. Researchers in the Caucasus region have conducted studies on women's issues, but they have neglected to focus on how conflict affects men.

Are there taboo subjects which are too 'political' for researchers to touch?

Absolutely. Local society is keen to find out why international organizations did not intervene in 2008. There were many early warning signals that the situation was spiralling out of control. The Organization for Security and Co-operation in Europe, the UN and other agencies had a presence in the region. The European Union had appointed a Special Representative for the South Caucasus in 2006. However, this international infrastructure proved ineffective. When I am asked by my constituents, who know that I work with international partners, why they failed to protect them, I don't know what to say.

The presence of the international community in South Ossetia enabled us to establish a local civil society and gain access to global solidarity networks. But it overlooked the danger of a new war. An honest analysis of the roles played by international organizations would help to clear the air and reveal what we as practitioners can realistically expect from such mechanisms. Perhaps multilateral bodies are too constrained to be effective when real power is at stake. Perhaps it all depends on the key personalities involved. But these questions need to be asked, even if they ruffle feathers. ■

See www.thebrokeronline.eu for a longer version of this article, including a brief history of conflict in Ossetia.

Cheap money

Few topics in the broad domain of 'development' are as sexy as microfinance. Rock stars, royalty, the Nobel prize committee – almost everyone seems to have embraced it. Public relations for microfinance has been awesome.

Unfortunately, the public's image of microfinance bears little resemblance to what is happening in the field. The public's idea of microfinance is small groups of women jointly managing their financial affairs under village trees, carefully converting favourable loans into productive assets that will eventually lift them out of poverty. That image does not capture the reality of money lending to the poor.

Most parties in the microfinance sector believe that they should focus on fully recovering all costs in order to expand their services to as many needy customers as possible, and perhaps even make some profit along the way. As a result, interest rates for microcredit have shot up since the early days when Muhammad Yunus started pioneering small loans for village women.

Interest rates of 20%–70% per year are normal. Not surprisingly, this has attracted the attention of some financers, who smell an opportunity to make money. Indeed, the first microfinance millionaires have cropped up. To be clear: these millionaires are lenders, not borrowers.

Of course, there is absolutely nothing wrong with making money while saving the planet and eradicating poverty. But the current situation raises an uncomfortable question. Are microfinance institutions still reaching the poor? If so, do their loans help the poor to move up?

Microfinance institutions and economists have been reluctant to address these issues. The popular story regarding the first question typically goes as follows. 'The poor need access to finance, and are not looking for handouts. The marginal returns on capital are very high when capital is scarce, so it still pays to borrow, even when interest rates are high. The fact that informal moneylenders have been in business for such a long time (charging similar rates, and often even higher ones) proves there is great demand for money, even if it is expensive.' In economics jargon: demand for capital is very price inelastic. But is it really?

Recent evidence suggests it is not. Raising interest rates simply depresses demand for loans, especially among the poorest (the poor are much more responsive to high interest rates than the not-so-poor). While charging higher interest rates is generally good for the MFI – as it translates into greater profits – it compromises the MFI's ability to reach the poor. There is a clear trade-off between financial sustainability and poverty alleviation.

What about the second question – do microloans still enable the poor who manage to obtain a loan to invest it and become not-so-poor? The evidence here is much less clear. But again, reality is often at odds with the public's concept of microfinance. Few investments are profitable at an annual interest rate of 30%. Many loans are used for consumptive purposes or emergencies – think of funerals or medical expenses. In other cases, loans are used to finance cash-and-carry trading activities, generating immediate revenues.

Some observers argue that the massive flow of funds made available for expensive microloans crowd out funding for productive investments in the manufacturing sector – but these are exactly the technologies (with economies of scale, so that expanding production implies lower per unit costs) needed to kick-start a process of sustainable economic growth. If this is the case, instead of helping countries to develop, the microfinance hype and hoopla could actually achieve the exact opposite – promote the creation of a large flea market that sells little of value.

Undoubtedly some of the statements about the counter-productive nature of microfinance are speculative and premature. However, the microfinance myth that dominates the media is wrong, too. Microfinance could do much more to help the poor if it abandoned its focus on financial sustainability. There is nothing wrong with subsidized credit if it alleviates poverty. A multi-pronged plan of attack is needed. ■

By **Erwin Bulte**, professor of economics at Wageningen University and Tilburg University, the Netherlands. Bulte is also research fellow at the University of Cambridge and an advisor to the United Nations Food and Agriculture Organization.