

A World of Opportunity

**Policies for
Developmental
Co-operation**

Policy Paper 25

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Summary

In the closing years of the 20th century, the growing interdependence of the world's people and our joint responsibility for the stewardship of the earth's resources calls for a reassessment of priorities. The role of developing countries in preserving peace and stability, expanding the global economy, combating poverty, respecting human rights and achieving sustainable population balances is crucial to creating a stable and secure future.

Liberal Democrats are committed to developing a coherent strategy for meeting our commitment to sustainable development. We would *set out a timetable for sustained and incremental progress towards achieving the UN target of 0.7% of GNP to be invested in overseas development within the next 10 years* and of progressive increases in the future.

A Development Partnership

Aid is a priority which enhances global welfare. It is a catalyst which enables people in poverty to become productive and active contributors to their own and their community's economic and social development. Aid benefits both the developed and developing countries in the longer term.

We support the goals of UN World Summits on Education, Children, the Environment, Human Rights, Population, Social Development, Women and the Habitat, already agreed by the UK and other governments. Their objectives, however, cannot be achieved in the absence of democratic institutions. For citizens to participate in decisions which affect their lives, a pluralist political system, multi-party democracy and public institutions that enjoy widespread support are a necessary condition.

A respect for fundamental human rights is also essential and flagrant abuses of these are the legitimate concern of the international community. There is, therefore, a case for clearly defined conditionality to the British aid programme. Liberal Democrats would ask those states that are recipients of UK development assistance to respect fundamental human rights, and to strive for pluralistic and democratic systems of government. Severe breaches of these minimum standards would make the UK aid programmes subject to a 'suspension clause' which would be invoked to suspend programme activity in these countries.

To assist the growing number of people living in absolute poverty Liberal Democrats would concentrate the majority of UK bilateral aid on the least developed countries. We would target the basic needs - literacy, education, sanitation and health - of the poorest groups.

Debt and Finance in Developing Countries

Debt continues to be a major obstacle to development in many less developed countries. For every three dollars of international development assistance, two are returned to multi-lateral lending agencies as repayment of debt. Part of the remaining dollar is used to repay the IMF. Successive attempts at rescheduling debt have so far failed to have any more than a marginal effect.

Liberal Democrats would alleviate the debt crisis for the most severely indebted low income countries through:

- A comprehensive and integrated solution covering bilateral, multi-lateral and commercial creditors based on reducing debt stock and debt service to sustainable levels by the year 2000.
- Creating new and additional resources for debt relief drawn mainly from World Bank reserves and net income, plus the sale of part of the IMF's US \$ 40 billion gold stock as well as the extension of the Naples terms by Paris Club creditors to allow 80-100 per cent write offs for the poorest countries.

Foreign commercial investment to the developing world has increased substantially. However commercial lenders tend to favour low-risk secured investment rather than responding to the need for micro-credit from poor people who have little collateral. Liberal Democrats would encourage lenders to increase the availability of micro-credit with additional schemes established through the private sector and multi-lateral institutions.

The ongoing liberalisation of economies in the less developed countries will no doubt create a more favourable climate for private investment. Such assistance can be focused on long-term social investment in people, building up human resources and capacity. Liberal Democrats would encourage the private sector to target its investment in regions and sectors where financing can make the greatest contribution to the goals of sustainability, equality of opportunity and investment in local small and medium sized enterprises. Through the UK's membership of multilateral institutions we would ensure that financing was targeted to areas where private commercial funding is not available at reasonable rates.

Trade and Development

Liberal Democrats believe that all countries can potentially gain from trade liberalisation.

However, the rules governing trade flows are still unevenly applied with non-tariff barriers as well as higher tariffs still in place against goods from the developing world. Special measures are needed to facilitate trade flows from developing countries including:

- Lower or zero tariffs for imports from the poorest countries including those for value added semi-processed or processed goods.
- The rationalisation of the various EU preferential systems, including Lome and the Generalised System of Preferences.
- The further reduction of agricultural support in developed countries and reform of the EU's Common Agricultural Policy.

The practice of 'tying aid' to purchases from the donor country is wide-spread. As a result, donor countries pay on average 15% above prevailing prices for goods through the reduction of competition. Liberal Democrats advocate a unilateral UK end to the practice of tying aid and would also pursue an end to this practice across the OECD.

Sustainable Development

A commitment to sustainable development at a local, regional and global level underpins all Liberal Democrat beliefs. We see sustainability as involving a partnership between government, business and society, requiring the empowerment of local communities and the close involvement of individuals in the decision-making process. Considerations of good governance, democracy and economic equity are inseparable from the consumption and preservation of resources - both human and natural.

Achieving development that is sustainable calls for creative institutional approaches involving a reappraisal of investment, aid, trade, and a range of new policy directions from governments and international institutions. Implicit in this reappraisal is the recognition that we must build on the progress already made at an international level including those agreements arising from UNCED.

Radical reform of international institutions concerned with environment and development is needed urgently. Currently they are fragmented, poorly coordinated and under-resourced. Liberal Democrats would press for the creation of a global environmental organisation drawing together the United Nations Environment Programme, the UN Commission on Sustainable Development and the environment programmes of the United Nations Development Programme. If this proves difficult to achieve in the short term, we would support the development of an International Export Fund, currently proposed by the World Wildlife Fund, and the strengthening of the United Nations Environmental Programme, as steps towards the global environmental organisation.

Introduction

1.0.1 In these closing years of the 20th century, the growing interdependence of the world's people and our joint responsibility for the stewardship of the earth's resources calls for a reassessment of priorities. The success or failure of poor people and developing countries in achieving real gains in economic and social development will have profound consequences for all of us in building a sustainable future. The role of people in developing countries in preserving peace and stability, expanding the global economy, combating poverty, respecting human rights and achieving sustainable population balances will be crucial to creating a stable and secure future globally.

1.1 Global Strategies

1.1.1 Liberal Democrats are committed to developing a coherent strategy for meeting the international commitments agreed upon at respective United Nations world summits on education, children, the environment, human rights, population, social development, women and habitat. Taking place some 50 years after the developed world set up multilateral institutions to facilitate development in the poorer parts of the world, these conferences have highlighted new approaches and set new targets. Liberal Democrats support these goals and would prioritise:

- *Improving economic well-being through a 50 per cent reduction in the proportion of people living in extreme poverty by 2015.* The extreme poverty threshold is US \$1 per day as determined by the World Bank, which estimates the number of people to be living in extreme poverty at some 1.3 billion and rising.
- *Empowering women by eliminating gender disparity in primary and secondary education by 2005.* Investment in education for girls has been shown to be one of the most important determinants of development, with positive

implications for economic well-being, population planning and many other measures of progress.

- *Assisting social development through achieving universal primary education in all countries by 2015* as endorsed by the summits on social development and on women. The attainment of basic literacy and numeracy skills has been repeatedly identified as the most significant factor in reducing poverty and increasing participation by individuals in the economic, political and cultural life of their societies.
- *Achieving access through the primary health-care system to reproductive health services for all individuals of appropriate ages no later than 2015.* This objective was adopted at the UN conference on population and development. It is the key to stabilising world population, improving reproductive, maternal and child health, and assuring the sustainability of development.
- *The implementation of national strategies for sustainable development in all countries by 2005 in order to reverse the trends in environmental resource depletion as well as easing pollution related constraints.* This objective is intended to supplement the global targets agreed through various international conventions. It builds on the consensus that all countries have a stake in environmental sustainability and need to have an integrated, nationally based approach involving all members of society in resource preservation.

1.1.2 These goals, already agreed by the UK and other governments, will only be achievable if resources are dispersed within the framework of a development partnership between the donor community and the recipient groups. A community based, "people-centred" approach has always been at the core of our beliefs. We welcome the growing recognition among development

institutions that development assistance only works where there is a shared commitment of all the partners, with “ownership” by local communities of their development objectives.

1.1.3 The targets are ambitious and can only be realised if there is a commitment from the donor community towards providing adequate financial resources. Increased levels of Official Development Assistance and aid are the most important component of this strategy. Development assistance *must* be seen as a priority which enhances welfare globally - it is a catalyst which enables people in poverty to become productive and active contributors to their own and their community’s economic and social development. It benefits all in the longer term.

1.2 The UK Record

1.2.1 The Overseas Development Administration (ODA) is widely perceived to have performed well despite year on year reductions in its budget. The ODA’s bilateral programmes are acknowledged to be well targeted and effective.

The ODA recently concluded a Fundamental Expenditure Review (FER) setting out the UK’s strategic priorities for the future direction of overseas development . The Liberal Democrats welcome the FER, in principle, as a long overdue statement of the direction of UK development assistance. Its recommendation that 85% of UK bilateral aid should be concentrated on the poorest 20 states reflects our own priorities on poverty alleviation.

1.2.2 The FER, nevertheless, has grave implications for the funding of UK development assistance. The record of UK spending on development has been one of decline under the Conservatives. In 1979, when the Conservatives took power, Britain’s spending on aid was 0.51% of GNP. In 1996 this has fallen to 0.29% and is forecast in the FER to decline to 0.26% in 1997. As recently as the Rio Summit in 1992, the Major government reiterated its commitment to reaching the accepted United Nations target of 0.7 of GNP as soon as possible. These have proved to be hollow words.

The Liberal Democrat Approach

2.0.1 In the year 2000, four-fifths of the people of the world will be living in the developing countries, and the number living under absolute poverty in these countries will increase to over 1.3 billion. In an ideal world aid would not be necessary, but Liberal Democrats recognise that the alleviation of poverty, meeting basic human needs, extending human rights and achieving good governance can only be obtained through a sustained transfer of resources from the developed to the developing states.

2.0.2 Liberal Democrats have long understood the importance of development in creating a stable global order in which people live secure and productive lives. It is the only way that people from all nations can work together to address common problems and pursue common aspirations. Development must also be sustainable if it is to deliver longer term prosperity and welfare. Sustainable development, as defined by the OECD's Development Assistance Committee (DAC) "expands the community of interests and values necessary to manage a host of global issues that respect no borders - environmental protection, limiting population growth, nuclear non-proliferation, control of illicit drugs, combating epidemic diseases."

2.1 Priorities

2.1.1 For development programmes to be successful, stronger co-operation is required between governments of both the developed and developing countries, as well as a new spirit of collaboration between public and private sources of finance and investment. Private capital and multinational corporations can and should be encouraged to be positive agents in the development process.

2.1.2 Financial and social investments in basic needs - food security, literacy, education, sanitation and health - are vital to building overall human capacity in developing countries. The 1995 DAC report finds that just 0.1% of total aid is allocated to basic education and just 0.3% to basic health. The UK record is also poor: government figures show that only 10.4% of bilateral aid in 1994/5 was spent on basic needs.

2.1.3 Liberal Democrats are in favour of concentrating on basic needs and of ensuring that UK aid meets the 20:20 compact agreed at the UN Social Summit in 1995. The compact proposes that aid donors allocate 20% of bilateral aid to basic needs if the developing countries also spend 20% of government expenditure on basic social services.

2.1.4 Much needed investment in human resources and social development cannot be achieved without a long-term commitment from the developed states backed by adequate resources. Liberal Democrats would:

- Set out a timetable for sustained and incremental progress towards achieving, within the next 10 years, the UN target of 0.7% of GNP to be invested in overseas development and a policy of progressively increasing this in the future.
- Concentrate a majority of its bilateral aid on the least developed countries, targeting the basic needs of the poorest groups within those countries, as part of an integrated strategy of poverty alleviation.
- Enhance programmes of co-operation with, and assistance to, appropriate non-governmental organisations in this country and abroad, while bearing in mind their absorptive capacity.

- De-link trade from aid by phasing out the Aid and Trade provision. (See section 6.2, The Aid Trade Provision).
- Press for an improvement in the efficiency and cost-effectiveness of multilateral aid, through the EU, the UN and related multi-lateral organisations.

2.1.5 Great strides towards prosperity have been made in recent years in many developing countries, especially in South and East Asia and Latin America. New ways must be found for encouraging the more successful of the newly industrialised countries to participate more in the development of the low income and less developed countries. There is much shared experience and good practice that can be built upon in addition to increases in specific technical assistance.

2.2 Good Governance

2.2.1 The main aim of the British overseas developmental effort should be to further the economic and social development of impoverished peoples around the world, while at the same time promoting a responsible stewardship of the world's resources for future generations. These objectives cannot be achieved in the absence of democratic institutions.

Pluralism, multiparty democracy and the existence of public institutions that enjoy widespread support are a prerequisite for participation by citizens in decisions affecting their lives. Fundamental, also, with the entrenchment of the rule of law is a respect for human rights - the abuse by a state of its citizens human rights is the legitimate concern of the international community.

“States which are recipients of UK aid should respect the fundamental human rights of their people.”

2.2.2 Although the aid relationship should be a partnership in which neither side dictates to one other, there is a good case for certain kinds of clearly defined conditionality to the British aid programme. Liberal Democrats would ask those states which are the recipients of UK aid to respect the fundamental human rights of their people, and to strive for pluralistic and democratic systems of government. Flagrant abuses of these minimal standards would make UK aid programmes subject to a ‘suspension clause’ which could be invoked to suspend programme activity where the governments were in severe breach of these conditions. We would also strive to make these minimal standards a pre-requisite for the EU’s development assistance.

Changing Trends in Development

3.0.1 With the collapse of the former Soviet Union, enormous changes have taken place in the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). These countries have been recipients of significant quantities of OECD aid. Liberal Democrats applaud the smooth transition to democracy in the Central, Eastern European and CIS states. Liberal, free-market economies are more likely to make a contribution to peace and security, enhanced world trade, and environmental protection. Increasingly, the countries of the CEE and in time the CIS, will also be able to contribute to the global development effort.

3.0.2 The commitment of resources to emerging democracies has also led to the development of new mechanisms: The World Bank has set up large adjustment facilities, the European Bank for Reconstruction and Development has been created to help the transition to market economies, the European Union has established PHARE and TACIS programmes, and the European Investment Bank has allocated considerable funding to Eastern Europe, while the UK government has established the Know-How Fund.

3.0.3 Through the UK's contribution to, and representation in, the various multi-lateral financing and donor organisations which are assisting the CEE and CIS countries, Liberal Democrats would seek to ensure that investments and grants target in particular small and medium sized enterprises. Other priorities are industrial modernisation, trade assistance, and projects with environmental objectives.

3.1 The Know How Fund

3.1.1 The Know-How Fund makes a contribution to development through providing

cost-effective programmes in the areas of privatisation, banking, financial systems and technical expertise. It operates on a relatively small budget achieving a disproportionate benefit both for British trade and the countries involved. In the longer term, Liberal Democrats would wish to see the expertise of the Know-How Fund extended to other regions and emerging democracies including those in Sub-Saharan Africa.

3.2 The European Union

3.2.1 One of the most significant changes to the UK development programme has been the increase in UK multilateral assistance through the European Union. The UK contribution, unlike some other EU member states, is funded through the ODA budget, reducing the amount available for bi-lateral programmes, which are perceived to be of a higher standard than the EU's multi-lateral effort. The EC's development budget and member states' contribution to the European Development Fund accounted for some £500 million in 1994 and are rising. Another EU agency dealing with development is The European Community Humanitarian Office (ECHO). This has provided large volumes of valuable emergency relief on behalf of the EU since it was established in 1992.

3.3.2 The fragmentation of development policy within the EU is of some concern. Currently, development issues are divided between 4 Directorates General (DGI, DGIA, DGIB, and DGVIII) while ECHO comes under the remit of the Commissioner responsible for Fisheries and Consumer Affairs. The respective DG's responsibilities are to implement all policies in the specific regions within their remit rather than implementing specific policies in all regions. This inevitably results in conflicting priorities where foreign, security or commercial policy

comes into conflict with development objectives in a particular region. To improve coherence in policy, Liberal democrats advocate:

- Integrating development policy under a single directorate general.
- Incorporating ECHO into the directorate general responsible for development.
- Increasing complementarity of programmes between members states and the European Union to reduce wasteful overlaps or conflicting demands.
- Emphasising poverty alleviation as a priority within EU programmes.

3.3 The Commonwealth

3.3.1 The Commonwealth has recently emerged as one of the success stories of multi-lateral co-operation. It has made progress towards promoting good governance, democratic development, and conflict resolution. But the resources available for carrying out this work have been meagre. During 1992-93, Britain's contributions to the Commonwealth's multi-lateral development agencies were 1.1% of its total multi-lateral aid disbursements overall. Liberal Democrats would invest a greater proportion of the aid budget in Commonwealth multi-lateral programmes.

3.3.2 The Commonwealth's capacity to forge consensus amongst its members and carry that into the wider international community must be exploited. A good example of members' common interests is UN peace-keeping. At present, 7 out of 10 to the major troop contributors to UN peace-keeping are Commonwealth countries. The advantages of a shared language, and similarities in institutional structures lends itself to well co-ordinated and effective joint efforts.

3.3.3 A further welcome development is the change in powers accorded to the Commonwealth Development Corporation. The CDC can now act through the African Fund for Private Investment Initiatives which is designed to attract seed capital

for private investment in Sub-Saharan Africa. Liberal Democrats would increase resources available to the CDC and widen its remit.

3.4 Non-Governmental Organisations

3.4.1 Non governmental organisations (NGOs) have become increasingly important actors in development and humanitarian assistance. In the UK alone there are some 400 NGOs working abroad, which raise over US \$500. The increasing tendency towards using NGO's as a means of distributing emergency aid and managing international relief efforts has changed their work from its traditional focus - running local development projects. In many war-torn zones, NGOs have had to adapt from managing disaster relief to providing infrastructure or running nation-wide programmes, often on sub-contract from donor governments.

3.4.2 The benefits of using NGOs as an effective means of distributing humanitarian assistance and technical expertise are evident. In programmes that are large-scale or that become long-term, however, there are concerns about distributing large volumes of aid without sufficient accountability or with differing strategies in the same country. The number and diversity of donor strategies can increase existing burdens on local institutions and impair local ownership and participation.

3.4.3 Liberal Democrats would wish to see improved coherence and greater transparency of NGO operations through:

- An international code of conduct for NGOs and agreed guidelines for monitoring development assistance.
- Increased participation from groups in the developing country including local NGOs, avoiding the creation of aid-dependency.
- Better co-ordination of the international aid system among external partners, in support of developing countries own strategies.

Debt and Finance

4.0.1 By investing in the health, education and well-being of those living in the poorest parts of the world, developing nations contribute to our own moral and practical welfare, as well of those of succeeding generations, in both North and South. Liberal Democrats acknowledge that there is a real cost attached to this approach, which involves the commitment of already scarce financial resources. We believe that this relatively small price will reap dividends in improved global security with consequent economic and trade benefits and greater environmental sustainability. In short - it benefits us all to improve the quality of life of those in poorer countries.

4.1 The Debt Crisis

4.1.1 Debt continues to be a major obstacle to development in many less developed countries. While the economic consequences of debt can be measured in terms of low investment, deteriorating infrastructure and chronic balance of payments instability, the human costs can be measured in terms of lost opportunities for health, education and employment. For less than is currently being spent on debt servicing, it would be possible by the year 2000 to make social investments which would save the lives of around 21 million African children and provide 90 million girls with access to primary education.

4.1.2 The scale of the debt crisis is so severe that in 1993-94, for every three dollars of international developmental assistance to the developing countries, two were returned to the World Bank as repayment of debt while part of the remaining dollar was used to repay the IMF. Some of the Severely Indebted Low Income Countries (SILICs) pay more to their creditors than they receive, and many are only able to service their external debt when the donor community provides resources to do so. The reality of this burden in the severely indebted countries can be illustrated in stark terms: in Uganda, US \$3 per person is spent on health

while US \$17 is spent on repaying debt. In Zambia between 1990 and 1993, US \$37 million was spent on primary education while US \$1.3 billion was spent on debt repayments.

4.1.3 Successive attempts at rescheduling debt have so far failed to address the problem. Member states of the Paris Club (the forum for renegotiating bilateral debt) impose terms that are so stringent that only two debtor states were able to benefit from debt reduction in 1995. Debt to multilateral institutions such as the World Bank, the IMF and regional development banks has also risen steadily over the last two decades comprising 28 per cent of total long-term debt for SILICs in 1994. The multilateral institutions also benefit from "preferred creditor status" a rule that multilateral debt is serviced ahead of other creditors, thus building up arrears elsewhere.

"For every three dollars of international development assistance, two are returned to multilateral lending agencies as repayment of debt."

4.1.4 Liberal Democrats support a solution to the debt crisis for the 30 or so severely indebted low income countries through a comprehensive and integrated approach involving bilateral creditors and the multilateral and commercial institutions. We advocate:

- A time-table for achieving debt sustainability by the year 2000.
- A comprehensive framework and targets for bilateral, multilateral and commercial debt-relief to the most severely indebted countries.
- The creation of new and additional resources for debt relief drawn mainly from World Bank reserves and net income, plus the sale of part of the IMF's US \$40 billion gold stock.

- The extension of the 'Naples terms' by Paris Club creditors to allow 80-100 % cancellations for the poorest countries.

4.2 Structural Adjustment

4.2.1 Structural adjustment, a World Bank policy, came about from the need to find a new initiative when developing countries faced a serious balance of payments crisis. Structural adjustment has been widely applied by the World Bank and IMF since the early 1980's but has a mixed record. Its emphasis is on macroeconomic stability and a reduction of the role of the state in directing and administering economic activity - i.e. a 'liberalisation' of economies and a reduction of central government price fixing.

4.2.2 Critics have pointed to the unintended effects of structural adjustment on other policy objectives such as poverty alleviation and environmental degradation. Nevertheless, there is a slowly emerging consensus that these reforms have worked in some countries where they have been implemented. The evidence (mainly from sub-Saharan Africa) suggests that those countries that implemented Structural Adjustment Programmes (SAP's) in full have experienced a sustainable growth in GDP, even when facing adverse terms of trade.

4.2.3 SAP's have proved to have been unpopular in the countries of implementation as they are usually seen as having been dictated from on high by the IMF and the World Bank. Their implementation has often not been based on public consent, and is driven through against a back-drop of existing economic hardship. The recent reappraisal of this policy by the World Bank and IMF is welcome. However we feel that there is still considerable scope for a more sensitive implementation of SAPs, taking into account a range of public policy initiatives to alleviate hardship. Foremost among these is an emphasis on closing the debt-servicing gap. Without better debt relief provisions, it is unlikely that many low-income countries in Africa will be able to achieve sustainable growth without continued inflows of exceptional balance of payments support - i.e. continued adjustment loans.

4.3 Local Credit Schemes

4.3.1 Much of the last two decades of development assistance has been conditional on countries undertaking large-scale structural adjustment. The private sector, in the form of commercial lenders, has also concentrated on low-risk, secured investment rather than responding to the need for micro-credit from poor people who have little collateral. In recent years, new donors participating in these small-scale lending programmes have demonstrated that poorer income groups play an essential role in increasing economic activity and poverty alleviation. Micro loans are also more likely to promote projects which are environmentally sustainable

4.3.2 Liberal Democrats welcome the shift towards support for micro-credit schemes. Examples of their operation in Bangladesh, Paraguay and the Philippines show that they are simple to administer, dispense finance extremely cheaply with high repayment rates and benefit those most in need including women who are the main beneficiaries. However, micro-credit is still perceived as risky, and the set-up rate for schemes as well as their volume of funding is still too low. The multilateral institutions, other donor groups and the private sector must develop strategies together with developing country governments, including joint financing where possible.

4.4 Private Investment

4.4.1 Private sector investment flows to the less developed countries have increased vastly in the last decade, rising from around US \$40 billion in 1987 to over US \$ 170 billion in 1995 (World Bank lending in 1995 was just US \$ 21.4 billion by comparison). This has facilitated the rapid rise in growth in several of the East Asian and Latin American economies. Yet, the private sector tends to favour economies well placed to compete. Thus the flow of foreign direct investment to the severely indebted and low income countries of Africa (3 percent) has been very much smaller than that to East Asia and the Pacific Basin, which receives about 40 percent.

4.4.2 The ongoing liberalisation of economies in the less developed countries will no doubt create a more favourable climate for private investment in the longer term but this cannot be seen as a substitute for development assistance. The advantage of such assistance is that it can be focused on long-term social investment in people that builds up other resources and human capacity. In the poorest countries development assistance and commercial investment must be seen as mutually complementary rather than as alternatives.

4.4.3 Investment by Transnational corporations (TNCs) is vital to many developing countries' futures. Their transnational nature, however, means that they can escape national regulation - on tax, competition, the environment or employment policy - by shifting between national jurisdictions. Liberal Democrats believe that TNCs' enjoyment of the benefits of global trade should be balanced by an acceptance of their responsibility not to exploit individuals, countries or natural resources. A step towards this objective is to

develop codes of conduct jointly between governments, international institutions and industry. These could cover, for example, transparency in TNC operations, best practice in employment conditions, training and transfer of technology to host country nationals and so on. Further details of our policy on trade and TNCs can be found in Policy Paper 12, *The Balance of Trade* (1995).

4.4.3 Liberal Democrats, through trade missions, the provision of information, and export credit guarantee policy would encourage the UK private sector to target investment in regions and sectors where financing would make the greatest contribution to the goals of environmental sustainability, equality of opportunity, and provision of opportunities to the local small and medium sized enterprise sector. Through UK membership of those multilateral financial institutions which provide funds for the private sector, we would seek to ensure the financing was targeted to areas where private commercial funding is not available at reasonable rates.

Sustainable Development

5.0.1 A commitment to sustainable development at a local, regional and global level underpins all Liberal Democrat beliefs. We see sustainability as involving a partnership between government, business and society, requiring the empowerment of local communities and the close involvement of individuals in the decision-making process. Issues of good governance, democracy and economic equity are inseparable from the consumption and preservation of resources - both human and natural.

5.0.2 Our conception of sustainable development, therefore, is one which incorporates environmental goals and social equity, as well as economic viability, and is underpinned by basic democratic precepts. In the context of development assistance, we would actively promote the involvement of recipient communities in the planning and evaluation of policies and projects. To assess whether Official Development Assistance (ODA) meets these objectives, we would concentrate on the following criteria:

- That environmental and social costs are integrated into the project during planning and evaluation.
- That the project is appropriate for local conditions, and acceptable both culturally and socially.
- That women are specifically targeted with the objective of promoting economic, social, legal and political benefits for them.
- That there is financial viability for ongoing projects after external funding has ended.
- That the existing environment, customs and knowledge of indigenous peoples are respected and are an essential element of developmental audits.

5.0.3 Equally, bringing about development which is sustainable calls for creative institutional approaches involving a reappraisal of investment, aid, trade, and a range of new policy directions from governments and international institutions. We also recognise that development priorities need to be reassessed and re-evaluated to incorporate an appreciation of overall human security: poverty alleviation, provision of basic needs and an extension of human rights. Implicit in this re-evaluation is the recognition that we must build on the progress already made at an international level towards attaining sustainable growth and development.

“Sustainability requires the involvement of local communities in the decision-making process.”

5.0.4 Liberal Democrats endorse the agreements arising from UNCED, and reiterate our commitment to them, specifically we support:

- The principle that developing countries should be assisted in playing a meaningful role in negotiating international commitments and in implementing international agreements.
- The Rio Declarations: 27 principles for guiding action on environment and development, many of which address development concerns, stressing sustainability and poverty alleviation.
- Agenda 21: an action plan for sustainable development, covering a wide range of specific natural resources, as well as issues of social and economic development and implementation. Agenda 21 should form the key inter-governmental guiding and reference document. We especially welcome its “bottom up” participatory and community-based approaches in areas of population policy and general acceptance of market principles.

- The establishment of the United Nations Commission on Sustainable Development (CSD). The CSD has a potentially important role in co-ordinating national strategies to ensure whether, combined, they constitute a programme to achieve world-wide sustainability. Liberal Democrats believe that national indicators of sustainability should be agreed and states should now be compulsorily required to submit annual progress reports to the Commission.

5.0.5 International trade rules are of vital importance for sustainable development across the world. Liberal Democrats believe that multi-lateral Environmental Agreements such as the Montreal Protocol, CITES, and the Basel Convention have proved the worth of tackling global environmental issues through multi-lateral agreements (MEAs). However, there are potential conflicts between such MEAs and WTO rules. We believe the UK government must work with our European partners to achieve agreement for amending Article XX of GATT to resolve these potential conflicts as soon as possible.

5.0.6 It is also important to achieve as much international agreement as possible on standards. This includes ISO environmental standards and their enforcement, and supporting the EU view that ecolabelling is compatible with WTO rules as well as to seek agreement on world-wide standards for sustainable forestry.

5.0.7 Ultimately, Liberal Democrats support the radical reform of international institutions concerned with environment and development issues. Currently, the institutions are fractured, poorly co-ordinated and under-resourced. A global

environmental organisation should be created drawing together UNEP, the CSD, the existing secretariats of the multilateral environmental agreements as well as the environmental programmes of other agencies such as UNDP. Such an organisation would provide a counter balance to the IMF and the World Trade Organisation. A modern institution would be:

- As open as possible to the work of non-governmental organisations and independent experts.
- Able to pursue like objectives of sustainable development through a new generation of environment and development policies.
- Able to integrate environment policy with all other areas of government.

5.0.8 Should it prove difficult to establish this organisation in the short term, we would support the development of an International Export Fund, currently proposed by the World Wildlife Fund, and the strengthening of UNEP, as steps towards the Global Environmental Organisation.

5.0.9 Concern for the survival of indigenous peoples and respect of their way of life and culture is of importance to Liberal Democrats. In the past, the international community has supported development programmes where vulnerable populations have been forcibly displaced from their traditional habitat and, in some cases, completely destroyed. For Liberal Democrats, consultation with indigenous groups and the monitoring of programmes by local NGO's should form the specific approach of our development policy to safeguard their traditional lifestyles.

Development in a Global Context

6.0.1 Over the last half century, there have been significant achievements in human welfare. A drive towards environmental sustainability, the stabilisation of birth rates, reductions in many diseases, falling child mortality and improvements in basic infrastructure with resulting reductions in poverty have not happened by chance. These positive developments have taken place due to the efforts of the countries and societies to help themselves. But self reliance is not enough. The existence of global institutions and a concerted effort to transfer know-how and resources has also been a vital ingredient.

6.1 Trade and Development

6.1.1 Trade is an essential element of this evolving multi-lateralism. It is just as important to the developing as it is to the developed countries, and has transformed the economies of both. Yet the rules governing trade flows are still unevenly applied with some developed countries maintaining systematic barriers against goods from the developing world. These range from non-tariff barriers such as the network of textile quotas known as the Multi-Fibre Arrangement to the practice of 'tariff escalation' by which developing countries face substantially higher tariffs against manufactured and processed goods than they do against primary products. This constraint on exports results in commodities or primary products being the sole export earner - often subject to wide variations in prices - as well as denying their comparative advantage of cheap labour.

6.1.2 Liberal Democrats believe that all countries can potentially gain from trade liberalisation. But equally we recognise that the poorer developing countries, suffering from major structural disadvantages including a lack of access to capital and technology, inadequate

infrastructure, export and marketing skills, and currency convertibility and debt problems, are poorly placed to benefit. Special measures are therefore justified and can be agreed through the World Trade Organisation (WTO), the new permanent body replacing the GATT.

6.1.3 The GATT principle of 'special and differential' treatment for developing countries has been in place for many years. The recently completed Uruguay Round, however, agreed that at the end of a transitional period, developing countries (other than the least developed) will be expected to adopt most of the same disciplines as richer countries. In return for this, the special needs of developing countries should be addressed through:

- Enhancing supplementary or compensatory financial arrangements, such as the IMF's Compensatory and contingency Facility, or the European Union's Stabex or Sysmin funds, designed to help countries dependent on a limited range of commodities.
- Lower or zero tariffs for imports from the poorest countries, including value-added semi processed and processed goods.
- Abolishing rules of origin and quota restrictions on such goods.
- Rationalising the various EU preferential systems, including Lome and the Generalised System of Preferences (GSP).
- Tackling the problem of patents controlled by transnational corporations which restrict access to markets. This should fall within the remit of the World Trade Organisation.
- Providing privileged access to 'intellectual property' controlled by trans-national corporations.

Reducing agricultural support in developed countries beyond that achieved in the Uruguay Round and reform of the EU's Common Agricultural Policy.

Further details of our proposals for trade and development is set out in Policy Paper 12, *The Balance of Trade (1995)*.

6.1.4 Liberal Democrats support the promotion of technology and skills transfer between developing and the less developed countries. This will lead to an increased capacity by the former to penetrate developed markets. It will also enhance the productive efficiency of the industries' of developing countries, bid up wages and so increase welfare. To this end, Liberal Democrats support:

- The transfer of high technology industrial skills to developing countries.
- The transfer of marketing skills so as to gain further access to western markets for LDC's goods and services.
- The transfer of financial services expertise so as to enhance the servicing of the industrial infrastructure of developing countries.

6.2 The Aid and Trade Provision

6.2.1 The practice of 'tying' aid to purchases from the donor country is pernicious but widespread. Its effect is that recipient states pay on average 15% above prevailing prices for goods as competition is reduced. The UK Aid and Trade Provision (ATP) gives a small number of British companies subsidies for contracts in developing countries. In 1993 ATP accounted for 9% of bilateral aid and lay behind the Pergau Dam scandal, where the aid budget paid for a hydroelectric project which generated electricity at a higher cost than its alternatives. ATP has also been found by the British government to not only prove wasteful for developing countries but also to be notably unsuccessful in generating business for British industry. Liberal Democrats advocate

an end to the practice in the UK of tying aid and UK efforts through multilateral fora to end the practice of tied aid throughout the OECD.

6.3 The International Arms Trade

6.3.1 The international arms trade constitutes an anachronism in the closing years of the 20th century. Yet it is part of a vicious circle. The insecurity of governments induces them to invest heavily on military expenditure thereby building up stockpiles that which make their neighbours insecure, and, in turn leads them to also increase arms expenditure. It is particularly tragic that the less developed world buys more than half the arms traded each year. For Liberal Democrats, an international 'free for all' in weapons is incompatible with global stability and a world-wide reduction in the international arms trade is a prerequisite for enhanced global security.

6.3.2 This does not imply an end to the production and export of weapons. While military threats to nations' security exist, there will be a continuing need for arms by states legitimately concerned with the need for their self-defence. The challenge is therefore one of conducting the arms trade in a responsible and verifiable manner. Our general approach can be summarised as follows:

- The sale of arms and 'dual use' goods and technologies (which have peaceful as well as military uses) to areas of potential or actual tension or to states which are in violation of human rights or democratic principles must be strictly controlled.
- The withdrawal of development aid should be considered from states importing arms other than for defensive purposes.
- Conversely, the allocation of aid and loans should favour those states which spend less than 2% of GDP on military capacity.
- The UN Register of Conventional Armaments should be strengthened and a verification process established.

- Attempts by the EU to end government promotion, financial support and export credit insurance for arms exports except for defensive use deserve support.

Details of our arms trade proposals are contained in Policy Paper 6, *Shared Security* (1994).

6.3.3 Support for the arms industry by the UK government is often subject to little probity or transparency, as the Scott inquiry has shown. It has frequently resulted in the misuse of overseas aid and should be reduced through increased parliamentary scrutiny and better co-ordination between government departments. In particular, we advocate:

- Giving the Select Committee on Trade and Industry a specific remit to monitor arms exports, government departments and companies involved in the arms trade.
- Making co-ordination of UK policy on exporting arms the explicit responsibility of a Minister of State in the DTI, who would remain separate from the DTI's export promotion activities.

6.4 Landmines

6.4.1 Landmines and the wanton destruction they inflict are another facet of the human suffering caused by the arms trade. Approximately 140 million uncleared land mines lie in the fields and alongside roads and footpaths in developing countries with as many as 500 casualties per week, many of whom are women and children. The UN estimates that it costs around three hundred times more to remove a mine than to produce it and that scarce resources are diverted from basic needs programmes to mine clearance. The costs to the victims themselves, the loss of human resource potential, and the economic burden for developing countries is enormous due to the proliferation of land-mines. Liberal Democrats call for:

- UK government participation in a ban on the use, production, stockpiling and sale of anti-personnel mines.

- UK advocacy of a permanent and total international ban on the production, stockpiling and transfer and use of all anti-personnel mines.
- Creation of a UN administered international fund to promote and finance mine victim assistance programmes and clearance and eradication programmes world-wide.

6.5 Refugees

6.5.1 Refugees - those fleeing from authoritarian governments, civil war, religious or racial persecution, famine or environmental degradation - are among the poorest and most marginalised people in the world. The great majority of refugees do not travel to the developed world but risk appalling dangers to flee from their own country to neighbouring ones - often as poor or unstable as their own. The restoration and maintenance of peace and security; a halt to environmental degradation; developing and prospering economies will all serve to curb mass population movements. But these policies require a co-ordinated international response.

6.5.2 The UN body mandated to protect and assist the world's refugees is the Office of the UN High Commissioner for Refugees (UNHCR). OECD member states are also involved in assisting refugees through bilateral programmes and non-governmental organisations. Improved funding for the work of UNHCR, whose resources have lagged far behind the surge in refugee numbers must be an immediate priority for the international community.

6.6 Overseas Students

6.6.1 Liberal Democrats wish to see more students from developing countries studying in Britain. We intend at least to double the present total value of awards and scholarships available for overseas students to study in Britain, and to target these at the poorest students from the poorest countries. We also believe that it is beneficial for British students to study abroad, and would encourage reciprocal agreements.

This Paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

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Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every section or every proposal in this Paper.

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