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COURSE MANUAL

# E7: Policy Analysis and Implementation

Module 7 - Globalisation and Policy-making

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# Acknowledgements

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# Module 7

## Introduction

The purpose of Module Seven is to introduce you to concepts in globalisation and briefly outline a number of major international organisations involved in development. The following topics will be discussed:

- Globalisation and policy-making
- Organisational overviews and development approaches

By the end of this module you should be able to:



### Outcomes

- *explain* the concept of globalisation from different perspectives.
- *identify* international organisations involved in development and institution building in developing countries.
- *describe* the various activities of these organisations in their efforts to assist developing countries.
- *analyse* authentic case studies in light of the information presented in this module.

## Globalisation and policy-making

### What is globalisation?

The world-systems perspective has shown that inter-societal geopolitics and geo-economics has been the relevant arena of competition for nation-states, firms and classes for hundreds of years. However, the term globalisation can refer to many different things. There is no single agreed definition of the term. Central to the idea of globalisation is the notion that contemporary problems cannot be adequately assessed at the nation-state level. Instead, they need to be thought of in the context of global processes, or a world system. Use of the term also generally implies the recent changes in information technology that have occurred over the last decade or so, which have enabled the global market – as opposed to nation-state or local-level markets – to become the relevant arena for economic competition.

The study of globalisation revolves around two main classes of phenomena that have become increasingly significant, largely helped by changes in information technology. The first phenomenon is the emergence of a globalised economy based on new systems of production, finance and consumption. This aspect refers to the ways in which transnational corporations (TNCs) have brought about a globalisation in capital and production.

The second phenomenon refers to the global transformation that TNCs have been able to exert, namely those that own and control the mass media, particularly television channels and the transnational advertising agencies. Such TNCs are connected to the spread of one particular brand of culture and consumption patterns, as well as the ideology of consumerism at the global level (Featherstone, 1991; Dowmunt, 1993; Sklair, 1995; Barker, 1997). TNCs, as opposed to nation-states, are seen to be the primary source for increasing globalisation. In fact, the largest TNCs have assets and annual sales far in excess of the gross national products (GNP) of most countries in the world.

The impact of globalisation on the policy-making process is that it can expand the arena of issue search and discussion as well as adding many more constraints, variables and actors to the process and analysis. For example, international trade agreements provide constraints on individual states from taking certain actions, thus reducing the alternatives available to policy-makers in that particular area.

### Dimensions of globalisation

Chase-Dunn (1999, pp. 189-190) identifies five major dimensions of globalisation that we shall look at in a little more detail:

1. common ecological constraints
2. globalisation of culture
3. globalisation of communication
4. economic globalisation
5. political globalisation.

### Ecological constraints

This aspect of globalisation relates to global threats to our fragile ecosystem and the globalisation of ecological risks. While ecological degradation has long resulted in consequences affecting human social evolution in various areas, it has only recently begun to operate on a global scale. Thus, contemporary societies face a set of systemic constraints that require global collective action.

### Globalisation of culture

According to Chase-Dunn (p. 190) this aspect of globalisation relates to the diffusion of two sets of cultural phenomena:

1. the proliferation of Western values focusing on the individual to growing parts of the world population. Values are expressed in social constitutions that recognise individual rights and identities as well as in transnational and international efforts to protect “human rights”.
2. the adoption of Western institutional practices such as bureaucratic organisation, rationality, natural law and rule of law, and the values of economic efficiency and political democracy.



Chase-Dunn argues that while the modern world-system has always been multicultural, the ever-growing influence and acceptance of Western-originated values of rationality, individualism, equality and efficiency is an important trend of the twentieth century.

### Globalisation of communication

This dimension of globalisation integrates the new era of information technology, namely the shrinking of time and space (social, geographical) acquired through electronic communications, albeit if only in the networked parts of the world. Accessibility, rapidly decreasing costs of technology, and the volume and rate at which information can be processed have greatly expanded the local political and geographic parameters that have traditionally structured social relationships.

Such global communication enables the movement of information from one part of the globe to another whether any nation-state likes it or not. This applies to economic exchange, as well as ideas. These networks of communication can create new political groups and alignments, which can affect the power and make-up of existing social structures.

### Economic globalisation

This aspect of globalisation refers to globe-spanning economic relationships – more specifically, the interrelationships of markets, finance, and the production and sale of goods and services.

The economic networks created by transnational corporations are the most important manifestations of this dimension. Although, the capitalist world-system has been international in essence for centuries, globalisation has greatly increased the extent and degree of trade and investment in recent decades, accelerated by what information technology has done to the movement of money. It is commonly argued that the ability to shift money throughout global markets changes the rules of policy-making by making economic decisions subject to international market forces, which are beyond the control of any one group.

Sklair proposes a useful model of the global capital system based on the concept of transnational practices, which originate with non-state actors and across state borders. She distinguishes three spheres of transnational practices: economic, political and cultural-ideological. She suggests that primarily, but not exclusively, one major institution characterises each of these practices.

In the model shown in Table 1, the transnational corporation (TNC) is the most important institution for economic transnational practices; the transnational capitalist class (TCC) for political transnational practices; and the culture-ideology of consumerism for transnational cultural-ideological practices (Sklair, 1995). The theory is concerned with how TNCs, transnational capitalist classes and the culture-ideology of consumerism operate to transform the world in terms of the global capitalist project.

In global system theory, the TCC acts as a “global ruling class”. While the model has yet to be empirically proven, Table 1 suggests how the TCC may fit into the global system in terms of its economic base, its leading institutions and its integrating agents. Such a theory may have important implications for policy analysis and policy development theory.

Table 1: The Transnational capitalist class

Transnational practices	Leading institutions	Integrating agents
<ul style="list-style-type: none"> <li>• economic sphere</li> <li>• transnational capital</li> <li>• international capital</li> <li>• state capital</li> </ul>	<ul style="list-style-type: none"> <li>• economic forces</li> <li>• global TNCs</li> <li>• World Bank, IMF, BIS</li> <li>• state TNCs</li> </ul>	<ul style="list-style-type: none"> <li>• global business elite</li> </ul>
<ul style="list-style-type: none"> <li>• political sphere</li> <li>• TNC executives, globalising bureaucrats, politicians and professionals</li> <li>• regional blocs</li> <li>• emerging transnational states</li> </ul>	<ul style="list-style-type: none"> <li>• political forces</li> <li>• global business organisation, open-door</li> <li>• agencies, WTO, parties and lobbies</li> <li>• EU, NAFTA, ASEAN</li> <li>• UN, NGOs</li> </ul>	<ul style="list-style-type: none"> <li>• global political elite</li> </ul>
<ul style="list-style-type: none"> <li>• culture-ideology sphere</li> <li>• consumerism</li> <li>• transnational neo-liberalism</li> </ul>	<ul style="list-style-type: none"> <li>• culture-ideology forces</li> <li>• shops, media</li> <li>• think tanks, elite social movements</li> </ul>	<ul style="list-style-type: none"> <li>• global cultural elite</li> </ul>

Source: (Sklair, 1999, p. 156)

### Political globalisation

Finally, political globalisation addresses the institutionalisation of international political structures. Currently, the world is based on an inter-state system, following a Europe-centered world-system. It is a system of conflicting and allying states and empires.

In earlier world-systems, accumulation was mainly accomplished by means of institutionalised coercive power and occurred in a cyclical fashion, by way of both inter-state systems and core-wide world empires, where a single state conquered all or most of the core states in a region. The modern world-system is multi-centric in the core. This is due to the shift from the previous type accumulation towards capitalism, which is based more on the production and profitable sale of commodities. The hegemons, or leading powers, have been the most capitalist states and they follow a strategy of controlling trade and access to raw material imports from periphery states rather than conquering other core states for taxes or resources.



Since the early nineteenth century, the European inter-state system has developed a set of international political structures that regulate all sorts of interaction. Craig Murphy (1994) refers to this development as “global governance”. The term refers to the growth of both specialised and general international organisations. Examples of general organisations that have emerged include the League of Nations and the United Nations. These organisations are involved in a process of institution building with the leadership and implicit involvement of core states.

## Resistance to globalisation

To many, globalisation is often seen to wreak havoc on the lives of vulnerable peoples and communities. As such, the recent upsurge in globalisation has also been accompanied by the emergence of New Social Movements (NSM) theory. Researchers in this area argue that the traditional response of the labour movement to global capitalism based on class politics has generally failed. Instead, analysis based on identity politics – such as gender, sexuality, ethnicity, age, community, belief systems – is now seen as necessary to resist sexism, racism, environmental damage, warmongering, capitalist exploitation and other forms of injustice. For example, peace and environmental groups have produced their own research and documentation of such occurrences, sometimes in direct response to government activities.

The main challenges to global capitalism in the economic sphere normally involve disrupting the capacity of TNCs and global financial institutions to accumulate private profits at the expense of their workforces, their consumers and the communities affected by their activities. As globalisation has led to the dispersal of manufacturing processes into many discrete phases carried out in many different places, disruptive actions by one group in one location will not necessarily have a major impact on the TNC.

## Organisational overviews and development approaches

### The United Nations (UN)

The United Nations was created in October 1945. At that time, 51 countries committed themselves to the preservation of peace by international cooperation for collective security. As of 2003, membership totals 191 countries, almost every nation in the world.

As members of the UN, nations agree to the UN Charter that sets out the fundamental principles of international relations. The charter identifies four main purposes of the UN – “to maintain international peace and security; to develop friendly relations among nations; to cooperate in solving international problems and in promoting respect for human rights; and to be a centre for harmonising the actions of nations” (UN Department of Public Information, 2003). Other important aspects of the UN Charter focus on human rights, humanitarian assistance and the development of international law.

Although the United Nations is not a world government, nor does it make laws, it does provide mechanisms to assist in the resolution of international conflicts and the formulation of policies affecting the globe. All member states of the UN have input and a vote in this process.

The United Nations has six main branches:

1. the General Assembly;
2. the Security Council;
3. the Economic and Social Council;
4. the Trusteeship Council;
5. the Secretariat; and
6. the International Court of Justice located in The Hague in the Netherlands.

With the exception of the International Court of Justice, these groups are all based at UN Headquarters in New York.

### The General Assembly

The General Assembly is like a “parliament of nations” where all UN member states are represented. It meets to discuss the world’s most pressing problems. Each individual member state has one vote. A two-thirds majority makes decisions about key issues such as international peace and security, admitting new members and the UN budget. Other matters are decided by simple majority. Consensus, rather than formal vote, is also encouraged to reach decisions.

### The Security Council

Under the UN Charter, the Security Council is primarily charged with the responsibility of maintaining international peace and security. There are 15 council members. Five nations – China, France, the Russian Federation, the United Kingdom and the United States – are permanent members. The other 10 are elected by the General Assembly for two-year terms. In the future, the composition of the UN member states comprising the Security Council may be changed to reflect political and economic realities.

The council may convene at any time whenever peace is threatened. Under the charter, all member states are obligated to carry out the council’s decisions. Decisions of the council require nine yes votes. Decisions cannot be taken if there is a no vote, or veto, by a permanent member, except on procedural questions. The council also makes recommendations to the General Assembly on the appointment of a new secretary-general and on the admission of new members to the UN.

When the council considers a threat to international peace, the primary goal is to examine methods to settle the dispute peacefully. The council may suggest principles for a settlement or undertake mediation. If fighting is under way, the council first tries to secure a ceasefire. UN



peacekeeping missions may be sent to help the parties maintain the truce and to keep opposing forces apart.

Measures that the council can take to enforce its decisions include: imposition of economic sanctions, arms embargo, and very rarely, authorisation for member states to use “all necessary means”, including collective military action, to see that its decisions are carried out.

### **The Economic and Social Council**

The Economic and Social Council functions under the broad authority of the General Assembly. It has 54 members, elected by the General Assembly for three-year terms. The council is responsible for the co-ordination of the economic and social work of the United Nations and the UN family of organisations. It is the central forum for discussing international economic and social issues and for formulating policy recommendations. The council fosters international cooperation for development and consults with non-governmental organisations (NGOs) and civil society organisations (CSOs).

The council also has subsidiary bodies, which meet and then report to it. These include the Commission on Human Rights (which monitors the observance of human rights), as well as other bodies that focus on issues such as social development, the status of women, crime prevention, narcotic drugs and environmental protection. In addition, five regional commissions were created to promote economic development and cooperation.

### **The Trusteeship Council**

The Trusteeship Council was created for a very specific task – to provide international supervision for 11 trust territories, to be administered by seven member states with the goal to ensure that adequate steps were taken to prepare the territories for self-government or independence. As of 1994, all trust territories had attained self-government or independence, either as separate states or by joining neighbouring independent countries.

Currently, the Trusteeship Council consists of the five permanent members of the Security Council and the rules have been amended to allow it to spring into action when required.

### **The Secretariat**

Under the UN Charter, the Secretariat is responsible for carrying out the substantive and administrative work of the United Nations as directed by the General Assembly, the Security Council and the other organisations. The Secretary-General is the head of this organisation and provides overall administrative guidance.

The Secretariat employs some 7500 staff from some 170 countries under the regular budget and almost the same amount under special funding. Secretariat stations include the UN Headquarters in New York, UN offices in Geneva, Vienna, Nairobi and other locations.

## The International Court of Justice

The International Court of Justice is also referred to as the World Court. It is the primary judicial organ of the UN. It comprises 15 judges elected jointly by the General Assembly and the Security Council. The court decides disputes between countries. Although participation by states in a proceeding is voluntary, if a state does participate in proceedings, it is obligated to comply with the court's decision. The court also provides advisory opinions to the General Assembly and the Security Council upon request.

## Other specialised agencies

The International Monetary Fund, along with the World Bank and 12 other independent organisations, are known as “specialised agencies”. They are linked to the UN through cooperative agreements. These agencies are autonomous bodies created by inter-governmental agreement. They have broad international responsibilities in the economic, social, cultural, educational, health and related fields. See Table 2 for a list and brief description of autonomous organisations joined to the UN through special agreements.

In addition, a number of UN offices, programmes and funds work to improve the economic and social condition of people around the world. These include the Office of the UN High Commissioner for Refugees (UNHCR), the UN Development Programme (UNDP) and the UN Children's Fund (UNICEF). They all report to the General Assembly or the Economic and Social Council.

These organisations have their own governing bodies, budgets and secretariats. Together with the United Nations, they are known as the UN family, or the UN system. Collectively, they provide technical assistance and other forms of assistance in almost all economic and social areas.



Table 2 – Specialised agencies

<p><b>ILO</b> (International Labour Organisation): Formulates policies and programmes to improve working conditions and employment opportunities, and sets labour standards used by countries around the world.</p> <p><b>FAO</b> (Food and Agriculture Organisation of the UN): Works to improve agricultural productivity and food security, and to better the living standards of rural populations.</p> <p><b>UNESCO</b> (UN Educational, Scientific and Cultural Organisation): Promotes education for all, cultural development, protection of the world's natural and cultural heritage, international cooperation in science, press freedom and communication.</p> <p><b>WHO</b> (World Health Organisation): Co-ordinates programmes aimed at solving health problems and the attainment by all people of the highest possible level of health. It works in such areas as immunisation, health education and the provision of essential drugs.</p> <p><b>World Bank Group</b>: Provides loans and technical assistance to developing countries to reduce poverty and advance sustainable economic growth.</p> <p><b>IMF</b> (International Monetary Fund): Facilitates international monetary cooperation and financial stability and provides a permanent forum for consultation, advice and assistance on financial issues.</p> <p><b>ICAO</b> (International Civil Aviation Organisation): Sets international standards for the safety, security and efficiency of air transport, and serves as the co-ordinator for international cooperation in all areas of civil aviation.</p> <p><b>UPU</b> (Universal Postal Union): Establishes international regulations for postal services, provides technical assistance and promotes cooperation in postal matters.</p> <p><b>ITU</b> (International Telecommunication Union): Fosters international cooperation to improve telecommunications of all kinds, co-ordinates usage of radio and TV frequencies, promotes safety measures and conducts research.</p> <p><b>WMO</b> (World Meteorological Organisation): Promotes scientific research on the Earth's atmosphere and on climate change, and facilitates the global exchange of meteorological data.</p> <p><b>IMO</b> (International Maritime Organisation): Works to improve international shipping procedures, raise standards in marine safety and reduce marine pollution by ships.</p> <p><b>WIPO</b> (World Intellectual Property Organisation): Promotes international protection of intellectual property and fosters cooperation on copyrights, trademarks, industrial designs and patents.</p> <p><b>IFAD</b> (International Fund for Agricultural Development): Mobilises financial resources to raise food production and nutrition levels among the poor in developing countries.</p> <p><b>UNIDO</b> (UN Industrial Development Organisation): Promotes the industrial advancement of developing countries through technical assistance, advisory services and training.</p> <p><b>IAEA</b> (International Atomic Energy Agency): An autonomous intergovernmental organisation under the aegis of the UN, it works for the safe and peaceful uses of atomic energy.</p>
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Source: (The Department of Public Information, News Services and Editorial Section  
United Nations Department of Public Information, 2002)

## Development assistance

The UN has a central mandate to promote higher standards of living, full employment, and conditions of economic and social progress and development. As much as 70 per cent of the work of the UN system is devoted to accomplishing this mandate (UNDP, 2003). This is based on the belief that eliminating poverty and improving the wellbeing of people throughout the world are necessary factors in creating lasting world peace. With respect to promoting development, the UN has two unique advantages: a global presence, and a comprehensive mandate that spans social, economic and emergency needs.

### Agenda-setting for development

The UN plays a critical role in building international consensus on action for development. It formulates new development objectives on an ongoing basis as required and develops programmes to make them a reality.

The Millennium Summit in September 2000 marked the adoption of a set of Millennium Development Goals:

1. eliminating extreme poverty and hunger;
2. achieving universal primary education;
3. promoting gender equality and empowering women;
4. reducing child mortality;
5. improving maternal health;
6. combating HIV/AIDS, malaria and other diseases; and
7. ensuring environmental sustainability.

These goals are to be achieved using a set of measurable targets by 2015. Targets include:

- halving the proportion of people in the world who earn less than a dollar a day;
- achieving universal primary education;
- eliminating gender disparity at all levels of education; and
- reducing child mortality while increasing maternal health.

### Assistance for development

The UN system works in a variety of ways to promote economic and social goals. Specialised agencies (see Table 2 above) cover virtually all areas of economic and social endeavour through their mandates. Agencies provide technical assistance and other forms of practical help to countries. Along with the UN, they help to formulate policies, set standards and guidelines, and foster support and mobilise funds.



The co-ordination between the UN and the specialised agencies is achieved through the UN System Chief Executives Board for Co-ordination (CEB). This board is composed of the Secretary-General, the heads of the specialised agencies, funds and programmes, the International Atomic Energy Agency and the World Trade Organisation.

The UNDP's substantive or operational focus is on helping countries build capacity through funding and policy advisory services in the following areas:

### **Democratic governance**

This entails the development of institutions and processes that are responsive to the needs of ordinary citizens and the poor. The UNDP builds partnerships and shares methods to promote participation, accountability and effectiveness at all levels in society. More specifically, the UNDP helps countries strengthen their electoral and legislative systems, improve access to justice and public administration, and develop a greater capacity to deliver basic services to the most needy segments of society.

### **Poverty reduction**

With the assistance of UNDP advocates and support to make it happen, developing countries work to create their own poverty eradication strategies based on local needs and priorities. UNDP provides support in the form of: funding for innovative pilot projects, providing knowledge and expertise to countries about global best practices and resources, promoting the role of women in development, and bringing governments, civil society and outside funding groups together to co-ordinate their efforts.

### **Crisis prevention and recovery**

The UNDP seeks to reduce the vulnerability of countries to violent conflicts or natural disasters that can destroy years of development resulting in further entrenchment of poverty and inequality. The UNDP searches for and shares, new approaches to crisis prevention, early warnings and conflict resolution. It also acts to bridge the gap between emergency relief and long-term development.

### **Energy and environment**

The UNDP focuses on energy and environment aspects because it believes that the link between energy and environment are critical for sustainable development. The poor are disproportionately affected by environmental degradation and lack of access to clean and affordable energy sources. Issues such as climate change and ozone layer depletion require international co-operation. UNDP assists countries to improve their capacity to manage these challenges at all levels in society. It also searches for and shares knowledge on best practices; provides policy advice and links partners through pilot projects.

## Information and communications technology (ICT)

The UNDP sees ICT as a powerful tool for: participation of developed and developing countries in global markets, promotion of political participation and accountability, improvement of the delivery of basic services, and expanding local development opportunities. UNDP assists countries by drawing on expertise and best practices from around the world to develop strategies that expand access to ICT and harness it for development. UNDP also relies on ICT solutions to make the most effective use of its own global network.

## HIV/AIDS

The UNDP works as a partner to prevent the spread of human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and reduce its impact on developing countries. In this capacity, the UNDP mobilises all levels of government and civil society around this issue, advocates the placement of HIV/AIDS at the centre of national, planning and budgets, assists in building national capacity to manage initiatives in institutions and fields traditionally considered outside the area of health, and encourages a decentralised approach that supports community-level action. The UNDP assists national efforts by providing knowledge and resources, including best practices in dealing with the HIV/AIDS issue.

In addition to the focus placed on working within these substantive areas, the UNDP also contributes to development through two important activities:

1. production of annual Human Development Reports; and
2. assistance in capacity development.

## Human development reports

The UNDP produces the annual Human Development Report, which focuses on global attention on: key development issues, providing new measurement tools, innovative analysis and policy proposals. The report is produced with the assistance of leaders in academia, government and civil society who contribute data, ideas and knowledge about best practices. Countries and their international partners use the report to measure performance and influence the development of new policies.

## Capacity development

According to the UNDP, capacity refers to “the ability of individuals, organisations and societies to perform functions, solve problems, and set and achieve goals”. Capacity development involves the sustainable creation, utilisation and retention of that capacity, which will serve to reduce poverty, improve self-reliance and the quality of poor people’s lives. UNDP involvement seeks to build upon and leverage rather than replace indigenous capacity. The focus in capacity development, according to the UNDP is “promoting learning, boosting empowerment,



building social capital, creating enabling environments, integrating cultures, and orientating personal and societal behaviour”.

### Vignette: The United Nations

#### Sawadogo captures the rain

When the rains finally come to Bonam these days, they rarely last long. While parched soil has always been a fact of life in this central Burkina Faso land, local elders say that the rainfall upon which the village depends for sustenance is becoming less dependable with each passing year.

Rain that arrives late, leaves early and increasingly defies traditional seasonal patterns had compounded the many challenges facing village farmers like Sawadogo Assane, who for years toiled over parched fields that barely yielded enough sorghum, cassava and rice to feed his family. Not knowing when the rains would arrive, it was impossible for him to know the best times to sow and harvest.

But Sawadogo is more than just a farmer. He is also the operations manager for the Bonam village council, which worked with the United Nations to build a dam that gathers and preserves rainwater for agricultural use. Over six months, the villagers, local contractors and UN representatives laboured on the dam, which resembles a basin dug into the lowest point in the land surrounding the village. Rainfall now flows into the depression and collects in the 10-metre-deep, clay-lined dam. The water is released over time through an irrigation system into a 10-square-kilometre patchwork of fields that is farmed by more than 100 families.

Before the dam was built, Bonam farmers could count on just a single yearly harvest, which had to supply food for the entire year, leaving nothing left to sell or trade. Since the dam's completion, however, the land is yielding two or three harvests per year, allowing the villagers to replenish their own food stores and earn money by selling excess crops.

After a recent rainfall that filled the new dam, Sawadogo describes how the project has changed life for himself and his fellow farmers. “Since the rains fell we have more than twice as much food and money,” Sawadogo says. “With the money, we buy clothes, medicine and pay the school fees for my children.”

More than 80 per cent of the population of Burkina Faso relies on subsistence farming for survival, leaving the country especially vulnerable to the severe drought and deforestation that has plagued the landlocked West African nation. Shifting climate patterns like those described by Sawadogo and the village elders threaten to exacerbate these problems. The United Nations Capital Development Fund (UNCDF), which assisted the village of Bonam in building its dam, has worked with government officials in the country since the early 1980s to fight poverty and promote environmental sustainability.

By transferring environmental decision-making authority to communities and creating economic incentives for environmental best practices, UNCDF's Local Development Programmes promote the sustainable use of resources and discourage practices that can be harmful to the environment.

UNCDF's work in Burkina Faso, which is conducted in close cooperation with the United Nations Development Programme (UNDP), reflects the programme of action adopted in 2001 at the United Nations Conference on the Least Developed Countries in Brussels. At that event, 193 countries committed themselves to eradicate poverty in the world's poorest nations.

Source: Sawadogo captures the rain. Posted at The UN Works to secure our future – World Summit on Sustainable Development, 26 August - 4 September, 2002. The United Nations, 2002. <http://www.un.org/works/sustainable/index.html>

### The International Monetary Fund (IMF)

The International Monetary Fund was created in 1945 to promote the health of the world economy. The IMF was established to promote international monetary cooperation, exchange stability and orderly

exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

The IMF is headquartered in Washington, DC and consists of 184 countries. The organisation is jointly governed by and accountable to the governments of its membership. It has a staff of 2680 people from 141 countries, and as of June 30, 2003, had quotas totalling \$299 billion, and loans outstanding of \$107 billion to 56 countries. Also during the fiscal year 2003, 136 surveillance consultations were concluded (The IMF at a Glance, 2003).

### Main responsibilities

Article I of the Articles of Agreement sets out the IMF's main responsibilities:

1. promoting international monetary cooperation;
2. facilitating the expansion and balanced growth of international trade;
3. promoting exchange stability;
4. assisting in the establishment of a multilateral system of payments; and
5. making its resources available (under adequate safeguards) to members experiencing balance of payments difficulties.

The IMF is generally responsible for ensuring the stability of the international monetary and financial system – that is, the system of international payments and exchange rates among national currencies that enables trade to take place between countries. The IMF also promotes economic stability and growth, and seeks to prevent and resolve crises and alleviate poverty (About the IMF, 2003). It works to promote economic growth and stability by encouraging countries to adopt sound economic policies. The IMF employs three main functions to accomplish its objectives:

1. surveillance;
2. technical assistance; and
3. lending.

### Surveillance

Surveillance is dialogue and policy advice that the IMF offers to each of its members. Usually once a year, the IMF conducts in-depth appraisals of each member country's economic situation. Discussions take place with the country's authorities on the policies that are most conducive to stable exchange rates and a growing and prosperous economy. The IMF also combines information from individual country consultations to form assessments of global and regional development and prospects. Reports are published twice a year in the World Economic Outlook and the Global Financial Stability Report.



## Technical assistance

Technical assistance (including training) helps member countries strengthen their capacity to design and implement effective policies. Technical assistance is offered in several areas, including fiscal, monetary and exchange rate policies, banking and financial system supervision and regulation, and statistics. These services are usually free of charge. Also, in the event that member countries experience difficulties financing their balance of payments, the IMF can be used to help in recovery.

## Financial assistance

Financial assistance provides member countries assistance and room to manoeuvre when they need to correct balance of payments problems. However, continued financial support is conditional on the effective implementation of a policy programme designed by national authorities and the IMF.

The IMF works to reduce poverty in countries, independently and in collaboration with the World Bank and other organisations. It provides financial support through its concessional lending facility, called the Poverty Reduction and Growth Facility (PRGF). It also provides debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

In most low-income countries, this support depends on the implementation of poverty reduction strategy papers (PRSP). Country authorities, along with civil society and external development partners, prepare these papers, which outline a comprehensive economic, structural and social policy framework to be implemented to promote growth and reduce poverty.

## Resources

The IMF's resources are provided by its member countries. The major source of funds is through payment of quotas, which broadly reflect each country's economic size. The total amount of quotas is the most critical factor that determines the IMF's lending capacity. The annual expenses of running the fund are met mainly by the difference between interest receipts (on outstanding loans) and interest payments (on quota "deposits").

### Vignette: The International Monetary Fund

#### IMF approves in principle three-year US\$72 million poverty reduction and growth facility arrangement for Nepal

(November 2003) The executive board of the International Monetary Fund (IMF) today approved in-principle a three-year SDR<sup>1</sup> 49.9 million (about US\$72 million) Poverty Reduction and Growth Facility Arrangement for Nepal to support the country's economic reform programme to July 2006.

According to Shigemitsu Sugisaki, deputy managing director and acting chairman:

"Nepal's Poverty Reduction Strategy Paper (PRSP) is a comprehensive and participatory effort to address the country's low growth, inadequate social sector investment, and limited income opportunities for the poor. The authorities' fund-supported reform programme aims at improving the conditions for sustained growth and poverty reduction, based on sound macroeconomic policies, better prioritisation and enhanced efficiency in government expenditure, structural reforms in major sectors of the economy, and improved governance."

#### Programme summary

The Nepalese authorities are seeking to break a vicious cycle of low growth, pervasive poverty and insurgency. To this end, they intend to implement a comprehensive reform agenda outlined in their Poverty Reduction Strategy Paper (PRSP). The PRSP strategy is focused on broad-based sustainable economic growth, social sector development, and targeted programmes for the poor and disadvantaged people, and good governance.

The key elements of Nepal's PRGF-supported programme are in line with the PRSP.

On **fiscal policy**, the programme aims at boosting revenue and reducing domestic financing, while redirecting spending to social and key infrastructure sectors. By 2005/06, revenue would be targeted to increase by 1.25 percentage points to 13.5 per cent of GDP, based on revenue administration reforms, increases in VAT rate, and rationalisation of VAT and customs exemptions. Reductions in domestic borrowing would help maintain fiscal sustainability.

The programme's **monetary and exchange rate policies**, would remain geared to supporting the peg to the Indian rupee, which has served Nepal well given close ties with India. However, the level of the peg would be kept under review in light of prospective external developments, such as the phasing out of the Multi-Fibre Arrangement by 2005, which could pose challenges for export growth. Over the medium-term, competitiveness is to be enhanced by reforms to reduce labour and non-labour input costs.

- The strategy for the **structural reform agenda** focuses on financial and public sector reforms, and improving governance. Reforms in this area would create conditions for higher growth by improving intermediation and resource allocation, reducing corruption and increasing accountability. Financial sector reforms involve central bank strengthening, improved legislation and loan recovery, and restructuring of commercial and development banks.
- Public sector reforms include reforming the civil service to make it more efficient; privatisation/liquidation of unviable enterprises and divestment from profitable ones to enhance their efficiency.
- Governance reforms involve steps to combat corruption and efforts to decentralise delivery of social services.

Source: Press Release No. 03/194. (November 14, 2003).  
The International Monetary Fund. Washington, DC. [www.imf.org](http://www.imf.org)

<sup>1</sup> Special Drawing Rights or SDR is a form of international reserve assets created by the IMF in 1967. The SDR value is based on a portfolio of widely used currencies and facilitates exchange of currencies that are not extensively circulated in world markets.



## The World Bank (WB)

The World Bank (WB) is a specialised agency of the UN. As such, the agency is made up of 184 member countries that hold joint responsibility for the institution's financing and how its money is spent. The World Bank is headquartered in Washington, DC and employs some 10,000 development professionals from nearly every country in the world who are stationed at headquarters or in one of its 109 country offices (What is the World Bank?, 2003).

Currently, the WB is focused on achieving the Millennium Development Goals set by the UN in 2000, which define specific targets in terms of school enrolments, child mortality, maternal health, disease and access to water to be met by 2015.

There are different programmes through which the World Bank operates. Referred to as the World Bank Group, these include:

- the International Development Association (IDA);
- the International Bank for Reconstruction and Development (IBRD);
- the International Finance Corporation (IFC);
- the Multilateral Investment Guarantee Agency (MIGA); and
- the International Centre for Settlement of Investment Disputes (ICSID).

In addition, The Heavily Indebted Poor Countries (HIPC) Initiative focuses on the issue of debt relief.

### The International Development Association (IDA)

Generally, the world's low-income countries cannot borrow money in international markets or can do so only at high interest rates. These countries receive grants, interest-free loans and technical assistance from the World Bank to enable them to provide basic services. They also receive direct contributions and loans from developed countries. In the case of the loans, countries have 35-40 years to repay, with a 10-year grace period.

In fiscal 2002 IDA provided US\$8.1 billion in financing for 133 projects in 62 low-income countries (What is the World Bank? 2003). The IDA is the world's largest source of concessional assistance. A concessional loan refers to the provision of funds by a donor such that the loan consists of a grant element of at least 25 per cent (calculated using a discount rate of 10 per cent) (Development Cooperation Report 2000). A *non-concessional loan* is the provision of any other funds provided by a donor that must be repaid under agreed terms.

In general, loans will not include a 25 per cent grant element if the term of the loan is less than ten years, unless the interest rate is well below 5 per cent (Development Cooperation Report, 2000). Loans are considered

for Official Development Assistance (ODA) if they meet the grant element requirement and have a main objective to promote economic development and welfare of a developing country.

About 40 of the world's rich countries provide money to the IDA by making contributions every four years. IDA credits make up about one-quarter of the bank's financial assistance. Apart from IDA funds, very little of the bank's income is provided by its member countries. In 2002, donors agreed on the increased use of IDA grants, up to 21 per cent of resources, to help address the special difficulties faced by the poorest and most vulnerable countries (for example, the HIV/AIDS epidemic).

### **The International Bank for Reconstruction and Development (IBRD)**

While some higher-income developing countries may be able to procure loans from commercial sources, loans are usually only available at very high interest rates. Instead, these and other higher-income developing countries can receive loans from the IBRD at much lower rates, and with more generous terms. Countries that borrow from the IBRD are provided more time to repay their loans than if they borrowed from a commercial bank. Usually, the loan is structured over 15 to 20 years, with a three-to-five-year grace period before the repayment of principal begins.

Developing country governments borrow money for specific programmes, such as those that focus on poverty reduction efforts, the delivery of social services, protection of the environment, or any number of other programmes that work to improve living standards.

The IBRD raises almost all its money in the world's financial markets – \$23 billion in fiscal 2002 (What is the World Bank? 2003). The IBRD uses its AAA credit rating to issue bonds to raise money, then passes on the low interest rates to its borrowers. In the organisation's 2002 fiscal year, IBRD provided loans totaling US\$11.5 billion in support of 96 projects in 40 countries (What is the World Bank? 2003).

### **The International Finance Corporation (IFC)**

The International Finance Corporation (IFC) was established in 1956. As of 2003, there were 175 member countries of the International Finance Corporation. IFC member countries must be members of the World Bank (IBRD). They must also have signed IFC's articles of agreement. In 2003, IFC had 2000 employees, about 70 per cent of whom worked in its Washington, DC, headquarters (About the IFC, 2003). The remaining employees were stationed in more than 80 IFC field offices.

The IFC seeks to promote sustainable private sector development through three main activities: financing private sector projects in the developing world; assisting private companies in the developing world to attain financing through international financial markets; and providing advice and technical assistance to businesses and governments.

The IFC promotes private sector investment by supporting high-risk sectors and countries.



It is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC investments typically range from US\$1 million to US\$100 million (About the IFC). Funds are often used for permanent working capital and/or for foreign or local expenditures in any IBRD member country to acquire fixed assets.

Although IFC primarily finances private sector projects, it may provide financing for a company with some government ownership. This is conditional upon private sector participation in the venture, and the venture being run on a commercial basis. IFC finances companies that are wholly locally owned, as well as joint ventures between foreign and local stockholders.

The IFC works on commercial terms with profitability targets and has been profitable since inception. This is mainly due to the eligibility requirements for IFC financing. Projects must not only be profitable for investors and benefit the economy of the host country, but they must also conform to environmental and social guidelines. IFC finances projects in all kinds of industries and sectors, including manufacturing, infrastructure, and health and education.

Financial products and services offered by the IFC to companies in its developing member countries include, but are not restricted to: long-term loans in major and local currencies, at fixed or variable rates, equity investments, quasi-equity instruments (for example, subordinated loans, preferred stock, or income notes), risk management tools (such as by acting as the intermediary for currency and interest rate swaps and the provision of hedging facilities), and intermediary financing.

The IFC focuses on promoting economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries. As such, IFC works with governments and provides advice on creating conditions that stimulate the economy, mainly through the flow of domestic and foreign private savings and investment.

Finally, the IFC will typically only participate in an investment when its contribution complements the role of market operators. Thus, a major role of the IFC is to stimulate and mobilise private investment in developing countries by showing people that investments there can be profitable.

### **The Multilateral Investment Guarantee Agency (MIGA)**

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 as a member of the World Bank Group. MIGA membership is open to all World Bank members. As of 2003, membership in MIGA stands at 163 countries (About MIGA, 2003).

Perceptions about political uncertainty and risk often inhibit foreign direct investment (FDI), which the World Bank believes to be a key driver of growth. Usually, FDI goes only to a handful of countries, largely ignoring the world's poorest economies. The MIGA's task is to

promote foreign direct investment into emerging economies with the goal to reduce poverty and improve the standard of living.

MIGA attempts to accomplish this and contribute to development by offering political risk insurance, or “guarantees”, to investors and lenders in developing countries. It also helps developing countries attract and retain private investment through technical assistance and legal services.

MIGA focuses on four main principles:

1. serving investors, lenders, and host country governments by encouraging and supporting private enterprise and promoting foreign investment;
2. engaging in partnerships with other insurers, government agencies and international organisations for a complementary approach to the provision of services;
3. promoting development consistent with the goals of host countries as well as sound business, environmental and social principles in order to improve the quality of life of people in emerging economies; and
4. ensuring financial soundness by “balancing developmental goals and financial objectives through prudent underwriting and sound risk management” (About MIGA, 2003).

The guarantee coverage provided by MIGA requires that investors adhere to what are considered the world’s best social and environmental standards. Without the involvement of the World Bank and the MIGA, projects may go ahead without adequate provisions in these areas.

From its inception to June 2003, MIGA has issued more than 650 guarantees for projects in 85 developing countries (About MIGA, 2003). The agency assembles additional investment coverage through its cooperative underwriting programme (CUP). This programme encourages private sector insurers to participate in transactions they would not have otherwise undertaken, thus helping the MIGA serve even more clients.

### **The International Centre for Settlement of Investment Disputes (ICSID)**

The International Centre for Settlement of Investment Disputes (ICSID) was created in 1966 and, like other World Bank Group units, is headquartered in Washington, DC. All ICSID members are also members of the World Bank. The purpose of ICSID is to settle investment disputes between foreign investors and their host countries, to help promote increased flows of international investment.

One of the main activities of ICSID is the provision of facilities for the conciliation and arbitration of disputes between ICISD member countries and investors (both ICISD members and non-members). The acceptance and implementation of ICSID conciliation and arbitration rulings are entirely voluntary. However, once arbitration has been agreed to by the



parties, neither can unilaterally withdraw its consent to the process from occurring. Furthermore, all contracting states (all members of the UN), whether or not they are parties to the dispute, are required by convention to recognise and enforce ICSID arbitral awards.

The ICSID can also provide support in the settlement of disputes by acting as the appointing authority of arbitrators for ad hoc (that is, non-institutional) arbitration proceedings. Usually this is done within the framework of the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), which are designed specially to deal with ad hoc proceedings.

ICSID provisions on arbitration are often found in investment contracts between governments of member countries and investors from other member countries. Consent by governments to submit investment disputes to ICSID arbitration are also found in about 20 investment laws and more than 900 bilateral investment treaties (ICSID FAQ, 2002). For example, consents to arbitration under the ICSID serves as one of the main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties: the North American Free Trade Agreement, the Energy Charter Treaty, the Cartagena Free Trade Agreement and the Colonia Investment Protocol of Mercosur (About the World Bank Group, 2003).

Although the centre's headquarters are located in Washington, DC, it is not necessary that all arbitrations occur there. The parties to an ICSID arbitration are free to agree to conduct their proceedings at any other place. However, where the ICSID has arrangements with specialised institutions for this purpose, arbitrations are to be held at these locations. As of June 2003, the ICSID has entered into such arrangements with the Permanent Court of Arbitration at The Hague, the Regional Arbitration Centres of the Asian-African Legal Consultative Committee at Cairo and Kuala Lumpur, the Australian Centre for International Commercial Arbitration at Melbourne, the Australian Commercial Disputes Centre at Sydney, the Singapore International Arbitration Centre and the GCC Commercial Arbitration Centre at Bahrain (FAQ, the World Bank Group, 2002).

In addition to its dispute settlement activities, ICSID conducts advisory and research activities relevant to its objectives. It also issues a number of publications. The ICSID collaborates with other World Bank Group units in fulfilling requests by governments for advice on investment and arbitration law. The ICSID has also co-sponsored, with the American Arbitration Association (AAA) and the International Chamber of Commerce (ICC) International Court of Arbitration, symposiums on recent areas of interest in international arbitration (About ICSID, 2003).

### **The Heavily Indebted Poor Countries (HIPC) Initiative**

Initiated in 1996 by the World Bank and IMF with agreement from governments around the world, the HIPC Initiative provides a comprehensive approach to reducing the external debt of the world's poorest, most heavily indebted countries. HIPC has also served to place

the issue of debt relief within an overall framework of poverty reduction in developing countries. According to the organisation's website, "The principal objective of the debt initiative for the heavily indebted poor countries (HIPC) is to bring the country's debt burden to sustainable levels, subject to satisfactory policy performance, so as to ensure that adjustment and reform efforts are not put at risk by continued high debt and debt service burdens" (About the World Bank Group, 2003).

Countries that qualify for this initiative are the poorest countries, which include only those eligible for highly concessional assistance from the International Development Association (IDA), which is the World Bank organ that lends on highly concessional terms, and from the IMF's Poverty Reduction and Growth Facility.

Countries that also face an unsustainable debt situation even after the full application of traditional debt relief mechanisms (such as application of Naples terms under the Paris Club agreement) may also qualify for assistance under the HIPC initiative. Currently, sustainable debt-to-export levels are defined at a fixed ratio of 150 per cent (on a net present value basis) (FAQ, The World Bank Group, 2003). For more open economies, where standard indicators may not adequately reflect financial burden of external debt, other methods of determining sustainable levels that calculate the Net Present Value (NPV) of exports to debt and GDP ratios are applied.

Eligible HIPC are required to undertake sustained implementation of integrated poverty reduction and economic reform programmes, developed in conjunction with the World Bank and IMF.

Bilateral and multilateral creditors participating in the HIPC initiative provide assistance required to reach debt sustainability. They share the costs of HIPC assistance on the basis of equitable burden sharing. Creditors provide relief proportional to their share of the debt after the full application of traditional forms of debt relief, which include the Naples terms from Paris Club creditors that provide a 67 per cent NPV reduction on eligible debt.

The World Bank as an overarching entity contributes to HIPC goals, predominantly through delivering relief on IDA debt. A portion of IDA debt will be forgiven as it comes due. IDA will forgive a minimum of 50 per cent of the annual debt service due on existing IDA debt. The World Bank component of the HIPC Trust Fund will then reimburse IDA, subject to the availability of resources, for the debt service relief provided by IDA.

The IMF contributes to HIPC by providing interim assistance in meeting debt servicing through special Poverty Reduction and Growth Facility (PRGF) grants, which are paid into an escrow account and used to cover debt-service payments to the IMF.

As of June 2003, the cost of the initiative in present value terms is more than US\$29.3 billion. This cost is divided approximately in half between



bilateral and multilateral creditors. The World Bank provides about US\$6.3 billion of this amount in NPV terms. The HIPC estimates that the net-present value of public debt in the 33 countries most eligible for assistance through the initiative is about US\$90 billion. It is believed that this could be reduced by about half after HIPC and traditional debt relief (About the World Bank Group, 2003).

### Vignette: The World Bank in Chile

#### Chile: Building human capital for the global knowledge economy

As the world relies increasingly on science and technology that becomes more complex every day, developing countries need to cultivate a core of skilled scientists who can keep abreast of cutting-edge research conducted in developed countries. But with many top researchers emigrating for opportunities abroad, poor countries are struggling to support local talent and prevent the so-called brain-drain that undermines their research efforts.

The World Bank and the Chilean government partnered in 1999 to launch the Millennium Science Initiative (MSI), which aims to boost Chile's science and technology sector by supporting local scientists and investing in new research.

With MSI help, more than a dozen first-rate research centres have been established and many of the country's top scientists have received grants through an established fund administered by an international committee of selected scientists. MSI research grants so far have been awarded to 160 Chilean senior scientists, enabling them to compete with international peers.

Benefits have trickled down to students as well. These scientists are responsible for training half of the country's graduate students in science and engineering, and 47 doctorates have been awarded since MSI's inception. Additionally, 252 graduate and undergraduate students, funded through other sources, are associated with MSI as researchers.

Results have spilled beyond Chile's borders: 18 doctoral and postdoctoral students from neighbouring countries have received MSI fellowships. Building on the programme's success, in May 2003, the World Bank approved a second US\$25.3 million loan to strengthen the project.

Source: The World Bank in Action: Stories of Development, Published by The World Bank. Washington, DC. September 2003. [www.worldbank.org](http://www.worldbank.org)

### The Asian Development Bank (ADB)

The ADB was established in 1966. In light of its years of experience, the ADB has come to believe that economic growth and investment in human development are in themselves not sufficient to eradicate poverty in the region. As such, reducing poverty has become ADB's main goal, and in November 1999 ADB's new poverty reduction strategy was adopted.

Today the ADB is a multilateral development finance institution with a mandate to reduce poverty in Asia and the Pacific. Currently, it is headquartered in Manila, with offices in 24 other places around the world. As of 2003, membership includes 62 nations, both within and outside the Asian and Pacific region.

The five key objectives of the ADB in its strategy of poverty reduction in the region are:

1. reducing poverty;
2. promoting economic growth;
3. supporting human development;
4. improving the status of women; and
5. protecting the environment.

In order to achieve these objectives, the ADB has worked with the World Bank and other high-level representatives from around the world to discuss the new social policy agenda arising from the transition from central planning to market economies and globalisation in Southeast, Central, and East Asia. Topics covered include: labour market reform, decentralisation of social services, the role of the private sector in economic development and poverty reduction, urban poverty, and building social safety nets in these countries.

The strategy for poverty reduction rests on three pillars:

1. **pro-poor, sustainable economic growth** built upon policies and programmes that assist in employment and income generation for the poor;
2. **social development** to enable the poor to have greater opportunities to improve their living standards and programmes that directly address the severity of poverty; and
3. **good governance** to improve access to basic services by the poor and to provide opportunities for greater participation in the decisions affecting them.

This strategy requires that all ADB operations – that is, lending, technical assistance (TA), capacity building, economic and sector work, donor co-ordination and policy dialogue – contribute to the reduction of poverty in developing member countries (DMC).

Another organ of the ADB is the Tokyo-based ADB Institute, established in 2000. It carries out development research and provides capacity building and training for middle- to top-level policy-makers and officials of development institutions from ADB's DMCs. The research agenda has focused particularly on the financial and foreign exchange markets, including specific topics such as assessing the relationship between financial market structure and development, strengthening banks and capital markets, sequencing financial market liberalisation and reforming corporate governance in East Asia.



## Vignette: The Asian Development Bank in Pakistan

### Improving roads and promoting safety in Pakistan's Punjab province

(October 2002) The Asian Development Bank (ADB) has approved a US\$150 million equivalent loan to improve provincial roads in Punjab, Pakistan.

By upgrading 303 kilometres of provincial highways and 1100km of rural access roads, the Punjab Road Development Sector Project will provide the rural poor with better access to markets, economic opportunities and social services.

The project also backs reforms to promote road safety in a land with a high rate of traffic deaths. In addition, it provides strong support for road maintenance.

Improving links between villages and distribution centres, districts and provincial cities gives the poor more job opportunities as well as access to education and health services.

More efficient road transport reduces poverty in a province where 55 per cent of the country's 42 million poor live.

Promoting road safety is an important component in a country where high speeds, lack of safety measures, poor driver discipline, ineffective enforcement of regulations and inadequate vehicle conditions produce one of the highest fatality rates in Asia.

Another cause of danger – and damage to roads – is vehicle overloading. Nearly 90 per cent of trucks exceed the axle load limit of eight tons, reducing the service life of roads.

To address such hazards, the project will install weighbridges on provincial highways, improve axle-control through design features and a road safety audit and establish a pilot accident-reporting centre.

To help maintain the roads, the project includes:

- capacity building for maintenance
- expanding the road asset management system
- introducing modern maintenance practices, such as a maintenance contract
- undertaking a study on road maintenance funding.

In addition, the project will support continued organisational reform and institutional strengthening of the Punjab provincial government's Communications and Works Department (CWD). This includes strengthening CWD's planning and budgeting capacity as well as improving the processes for road maintenance.

The project also aims to increase private sector participation in building and maintaining roads.

The total project cost is US\$221.1 million. The ADB loan will be from its LIBOR-based lending facility. The repayment term is 15 years, including a grace period of three years.

The project, to be executed by the Punjab CWD, is due for completion by mid-2008.

Source: News Release No. 203/02, 31 October 2002. Asian Development Bank, Manila, Philippines. <http://www.adb.org/Documents/News/2002/nr2002203.asp>

## Non-governmental organisations (NGOs)

The term “non-governmental organisation”, or NGO, emerged in 1945 due to the need to differentiate between participation rights for

intergovernmental specialised agencies and international private organisations in the UN Charter.

According to the original UN definition, almost all types of private bodies can be recognised as NGOs. The only requirements are that the organisation:

1. be independent from government control;
2. not seek to challenge governments;
3. be non-profit-making; and
4. be non-criminal.

The UN's notion of NGOs is applied in the general usage of the term. Nonetheless, some NGOs may push these boundaries. For example, some NGOs may in practice be closely associated with a political party. Others may generate income from commercial activities, most commonly through consultancy contracts and the sale of publications. Still another, albeit a small number of NGOs, may even be associated with violent political protests. In general though, NGOs are organisations that do not constitute a government bureaucracy, a political party, a company or business enterprise, a criminal organisation or a guerrilla group. They are independent, voluntary associations of people who come together for some common purpose on a continuous basis to achieve action besides the aforementioned restrictions.

Although technically the terms non-governmental organisation and a private voluntary organisation (PVO) appear equivalent, NGOs usually carry more neutral connotations and applicability to a broader range of actors in the political process, whereas PVOs are assumed to carry more moral connotations about groups and activities.

Another term gaining increased currency is the notion of civil society organisations or CSOs. The concept of CSOs, in contrast to NGOs, can be understood within the context of society in general. Usually the concept of society is such that it includes three components: government, the private sector and civil society. The definition of civil society organisations or CSOs, as put forward by the United Nations, refers to all social activity by individuals, groups and movements. NGOs, then, are components of civil society and types of CSOs.

As a total group, NGOs are diverse. Correspondingly, their structures vary considerably. They can be global hierarchies with bases in multiple countries, or they may be based in a single country and operate transnationally. The role of NGOs as participants in democratic debate does not require any claim to representative legitimacy.

Most commonly, NGOs are considered national organisations. Frequently, national NGOs team up with one or more international NGOs, which may also be referred to as INGOs. INGOs may consist of regional groups of countries, which are capped by a global body. However, it should be noted that NGO is an ambiguous term and in



practical use it may refer to local, provincial, national, regional or global bodies. Thus, it is not uncommon that an INGO may be simply referred to as an NGO as well. Similarly, terms such as grass-roots organisations and community based organisations (CBOs), and even CSOs, which have traditionally been used to refer to organisations at the local and national levels, have become quite common in referring to global civil society. Table 3 shows the evolution and usage of some terms associated with non-governmental organisations.

One final type of NGO that students may come across in the study of national level NGOs is a QUANGO – quasi-autonomous non-governmental organisation – also referred to as an NDPB or non-departmental public body. The United Kingdom Cabinet Office has defined such an organisation as “a body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm’s length from ministers” (United Kingdom Cabinet Office, 1997).

There are four general categories of QUANGOs or NDPBs identified by the United Kingdom Government:

1. executive NDPBs,
2. advisory NDPBs,
3. tribunals, and
4. Boards of Visitors to penal establishments. These include organisations such as boards and trusts, nationalised industries and public spending bodies.

QUANGOs operate in the following areas or ways:

1. where government functions need to be carried out at arm’s length from ministers, such as regulations and decisions on funding in areas requiring expertise;
2. by providing expert advice to ministers on technical or other very specialised issues;
3. by providing the opportunity for ordinary people to work in public life through appointment of lay members on NDPB tribunals, and Boards of Visitors to penal establishments;
4. by providing a quick and flexible response to matters of particular concern;
5. by providing a mechanism for bringing together a partnership between government and other interests; and finally
6. by carrying out commercial activities where board members need a degree of independence from government to make decisions.

Table 3: Changes in terminology covering NGOs

Level of organisation	From 1945 to early 1990s	Early 1990s onwards
Local	National NGO, at the UN Not discussed elsewhere	Grass-roots, community based or civil society organisation, or local NGO
Provincial (USA – state)	National NGO, at the UN Not discussed elsewhere	Civil society organisation or local NGO
National	National NGO, at the UN NGO, outside the UN	NGO or national NGO or civil society organisation
Regional	International NGO	NGO or civil society organisation
Global	International NGO	NGO or major group or civil society organisation

Source: Willetts, P. (2002).

Once NGOs decide to influence public policy, they organise, in broad coalitions to achieve this purpose. In these collations, a large number of NGOs that do not necessarily share all common interests join together to exert influence on policy in a specific area. Coalitions may take the form of umbrella INGOs, networks or caucuses.

Umbrella organisations represent the presence of a variety of different NGOs that do not share a common identity under a single INGO umbrella. As transnational telephone exchanges and air travel became more common and cheaper, and as the use of satellite communications increased, these processes encouraged the formation of looser issue-based networks of NGOs to exchange information, mobilise support and co-ordinate strategies. Networks at this time still required some degree of formal organisation where network administrators were needed to manage the relationships and paperwork among the groups. However, with the advent of email, the costs of running a network were substantially reduced and a greater number of individuals and groups could afford to take part in instantaneous global communications. The number of networks increased dramatically and they no longer needed any formal structure.

A variant of the global network is a global caucus. These arise when a group of NGOs come together as lobbyists at an international diplomatic event, such as a UN agenda-setting conference or a UN forum for negotiating on the formulation or implementation of a treaty. The caucus focuses on achieving specific outcomes from the diplomatic process. While individual caucuses may sit or exist for only a few weeks at a time



just before UN meetings, a successful caucus will be able to carry forward procedural expertise, substantive knowledge, political status and diplomatic contacts gained in one forum through to the next, handling similar questions. As such, key organisations and individuals can emerge to provide continuity. Two successful groups that operate in this way are women's organisations and environmentalists.

One set of global caucuses emerged from the 1992 Earth Summit, where more than 100 heads of state met in Rio de Janeiro, Brazil, to address urgent problems of environmental protection and socio-economic development. At the summit, Agenda 21 was adopted, which is a plan for achieving sustainable development in the 21st century. One aspect of Agenda 21 focused on "strengthening the role of major groups". This section advocated for broad public participation in decision-making through improved communication with all levels of society, and mobilising particular sectors of society for the environment. According to Agenda 21, nine major groups or global caucuses were identified:

1. women – for action towards sustainable and equitable development;
2. children and youth – in sustainable development;
3. indigenous people and their communities – recognising and strengthening their role;
4. non-governmental organisations – strengthening their role as partners for sustainable development;
5. local authorities – supporting initiatives in support of Agenda 21;
6. workers and their trade unions – strengthening their role;
7. business and industry – strengthening their role;
8. the scientific and technological community; and
9. farmers – strengthening their role.

To participate in either a caucus or network working within the UN system, all transnational actors have to take on the label of NGO. Within the UN system, umbrella INGOs have consultative status (networks are usually listed) but caucuses rarely have any formal recognition. Coalitions that focus on policy outcomes will tend to take the form of an umbrella organisation. Coalitions that focus on issues tend to take the form of a network or a caucus, with different members being active in different policy forums.

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## Module summary



### Summary

The purpose of Module Seven was to introduce you to the concept of globalisation and its implications for policy-making as well as expose you to some of the major organisations that play a large role in activities regarded within the context of globalisation. Have a look back at the objectives to see if you have benefited from your reading of this module.

The first section of this module began with some discussion around the variable definition of globalisation from different perspectives. There is no agreed meaning to the term globalisation, so becoming familiar with the range of definitions is necessary to understanding its greater impact on the world. Globalisation is not simply a term denoting economic and political developments, but it also has cultural, communication and environmental dimensions.

The different dimensions of globalisation help create a picture of the world as it is at the beginning of this millennium. In the second half of this module you considered some of the organisations that play a major role in this new world as defined by globalisation. These include the United Nations, the International Monetary Fund, the World Bank, the Asian Development Bank and non-governmental organisations. Each of these comprises or oversees other organisations and activities dedicated to assisting developing countries in a globalised world.

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## Self-study questions



### Study skills

1. In today's era of globalisation, almost one quarter of the world's total output is sold in a country other than the one in which it was produced. What are the major dimensions of globalisation? Why has there been resistance to globalisation?
2. Discuss how globalisation has affected immigration, agriculture and international trade policies in a country of your choice?
3. The United Nations, the World Bank, IMF and several other international organisations have adopted a mandate called agenda-setting for development. What are the premises of this assistance for development? Why are these assistance projects successful in some parts of the world and less successful in others?
4. What can be done for globalisation or inter-societal, geopolitics and geo-economics to positively impact people in developing nations? How can transnational or multinational corporations be more help and be accountable in promoting a positive global capitalist system?

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