

GLOBALISATION AND GOVERNANCE

MAIN RESULTS OF THE OECD DEVELOPMENT CENTRE'S
2001-2002 PROGRAMME OF WORK



GLOBALISATION AND GOVERNANCE

Main Results of the OECD Development Centre's 2001-2002 Programme of Work

Table of Contents

Preface	5
Introduction	7
Activity 1. Governing Finance and Enterprises: Global, Regional, National	10
Activity 2. The Integration of Developing Countries into the World Trading System	21
Activity 3. Globalising Technologies and Domestic Entrepreneurship	27
Activity 4. Empowering People to Meet the Challenges of Globalisation	33
Activity 5. Co-operation with Civil Society and the Private Sector	42
Supplementary Activities	47
Events Organised by the Development Centre in 2001 and 2002	58
40 th Anniversary of the Development Centre, 23 October 2002: Closing speech by H.E. Madame Joëlle Bourgois, Ambassador, Permanent Representative of France to the OECD	62

Preface

This publication assesses the results of the Development Centre's 2001-2002 research and policy dialogue activities, following presentation of an earlier draft to its new Governing Board at a technical level meeting on 17 March 2003. The document itself is the outcome of intensive discussions among researchers before and after that meeting. Written comments by outside experts and potential users such as Edmond Alphandéry, former Minister of Finance of France now Chairman of the Euro50 group, Stefano Micossi former Director General for Industry at the European Commission now Chairman of the Italian association of quoted companies (Assonima), the chief economist of the IMF, Kenneth Rogoff, Masahiro Kawai, Deputy Vice-Minister for International Affairs at the Ministry of Finance in Japan, Benjamin J. Cohen of the University of California, Santa Barbara, and Christophe Chamley from DELTA and Boston University, were also received and taken into account. I would like to thank them for their support and also express my gratitude to Ulrich Hiemenz who supervised the project and to John Simpson who finalised the text.

The meeting of the Governing Board, which replaced at the beginning of the year the former Advisory Board, was revealing in a number of ways. It provided an opportunity for member countries to express their opinions on the results and was the first occasion on which the Centre's new Director, Louka Katseli, participated in our activities. A number of countries expressed their concern and encouragement that the members of the OECD's new development "cluster" should function together and productively. Several areas in which co-operation would be desirable and efficient were cited, among them work on trade, on poverty reduction, on growth and on the integration of the private sector into the development process. The new Director observed in her remarks that development had been understood as concerning the developing world only, whereas she believed that it included structural change and could thus be useful for those OECD directorates that do not specifically deal with the poorer countries. The tide is demonstrably towards more integration and closer working habits, as mentioned in the Centre's 40th anniversary volume, *Development is Back*.

The pages which follow provide readers with a rich display of the work of the Centre over a particularly crucial period for developing countries and their partners in the OECD. Even the title of the programme turned out to be prophetic: “Globalisation and Governance”. Financial crises, trading relations, new technologies, governance systems and the impact and engagement of civil society all feature on the menu. They are joined by a number of supplementary activities which, in spite of increased resource constraints, attracted our attention because of their urgency or particular relevance to the position of developing countries in the world economy.

It is this participation of developing countries in the world economy that has most preoccupied us and will continue to interest the development community. The inclusion of developing countries in the elaboration of improved national regional and global governance is found to be essential. Together, they form the politico-economic environment which must be addressed.

Thus, the Centre’s basic networks of researchers, civil society and government in developing countries continue to spread. They form a vital part of our research and policy dialogue capacity, complementing our closer partnership with other parts of the OECD Secretariat.

The last President of the Advisory Board suggested in her closing address to our October 2002 commemoration that the Centre ought to be “reinvented”. Her full text is reproduced as an appendix. Co-operation with developing countries, she emphasised, will sustain the reinvention process and the contribution to the OECD’s development work will only be the greater.

The publication of these research conclusions on the final day of my mandate provides an opportunity to thank the Centre’s dedicated staff for creating and sustaining such a unique environment in which to study the interactions between globalisation and governance and thus to promote the OECD “brand name” in development.

Jorge Braga de Macedo
President
OECD Development Centre
30 April 2003

Introduction

1. Under the general theme of “Globalisation and Governance” the OECD Development Centre focused its 2001-2002 Programme of Work on the interdependence of economic, social and political conditions in developing countries. The Programme consisted of five activities: 1) Governing Finance and Enterprises: Global, Regional, National; 2) The Integration of Developing Countries into the World Trading System; 3) Globalising Technologies and Domestic Entrepreneurship in Developing Countries; 4) Empowering People to Meet the Challenges of Globalisation; and 5) Co-operation with Civil Society, all of which sought to address OECD priority theme VII, “to contribute to the development of non-member countries”. The overarching objective was to generate policy conclusions for developing countries that will help enhance the gains from participating in the world economy while minimising the risks of social exclusion.

The Centre ...

... contributed to OECD priority theme VII, ...

2. It was clear at the time of the Programme's initial conception that without appropriate governance structures developing countries would find it difficult to participate in and benefit from the process of globalisation while ensuring a fair distribution of the benefits among the different segments of their populations. The relationship between global, regional and national governance structures, however, was less clear, as was the relationship between facets of national governance such as, for example, economic and political governance. How to bring about appropriate governance structures is yet another challenge. Based on empirical research and dialogue with representatives of OECD and developing countries, the Centre has worked to clear up some of these issues. In order to avoid duplication and to create synergies, close co-ordination with other parts of the Secretariat, especially in the Development Cluster, and with other international and national organisations has been the watchword.

... focused on global, regional and national governance, ...

... highlighted
“participation” and
“empowerment”,
and ...

3. The fundamental insights that emerge from the results of the five activities undertaken by the Centre during 2001-2002 revolve around the terms “participation” and “empowerment”. Global governance determines the framework for developing countries’ participation in the world economy. These countries, however, need to have a stake in designing global governance structures in order to win national acceptance of them and to ensure compliance. An intermediate step may be efforts to improve regional governance, such as is being attempted by the New Partnership for Africa’s Development (NEPAD) which should improve national governance. To create a sense of ownership all domestic stakeholders need also to have a voice in the improvement of national governance. Hence there is an interactive relationship between economic and political governance: one cannot be developed without the other. To exercise voice is not merely a question of institutional arrangements — it also depends on appropriate measures to empower all stakeholders, in particular the poor, in order for them to participate actively in the debate about institutional arrangements and resource allocation. Empowerment is based on a combination of analysis, knowledge diffusion and communication, all of which require a sustained effort from all parties concerned, including the donor community.

... provided
input for OECD
and dialogue
activities.

4. Analysis, usually undertaken in co-operation with researchers from developing countries, provides the groundwork for co-operation inside the OECD Secretariat and for policy dialogue with the outside world, in particular with representatives from developing countries. As described in detail below, the analyses undertaken by the Centre in 2001-2002 have contributed to a substantial number of OECD initiatives, most notably OECD input into the Doha and Monterrey processes, and ECO work on South America. Publications, experts’ meetings and dialogue with policy makers have brought the Centre’s analysis to a broader audience. Foremost among these dissemination activities were the publication of *Development is Back* on the occasion of the 40th Anniversary of the Centre in October 2002, the annual meetings jointly organised with the Regional Development Banks and the Centre President’s chairmanship of a session on Globalisation and Governance at the OECD Forum 2001. In addition, major international meetings were organised in the framework of each of the Centre’s activities (see the summary table of Development Centre events).

5. In 2001-2002, the Centre's work again generated strong external demand in terms of invitations to staff members to participate in conferences and in evaluation bodies and to update previous analyses. Certain of these outreach activities are mentioned in the following sections of this document; a complete list is presented in the Centre's bimonthly Newsletter available on the Centre's website. It should be stressed in this connection that resource constraints severely limit the Centre's capacity to capitalise on its work in this way. Such activities can only be undertaken on the basis of extra funding, as is also the case for the hiring of consultants. The Centre's regular budget has only a nominal provision for such expenditure categories and, hence, the seven full-time professional researchers currently employed by the Centre devote a portion of their time to securing additional financing. Nevertheless, the Centre's extensive network of policy makers and researchers enables it to organise seminars at OECD Headquarters by eminent speakers on topics of OECD-wide interest (these are also set out in the summary table of Development Centre events).

The Centre's work also generated strong external demand

Activity I. Governing Finance and Enterprises: Global, Regional, National

- Aiming for sustainable flows ...*
6. From a development perspective, financial globalisation makes sense when it is based on sustainable capital flows, when it benefits a large number of countries and people (and not just the “happy few”) and when it helps mobilise and allocate resources efficiently. These conditions will fail to materialise in the absence of a development-friendly global financial architecture, as long as institutional, regulatory and monetary policy responses to private capital flows remain inadequate and as long as historical, political, economic and institutional barriers prevent improved corporate governance in both developing and developed countries. During 2001-2002, the Centre’s research has succeeded in filling knowledge gaps in four areas of growing importance to development policy:
- through financial regulation,*
- evaluation of *new regulatory initiatives*, notably in the area of bank capital requirements, sovereign ratings as well as financial standards and codes, all of which will have a significant impact on future private capital supply to developing countries;
- monetary integration ...,*
- identification of the institutional and policy prerequisites for successful *monetary integration schemes* among developing countries and the quantification of their costs and benefits, in particular in terms of lowered capital cost;
- ... more flows to Africa ...*
- quantification of the risks and returns specific to *foreign investment in sub-Saharan Africa* and the identification of market and policy failures that impede capital flows to Africa; and
- ... and better governance.*
- analysis of the scope for improving *corporate governance* in such a way as to enhance economic performance and encourage entrepreneurial risk-taking, as well as of the barriers to such improvement in both developed and developing countries.

7. This blend of subjects allowed the Development Centre, among other dissemination activities, to deliver a timely and substantive input into the UN Monterrey process. Together with the OECD Secretariat Finance for Development Task Force (FfD), the Development Centre participated actively in the preparations for the UN conference from an early stage [see CD/AB(2001)4], beginning in summer 2000 with the Development Centre President's being invited to participate in the "systemic issues" working group which fed into Chapter VI of the UN Secretary General's Report and was followed-up by his presentation of a statement at the February 2001 Preparatory Committee and by the participation of another senior staff member in related meetings at OECD Headquarters and at the Department for International Development (DFID) in London. Other input included the organisation of an informal working meeting at the Development Centre's offices in March 2001 with former President of Mexico Ernesto Zedillo, Chair of the United Nations' Eminent-Persons Panel on Financing for Development.

Timely and substantive input to the UN Monterrey process.

Global Regulatory Initiatives

8. Among the important initiatives directed at strengthening the global financial architecture, changes to financial standards and codes will exert a particularly strong influence on the investment and divestment decisions of lenders and investors. Crises in emerging markets have shown how the design, implementation and assessment of standards and codes are core elements of crisis prevention. However, impact studies of this new "soft" international law on private development finance are in their infancy. Hence the focus of Development Centre research on standards and codes.

Studies on the impact of new financial standards on development finance are in their infancy.

9. From 1999 to 2001, the Basel Committee on Banking Supervision released consultative papers on the New Basel Capital Accord (Basel II), which sets the standard for regulatory bank capital provision. Basel II has been drafted from a supervisory perspective, in particular with the aim that banks charge interest rates that are better aligned with underlying credit risk than under Basel I. Initial research at the Development Centre (Reisen, 2001b) on how Basel II might affect the supply of private

The Centre has examined the impact of the New Basel Capital Accord and its impact on credit spreads and debt flows.

finance to developing countries warned that it would raise the cost of capital and the volatility of credit supply to sub-investment grade borrowers; the bulk of the developing and emerging markets fall into this category. The report by the United Nations' Eminent-Persons Panel on Financing for Development (*Zedillo Report*), took these concerns on board. Moreover, these warnings contributed to the Basel Committee's decision to reconsider its initial proposals and make some modifications. These modified proposals were examined in a subsequent analysis (Weder and Wedow, 2002) which concluded that the consequences for credit spreads and private flows of Basel II, while depending on various assumptions, will be moderate.

The proliferation of financial standards creates capacity and sequencing problems.

10. Two other papers (Reisen, 2002b and 2002c), have taken a broader look at the growing role of financial standards in finance for development. The current international effort to codify best practices and to disseminate them widely should help to ease local economies' integration into global markets. Whether international financial standards are appropriate tools for crisis prevention in developing countries depends a great deal on how they are designed, to what extent they are "owned" and when they are implemented and updated. As with the process of opening the capital account, the implementation of international standards must be appropriately sequenced and take account of local capacity constraints. The capacity constraints faced by poor countries, the proliferation of financial standards listed in the FSF Compendium and the need for prioritisation of standards are intimately linked. The Centre's research suggests that the focus on standards and codes risks deepening the divide between those countries on and those off investors' radar screens. These caveats notwithstanding, standards may provide a catalyst for changes in governance, openness and in transparency practices.

Tobin Tax has feasibility problems and low yield potential.

11. Finally, an assessment of the Tobin Tax proposal was prepared in December 2001 for the World Economic Forum as well as at the request of TUAC, with a focus on the tax's suitability as a source of finance for the UN Millennium Development Goals. An article based on this report which points to the feasibility problems and low revenue potential of the tax was published in the OECD Observer some months later in 2002.

Exchange-Rate Policies and Monetary Integration

12. In the aftermath of the 1997/1998 Asian financial crisis, the view that intermediate exchange regimes such as target zones or basket pegs were not sustainable in a world of intense capital mobility became increasingly widely held. Countries were advised to adopt the corner solutions of either firm-fixing or free-floating; intermediate regimes received scant support. Braga de Macedo, Cohen and Reisen (2001) warn against the superficial attractions of the consensus view, pointing to the fact that firm-fixing and free-floating do not provide a fast-lane to credibility and often act as cyclical de-stabilisers. Their book makes the case for intermediate regimes for five country groups in Africa, Asia and Latin America and emphasises the importance of reliable and competitive exchange rates. They conclude that to produce sustainable growth and development, institutions concerned with monetary, financial and budgetary matters should allow effective surveillance along the lines of the EU Stability and Growth Pact. Braga de Macedo and Reisen (2003) focus on EU accession countries in this regard. An additional study by Freytag (2002) focuses on institutional and political weaknesses. His empirical findings show that these weaknesses severely limit the credibility conferred by hard pegs.

The Centre has analysed the development case for intermediate exchange-rate regimes.

13. An examination of the changes in the sovereign spreads of major Latin American borrowers (Grandes, 2002) — empirically innovative for its division between transitory and permanent effects — reveals the importance, despite the significance of contagion, of domestic governance (fiscal discipline, export drive, FDI promotion, debt management). Grandes and Reisen (2002, 2003) highlight four criteria that should guide the choice of a growth-conducive exchange-rate regime, namely its impact on: *i*) the mix of inflows; *ii*) incentives to save and invest; *iii*) the tradable sector; and *iv*) the country's ability to withstand shocks. On these bases, more flexible exchange rate arrangements are to be favoured.

Flexible arrangements are found to enhance growth ...

14. The introduction of the euro may have helped to reinforce Europe's identity in the face of globalisation. Nevertheless, the introduction of the new currency may lead to a period of higher fluctuations in the rates of exchange between key currencies, and thereby to severe competitiveness and balance-sheet effects in developing countries. Hence the objective of regional monetary

... although monetary integration in Southern Africa has helped macroeconomic convergence ...

integration in the developing world contained in recent initiatives in West Africa, Asia and the Mercosur. Grandes (2003) shows that the members of the South African Common Monetary Area have been able to benefit from seigniorage gains, intra-zone transfer provisions, full capital mobility as well as the proceeds from the common revenue pool stipulated in their custom union agreement. While one way of easing investor's concerns about risk is to attain macroeconomic stability, credibility and economic growth convergence through monetary union, the rand-zone experience points to some sources of strain. These are related, first, to divergent terms of trade shocks arising from insufficient export diversification and, second, to the different capital inflow breakdown due to the heightened volatility of the rand.

... while a lack of fiscal discipline raises capital cost and depresses growth.

15. Recent crises have underlined the prime importance of fiscal discipline in reducing crisis vulnerability. From 1995 onwards, Argentina's currency board arrangement had ceased to confer sufficient fiscal discipline. This gradually set in motion a vicious circle of rising country risk premia and depressed growth, in turn fuelling the public deficit due to higher debt service costs and lower tax receipts. In a simulation exercise for Argentina, Grandes (2001) demonstrates the strong endogeneity of these variables: while super-fixed exchange-rate regimes can in theory trigger off a virtuous cycle of lower deficits, lower yield spreads and higher growth, in practice the cycle turned very vicious indeed.

16. The work on exchange rate policies was presented at a number of international meetings, organised under the auspices of the CEPR, the Royal Institute of International Affairs, the NBER, the Euro 50 Group and the Bank of Japan. Presentations publicising work on Latin America were made at the American University of Paris, at the International Forum on Ibero-American Investments sponsored by the Secretariat of the Ibero-American Summit (SECIB) and the UN Economic Commission for Latin America and the Caribbean (CEPAL) and at a joint OECD Economics Department and Development Centre Seminar on Monetary Policy Experiences in South America.

Flows to Sub-Saharan Africa

17. Sub-Saharan Africa has received a disproportionately small share of the substantial increase in FDI that has been a feature of globalisation since the 1990s; this disparity is even more striking when FDI related to the extraction of raw materials is corrected for. Simultaneously, official aid flows to the region have been lower. In principle, the resulting under-capitalisation should promise potential returns to capital higher than anywhere else in the world. However, the evidence on measured capital returns has been confusing. For example, the World Bank has produced measures of low capital returns in Africa, while UNCTAD has found high returns. Recent research at the Development Centre (Cohen and Soto, 2002) in which market prices rather than calculations based on estimated purchasing-power parities are used to assess the return to capital flows to Africa and the manufacturing sector is distinguished from the rest of Africa's economies, has succeeded in solving the puzzle.

The confusing evidence on measured capital returns in Africa...

18. In fact, Africa's manufacturing sector displays no signs of under-capitalisation — it is the non-tradable sector that is equipped with much less capital than in developing countries elsewhere: its low *market value* attracts little foreign investment. Hence, measuring in terms of current dollar *market value* rather than in purchasing-power adjusted *volume* terms, Africa does not seem to be particularly undercapitalised. In other words, average capital returns are low because productivity in the tradable sector is extremely low; this must be increased in order to stimulate more private inflows. This would yield a disproportionately positive effect on GDP in value terms as the non-tradable sector would benefit especially strongly.

...was solved by calculating in market prices and examining the manufacturing sector.

19. Though realised rates of return can be measured for United States' direct investments in Africa, these returns are overstated as stock data are based on historical book value. Further, capital returns on foreign investment in Africa have been very risky (and rising over the 1990s), with a standard deviation slightly higher than in Latin America and more than three times as high as in Asia. Yet, while investments in Africa tend to be more risky than returns in other regions, investor perceptions of African risk seem to be even higher, inducing firms to impose excessively high hurdle rates in their investment decisions.

Capital returns in Africa are low, reflecting low efficiency and high risk.

Corporate Governance

The long-standing neglect of corporate governance in developing countries...

20. Until the Asian financial crisis showed the high potential cost of poor corporate governance for developing countries, as well as for the international financial system, the issue had been ignored by development research. Good corporate governance was thought useful mainly to help companies with publicly traded shares increase the supply and (thereby) lower the cost of the extra-firm finance they need to undertake investment in the tangible assets they require to remain or become competitive. Due to the predominance in developing countries of smaller firms that do not have listed shares, and large family-, state- and/or foreign-owned companies whose shares are also not widely traded, corporate governance was not seen as a development policy issue.

... is unwarranted.

Better governance raises efficiency, stability and flexibility ...

21. The Centre's research has found the importance of corporate governance for developing countries' long-term development to be considerable — still greater than widely perceived even after the Asian crisis. This is because, beyond its potential effects on the supply of financial capital, corporate governance can play a crucial role in the “real” economy of both middle- and low-income developing countries: by limiting the extent to which powerful insiders can engage in self-dealing and other highly distortionary or wasteful uses of corporate resources, sounder approaches to corporate governance in privately- as well as publicly-owned corporations can contribute significantly to greater efficiency, stability, flexibility and enhanced long-term real productivity growth in developing countries (Oman, 2001; Thillainathan, *et al.*, 2003).

... irrespective of corporate financing methods.

22. The Centre's research has also shown that improved corporate governance can contribute to long-term development by enhancing the broader development of a country's financial sector, particularly by enhancing local liquidity. The Centre's results have enriched the debate on whether bank-based or market-based financial systems are more advantageous for long-term economic development by pointing to the likelihood that that stronger banking systems and enhanced market-based systems of corporate finance are not partial or potential substitutes but rather mutually reinforcing complements.

23. Regarding the potential for improved corporate governance to contribute to development specifically in *poorer* developing countries, results highlight the importance of the relationship between the institutions of *corporate* governance and those of *political*, or public, governance. This is not so much because of the considerable importance of state-owned enterprises in these countries but mainly because the distinction between public and private interests in these highly relationship-based (as opposed to rules-based) societies is even more blurred than in middle-income countries. The problems of “state capture” and weak or absent inter-firm price competition are rampant. While improved corporate governance can sometimes help drive needed improvement in public governance, the benefits from improvements in corporate and public governance are much greater when they are undertaken in tandem. Indeed, attempts in these countries to improve one side whilst ignoring the other are likely to fail.

The pivotal interaction between corporate and political governance...

24. Policy recommendations include careful context-specific attention to the institutions of governance as a whole, corporate and public, with particular attention to the means of enforcement and the achievement of transparency. A pro-active competition agency, regulatory agencies and judicial bodies (courts) all have potentially key, complementary, roles to play, and must themselves be transparent and accountable as well as having a significant degree of political independence. Specific reforms are also required for the rapidly growing number of pension funds in both low- and middle-income developing countries, along with a depoliticisation of their investment decisions, in order for these funds to fulfil their considerable potential to bring about sustained improvement in local corporate governance in developing countries (Oman, 2003).

...calls for increased attention to the institutions of governance

25. Reisen (2002e) documents that the fall in confidence in corporate governance standards that took place in developed countries in 2002 has resulted in higher corporate capital cost in the majority of developing countries as well. This is due to the negative wealth effects of lower asset prices and to higher global risk aversion. As a portfolio shift towards emerging markets failed to materialise in the wake of corporate scandals in some developed countries, this research emphasises the importance of sound

The standard of corporate governance in OECD countries impacts on development finance.

Publications

- BRAGA DE MACEDO, J. (2001), "Financial Crises: A Eurocentric Perception", in M. ABREU and V. MENDES (eds.), *What Financial System for the Year 2000?*, ISEG, Lisbon.
- BRAGA DE MACEDO, J., D. COHEN and H. REISEN (eds.) (2001), *Don't Fix, Don't Float*, Development Centre Studies, OECD, Paris.
- BRAGA DE MACEDO, J. and H. REISEN (2003), *To Fix In Order To Float? Lessons from Emerging Markets for EU Accession Countries*, Webdoc No. 6, OECD Development Centre, Paris.
- CD/AB(2001)4, *Development Centre Activities Related to the Preparations for the UN Financing for Development Conference to be held in March 2002*, 4 September 2001.
- COHEN, D. and M. SOTO (2002), *Why are Some Countries so Poor? Another Look at the Evidence and a Message of Hope*, Technical Paper No. 197, October, OECD Development Centre, Paris, and CEPR Discussion Paper 3528.
- FREYTAG, A. (2002), *Choice of an Exchange-Rate Arrangement, Institutional Setting and Inflation: Empirical Evidence from Latin America*, Technical Paper No. 198, October, OECD Development Centre, Paris.
- GRANDES, M. (2001), *External Solvency, Dollarisation and Investment Grade: Towards a Virtuous Circle?*, Technical Paper No. 177, June, OECD Development Centre, Paris; also published as "Can Dollarisation Cope with Fiscal and External Vulnerability?", *Journal of Emerging Market Finance*, No. 1, Vol. 1.
- GRANDES, M. (2002), *Convergence and Divergence of Sovereign Bond Spreads: Lessons from Latin America*, Technical Paper No. 200, November, OECD Development Centre, Paris.
- GRANDES, M. (2003), *The Rand Zone Experience: A Comparative View of Macroeconomic Convergence in Southern Africa*, mimeo, OECD Development Centre, Paris.
- GRANDES, M. and H. REISEN (2002), "Hard Peg and Soft Float: A Tale of Two Latin American Countries" in *The Macroeconomics of Exchange Rate Régimes*, special issue of the *Revue Économique*.

- GRANDES, M. and H. REISEN (2003), "Exchange Rate Regimes and Macroeconomic Performance: Revisiting Three Major Latin American Experiences", report for the CEPAL/UN-Ford Foundation project on *Domestic Management of Volatility and Financial Globalisation*, directed by Ricardo Ffrench-Davis.
- OMAN, C. (2001), *Corporate Governance and National Development*, Technical Paper No. 180, September, OECD Development Centre, Paris.
- OMAN, C., ed. (2003), *Corporate Governance in Development: The Experiences of Brazil, Chile, India and South Africa*, study jointly published by the OECD Development Centre, Paris, and the Center for International Private Enterprise, forthcoming.
- REISEN, H. (2001a), "Durable Flows, Durable Benefits", *OECD Observer* No. 226/227, Summer 2001.
- REISEN, H. (2001b), "Will Basel II Contribute to Convergence in International Capital Flows?", in Oesterreichische Nationalbank, *Proceedings of 29th Economics Conference*, Vienna; also published in *Bankarchiv*, Vol. 49, August, Vienna.
- REISEN, H. (2002a), *Ratings Since the Asian Crisis*, Webdoc No. 2, OECD Development Centre, Paris, April; also published in *ICRA Bulletin Money & Finance*, Jan-March 2002, New Delhi.
- REISEN, H. (2002b), "Standards, Codes and Pension Flows", *WiderANGLE*, No. 1/2002, UNU/WIDER, Helsinki.
- REISEN, H. (2002c), "Standards and Codes in the Global Financial Architecture", in D. COHEN and R. PORTES (eds.), *Avenir des Institutions de Bretton Woods*, Rapport du Conseil d'Analyse Économique of the Prime Minister of France.
- REISEN, H. (2002d), "Tobin Tax: Could It Work?", *OECD Observer* No. 231/232, May.
- REISEN, H. (2002e), *Prospects for Emerging-Market Flows Amid Investor Concerns About Corporate Governance*, Technical Paper No. 201, December, OECD Development Centre, Paris; also published in P. CORNELIUS and B. KOGUT (eds.), *Global Issues in Corporate Governance*, Oxford University Press for World Economic Forum.
- THILLAINATHAN, R., S. KANDIAH and R. NATHAN (2003), *Corporate Governance and Corporate Finance in Malaysia*, study jointly published by the OECD Development Centre, Paris, and the Institute for Southeast Asian Studies, forthcoming.
- WEDER, B. and M. WEDOW (2002), *Will Basel II Affect International Capital Flows to Emerging Markets?*, Technical Paper No. 199, October, OECD Development Centre, Paris.

corporate governance standards in developed countries through an unexpected channel: the provision of private development finance.

Joint high-level meetings with the EBRD.

26. A high-level informal policy dialogue on the importance of corporate governance for development was organised jointly with the EBRD. Participants in the meeting, held at OECD Headquarters in April 2001, came from poor as well as middle-income developing countries, transition, and OECD countries, including major institutional investors, corporate managers and government regulators. A follow-up meeting was jointly organised with the EBRD in London which led also to a projected joint Policy Brief. The Centre's research findings were also presented to the Institute for International Corporate Governance and Accountability, the Pan African Consultative Forum on Corporate Governance, the Vietnamese government's Steering Committee on Enterprise Reform and Development, the Initiative for Policy Dialogue at the Carnegie Endowment for International Peace and at Columbia University.

Activity 2. The Integration of Developing Countries into the World Trading System

27. Improving domestic capacity for trade is one of the most difficult challenges facing developing countries as they seek to integrate into the world trading system. The World Trade Organization (WTO) and other international and regional institutions have provided technical assistance to help tackle two aspects of capacity building with regard to international trade rules, namely *capacity to negotiate* and *capacity to implement*. There remained, however, considerable room for progress on the third aspect of capacity building — *capacity to trade competitively*. Overcoming supply-side constraints and promoting trade and investment flows requires the implementation both of policy and institutional reforms. As the Doha Ministerial Declaration emphasises (paragraphs 42 and 43), this aspect of capacity building deserves special attention in poorer countries and must go beyond issues related to traditional border measures.

The Centre addressed the supply-side constraints facing poor countries ...

28. This activity has made a substantive contribution to the ongoing OECD work on trade, investment and development issues, and in particular issues related to the Doha Development Agenda, by:

... contributing to OECD work on the Doha Development Agenda.

- initiating with the OECD Development Co-operation Directorate (DCD) a new process of participatory policy dialogue;
- participating in the *OECD Global Forum on Trade* (the Development Dimension of the Singapore Issues) organised by the OECD Trade Directorate and the OECD Centre for Co-operation with Non-Members (CCNM) in Hong Kong, China on 19-20 June 2002; and
- participating in the CCNM Activity on *Sources of Long-term Growth in Argentina, Brazil and Chile*.

Capacity Building for Export Diversification

29. Strengthening trade-related technical assistance and capacity building programmes is an integral part of the Doha Development Agenda, in which OECD member countries have a major stake. In this context, the DAC endorsed the *Guidelines on Strengthening Trade Capacity for Development* at its high-level meeting held in April 2001. The Development Centre's work has helped to apply the DAC Guidelines to the African context, to draw lessons for both donors and local stakeholders regarding the regional and multilateral initiatives which are currently underway, and to provide a basis for discussions on how to move forward. In order to provide a road map for export diversification and enhanced competitiveness, the Development Centre organised, jointly with DCD and UN/ECA, the first *OECD Regional Workshop on Trade Capacity Building* which was held in Mombassa on 27-28 August 2002.

The Centre helped to apply the DAC Guidelines to the African context ...

30. Bonaglia and Fukasaku (2002) took a closer look at the policies and institutions of six commodity-dependent economies in sub-Saharan Africa (Ethiopia, Kenya, Madagascar, Mozambique, Tanzania and Uganda) with a view to suggesting how they might be modified to improve these economies' capacity to trade competitively. This study highlights the key role played by trade support services in facilitating access to international markets, reducing transaction costs and providing trading knowledge. The results of these case studies point to an apparent mismatch between government policies and exporters' needs in the provision and use of trade support services. While acknowledging the weaknesses of firms in these countries, the study presents evidence confirming the existence of a wide array of policy options for increasing business competitiveness and reducing dependence on primary commodities. However, the experience of Mauritius suggests that successful upgrading and diversification require not only the right set of macroeconomic and structural policies, but also a substantial change in the policy-making process: in these countries, the lack of involvement of private sector and civil society in policy formulation constitutes a major governance problem undermining the implementation of a successful "business plan" for export diversification. A policy brief is being prepared by the same authors on the topic of "capacity building and export-diversification in low-income countries".

... and highlighted the importance of trade support services and private-sector involvement in trade policy formulation.

Transparency in Public Procurement

31. Transparency in public procurement — one of the four so-called “Singapore issues” of the Doha Development Agenda — is potentially very important from a development perspective. In developing countries, the purchase of goods and services by the public sector accounts for a significant share of GDP. The OECD Trade Directorate's work on this topic has focused on measuring and quantifying the size of government procurement markets in both OECD member and non-member countries. There remains, however, a paucity of detailed information on actual practices and institutional arrangements of public procurement in developing countries. The Development Centre's work has sought to fill this gap by conducting a pilot study focusing on East Africa.

A pilot study was conducted on public procurement ...

32. Odhiambo and Kamau (2003) present a comparative assessment of the public procurement systems in three East African countries (Kenya, Tanzania and Uganda). In response to both domestic and international pressures, these countries have recently undertaken important initiatives to render their public procurement systems more transparent and efficient in line with international procurement guidelines. The actual experience of the three countries has been quite varied, however. For example, while Tanzania has moved fast to implement reforms and has already put in place a legislative framework for public procurement, Kenya and Uganda have yet to enact procurement legislation, though in Kenya a number of significant changes have been effected through a ministerial gazette notice pending the coming into force of a Procurement Act. Reforms in all three countries are as yet incomplete. As the procurement activities remain fairly decentralised, serious capacity bottlenecks continue to impede the current efforts to put in place a fair and competitive public procurement system. There also remains a tension between national and international standards. There is clearly scope for regional co-operation among the three East African countries in their public procurement reforms. Achieving such co-operation, which would bring substantial benefits in terms of reducing transactions costs among the member states of the East African Community, is dependent on attaining and maintaining momentum for the harmonisation of policy, legal, regulatory and institutional frameworks.

...focusing on East Africa, where reforms are underway.

Private-Public Partnership for Market Reform

The political economy of regulatory reform was addressed ...

33. To reap the full benefits of globalisation, developing countries will have to develop effective private-public partnerships (PPPs) with a view to marshalling broad-based support for market reform. The OECD's work on privatisation and regulatory reform in public services highlights the introduction of fair rules of the game in the newly privatised markets as one of the core elements in any reform package. In developing countries, the benefits of such rule-based behaviour are likely to be much higher. Understanding the political economy of regulatory reform requires a careful analysis of the events, motivations and countervailing forces that shape reform processes in individual developing countries. The Development Centre has conducted several case studies to examine the nature and weight of domestic forces blocking market reforms and to highlight the importance of effective public-private partnerships to bring to fruition the necessary reforms. The Centre's President has drawn on this work at seminars arranged by the World Customs Organization on enhancing the integrity of customs (Istanbul and Maputo) where he highlighted the necessity of involving the private sector and other stakeholders if customs reform is to have sufficient credibility.

...by drawing on the experience of Brazilian regulatory institutions ...

34. As part of the Development Centre's contribution to the *OECD Economic Survey of Brazil*, two papers published in 2001 (Estache, Goldstein and Pittman; Goldstein and Pires) looked at the regulation of freight railways and the performance of independent regulatory institutions. This analysis of Brazil's regulatory reform was one of the first to focus on the actual decisions taken by specific institutions rather than using an *ex ante* normative benchmark. In Brazil, though regulatory performance has generally been satisfactory so far, there exists considerable scope for improved co-ordination between different bodies, the competencies of which are in need of clearer definition. In this latter connection, the widespread absence of regulatory sovereignty is one of the chief sources of administrative delays.

35. The Southern Mediterranean, an area for which economic research on privatisation and liberalisation is still rather sparse, has also been covered in this work. Goldstein (2003) examines the telecommunications sector in Algeria, Egypt, Morocco, Tunisia and Turkey with a view to understanding the political economy of regulatory reform in these countries. So far, the reform process has been slower than it should; this despite the clear and pressing need to align the policy environment to technological risks and opportunities. Pressures are now mounting again, as these countries negotiate new forms of partnerships with the European Union and, in the case of Algeria, its terms of entry into the World Trade Organization. Reflecting the Centre's expertise in this area, the Centre's President chaired a panel on Arab and Euro-Med Regional Integration at the OECD Forum 2002.

... and the case of telecom sector in the southern Mediterranean.

36. In addition to making contributions to ongoing OECD work on trade, investment and development, Development Centre staff have been invited to make presentations outside the Organisation. These have included an international workshop jointly organised by the UNEP and the Carnegie Endowment for International Peace; the *Executive Forum*, organised jointly by the International Trade Centre (Geneva), the Department of Trade and Industry of South Africa and the Swiss Secretariat for Economic Affairs, in Johannesburg; a seminar organised by Japan International Co-operation Agency in Tokyo; as well as conferences organised by CEPAL in Buenos Aires and the Institute for Applied Economic Research of the Planning Ministry in Rio de Janeiro.

Findings widely disseminated

Publications

- BONAGLIA, F. and K. FUKASAKU (2002), *Trading Competitively: Trade Capacity Building in Sub-Saharan Africa*, Development Centre Studies, OECD, Paris.
- BONAGLIA, F. and K. FUKASAKU (2003), *Export Diversification in Low-income Countries: An International Challenge after Doha*, Technical Paper No. 209, June, OECD Development Centre, Paris.
- ESTACHE, A., A. GOLDSTEIN and R.W. PITTMAN (2001), "Privatization and Regulatory Reform in Brazil: The Case of Freight Railways", *Journal of Industry, Competition and Trade*, Vol. 1, No. 2.
- GOLDSTEIN, A. and J.C. LINHARES PIRES (2001), "Agências Reguladoras Brasileiras: Avaliação e Desafios", *Revista do BNDES*, Vol. 8, No. 16.
- GOLDSTEIN, A. (2003), *The Political Economy of Regulatory Reform: Telecoms in the Southern Mediterranean*, Webdoc No. 4, OECD Development Centre, Paris.
- ODHIAMBO, W. and P. KAMAU (2003), *Public Procurement: Lessons from Kenya, Tanzania and Uganda*, Technical Paper No. 208, March, OECD Development Centre, Paris.
- SOLIGNAC LECOMTE, H.-B. (2002a), "Capacity Building and Development Assistance for Developing Countries After Doha", *Bridges*, Year 6, No. 1, ICTSD, Geneva.
- SOLIGNAC LECOMTE, H.-B. (2002b), "Les relations commerciales ACP-UE après Lomé : quel partenariat économique pour le développement durable ?", in R. MELÉNDEZ, et C. BELLMANN (eds.), *Commerce international et développement durable – Voix africaines et plurielles*, ICTSD, Editions Charles Léopold Mayer, Paris.
- SOLIGNAC LECOMTE, H.-B. (2003), *Building Capacity to Trade: What are the Priorities?*, Webdoc No. 11, OECD Development Centre, Paris.

Activity 3. Globalising Technologies and Domestic Entrepreneurship

37. When the research under this theme was conceived, the dotcom “gold rush” was still sweeping world markets and the G8 Ministers placed bridging the “digital divide” at the top of the July 2000 Okinawa Summit agenda. Since then expectations of the internet’s developmental potential have been radically scaled back, giving way to a more sober assessment of how difficult it is to challenge entrenched market positions and power structures. Whether the internet’s impact on people’s lives will, in the final analysis, rival that of earlier technologies like electricity remains an open question. Seen simply as the internet and the world-wide web, it seems unlikely; seen as one aspect of a broad information and communications technology (ICT) revolution, the impact has already been wide and deep.

Though the ICT revolution is reaching the developing world ...

38. Yet in the developing world, access to the telephone is even less widespread than access to electricity. This fact encapsulates one of the crucial dilemmas facing developing country policy makers: how much attention and government resources should be devoted to broadening telecommunications access *versus* rural electrification and/or provision of other more basic infrastructure like paved roads (Goldstein and O’Connor, 2000b). If one thinks of technologies as aids to production, then the question can be posed: in terms of income-generating opportunities, is a poor farmer more likely to benefit from access to low-cost electricity or to low-cost telephone services? And, does the globalisation of goods markets alter the cost/benefit calculus of internet access for rural households?

... traditional infrastructure barriers remain formidable.

39. From the inception of its research on this theme, the Development Centre has chosen to examine concrete sectoral cases to see whether the internet and information technologies were making a noticeable difference to developing country

Sector studies shed light on how ICTs affect global supply chains ...

entrepreneurs operating in the context of globalising markets. Among the sectors chosen were a number where low-income countries are well-represented: e.g. coffee and other tropical beverages, horticulture, garment manufacture, and travel and tourism. In addition, the automotive sector and the software sector have also been examined. In all cases, the global supply chain was dissected, developing country entrepreneurs situated therein, and information technology's impact on their competitive position assessed.

...suggesting a modest impact so far on the competitive positions of developing country entrepreneurs.

40. In general, the findings of the Centre's research do not support the naively optimistic view of the internet's levelling potential (Goldstein and O'Connor, 2003). The picture is not entirely bleak, as the work on India's software and IT sector makes clear (O'Connor, 2003; Singh, 2003). Traditional infrastructural constraints — poor roads, ports, electricity — and bureaucratic barriers generally weigh more heavily on entrepreneurs in developing countries than does costly internet access. In a sense, the telecoms bottleneck is one of the easiest to unblock, since private investors are often keen to enter the sector, especially if there is a burgeoning urban middle class. As Caspary and O'Connor (2003) highlight, wireless technology has tremendously lowered fixed costs of entry into new markets. Getting the private sector to share in financing road-building or power sector investments is proving much more difficult. Even though electricity is rarely provided free of charge, the price structure in some developing countries — including some large ones like India — embodies a heavy subsidy element to farmers, making it extremely difficult to reform sufficiently to make private sector involvement attractive. Since most rural households have no access to telecoms infrastructure to begin with, this problem does not arise.

Digitisable goods stand out as a major exception, as shown by Indian software and IT services ...

41. The success of India's software export industry serves to reinforce the points just made, as one of its key characteristics is its limited dependence on India's notoriously poor physical infrastructure (Singh, 2003). Also, because software was not considered a proper "industry", it was spared many of the stifling regulations on manufacturing that have hamstrung India's emergence as an IT hardware competitor. With ongoing precipitous declines in international telecommunications charges,

the prospects are good for further outsourcing of communications-intensive processes from OECD firms to developing countries that have low-cost educated labour, normally with a command of English but in future perhaps with other European language skills as well. Business process (accounting, payroll, customer support, etc.) outsourcing has sustained the growth of India's software sector through the recent recession in the United States, and a few other countries have also benefited from the increased "offshoring" of such processes (O'Connor, 2003).

42. The case of the Chinese software industry is substantially different (Tschang, 2003). Software exporters are nowhere near as developed as those of India; software product development for a large and fast-growing domestic market predominates. Domestic Chinese software firms have in many cases spun off from hardware manufacturers or from government or university research labs, a phenomenon far less common in India. Chinese companies have differentiated themselves from multinational software suppliers by focusing on the needs of small- and medium-sized enterprises, customising products to individual users' needs. China could in a number of years pose a credible challenge to India's software export sector, but there is also potential for collaboration. One scenario outlined by Tschang has Indian companies combining their process management and quality control skills with Chinese companies' product development skills and intimate knowledge of domestic user requirements. Competition is also possible in some domains alongside co-operation in others.

... but also the emergence of other Asian competitors.

43. The internet is becoming a more important — eventually essential — tool for entrepreneurs in developing countries to link into global supply chains. The effect on their individual and collective market power remains ambiguous, and it is certain to be conditioned by various characteristics of the industry concerned, notably whether it is producing homogeneous or differentiated products (Goldstein and O'Connor, 2003). In those many sectors where information, transaction and co-ordination costs are a small portion of total costs, the effect of the internet on cost level and structure is apt to be slight. In sectors where advertising and marketing costs are proportionally large,

The internet is becoming a necessary business tool ...

...with benefits mostly to producers of differentiated products.

its effects are potentially more significant, though there is scant evidence to date that internet advertising is providing a low-cost substitute for traditional media advertising. The internet does, however, offer in many sectors the possibility for developing country entrepreneurs to establish a direct relationship with prospective rich-country customers, but the advantages of doing so depend again on the nature of the industry — e.g. whether the product can be digitised and delivered electronically or must be physically shipped, in which latter case the individual entrepreneur remains hostage to the state of the country's infrastructure — roads, ports, logistics — to a greater extent than a “virtual” product supplier.

Public policies and private sector measures to build trust are crucial to online transactions

44. Trust is essential to business relationships, but establishing trust is an added challenge in international transactions and harder still with e-commerce, where entry costs are low and it is difficult to establish evidence of a prospective supplier's commitment to and competence in meeting customers' specific demands (Goldstein and O'Connor, 2000a). New developing country online entrepreneurs can face an even higher credibility barrier. Governments may help create a climate of trust by establishing a legal and judicial framework for e-commerce that meets certain minimum standards of transparency, impartiality and efficiency (Bastos Tigre and O'Connor, 2002), but private actors have also sought solutions through self-regulation and use of the internet itself for collecting and posting customer feedback. Possible approaches include: voluntarily adhering to recognised codes of conduct, e.g. with respect to online consumer protection; subscribing to accredited services that provide state-of-the-art encryption and verification to secure transactions; and using customer and peer rating schemes. At inception, Indian software companies faced similar credibility problems, which they addressed through a combination of seeking (and often securing) quality accreditation with the Carnegie Mellon Software Institute and face-to-face interaction and collaboration with customers.

Contribution to OECD activities ...

45. The Development Centre's work has complemented that of other parts of the house: e.g. the Development Co-operation Directorate's work on how information technologies might be more effectively integrated into development projects to realise

their full potential; the OECD Directorate for Science and Technology's (STI) work on e-business, infrastructure and regulatory frameworks in OECD member countries; and, the OECD Public Governance and Territorial Development Directorate's work on e-governance.

46. The Development Centre's work on information technologies, e-commerce and entrepreneurship in developing countries has reached a wide audience. The first major dissemination exercise was a presentation to an international conference in Tokyo just in advance of the July 2000 Okinawa Summit, followed by a "Personal View" piece in the *Financial Times* on the opening day of the Summit, co-authored by the Centre's two principal researchers on this theme. Subsequently, ongoing and completed research has been presented at numerous OECD events (e.g. the DAC-UN-World Bank meeting on the digital divide and the STI-EBIP workshop), as well as international conferences including "*The 'New Economy' and its Implications for Long-Term Growth in Post-Socialist Countries*" in Warsaw. The Development Centre has itself co-organised two such conferences, one in Bologna, Italy, in May 2001 [which resulted in Goldstein and O'Connor (eds.), 2002], and one in Chennai, India, in November 2002.

... and the international discussion on the digital divide.

Publications

- BASTOS TIGRE, P. and D. O'CONNOR (2002), *Policies and Institutions for E-Commerce Readiness: What Can Developing Countries Learn from OECD Experience?*, Technical Paper No. 189, April, OECD Development Centre, Paris.
- BRAGA DE MACEDO, J. (2001), "From Transformation to Development: Globalisation and Perspectives for Economic Policy", *Journal of Transforming Economies and Societies*, Vol. 8, No. 2, Spring.
- BUSSOLO, M. and D. O'CONNOR (2002), "Technology and Poverty: Mapping the Connections", in J. BRAGA de MACEDO and T. CHINO (preface by), *Technology and Poverty Reduction in Asia and the Pacific*, OECD Development Centre and Asian Development Bank.
- CASPARY, G. and D. O'CONNOR (2003), *Providing Low-Cost ICT Access to Low-Income Communities in Developing Countries: What Works? What Pays?*, Webdoc No. 17, OECD Development Centre, Paris.
- GOLDSTEIN, A. and D. O'CONNOR (2000a), *E-Commerce for Development: Prospects and Policy Issues*, Technical Paper No. 164, September, OECD Development Centre, Paris.
- GOLDSTEIN, A. and D. O'CONNOR (2000b), "Personal View" on op-ed page of *Financial Times*, 21 July.
- GOLDSTEIN, A. and D. O'CONNOR (2001), "E-Commerce: Navigating Between Scylla and Charybdis", *OECD Observer* No. 224, 14 January.
- GOLDSTEIN, A. and D. O'CONNOR (eds.) (2002), *Electronic Commerce for Development*, Development Centre Studies, OECD, Paris.
- GOLDSTEIN, A. and D. O'CONNOR (2003), "Supply Chains, Market Access and the Internet: A View from the South", in Fondazione Rodolfo De Benedetti, *The Information Economy: Productivity Gains and the Digital Divide*, Oxford University Press, forthcoming.
- O'CONNOR, D. (2003), *Of Flying Geeks and O-Rings: Locating Software and IT Services in India's Economic Development*, Webdoc No. 12, OECD Development Centre, Paris.
- SINGH, N. (2003), *India's Information Technology Sector: What Contribution to Broader Economic Development?*, Technical Paper No. 207, March, OECD Development Centre, Paris.
- TSCHANG, T. (2003), *China's Software Industry and its Implications for India*, Technical Paper No. 205, February, OECD Development Centre, Paris.

Activity 4. Empowering People to Meet the Challenges of Globalisation

47. Experience has shown that whilst trade liberalisation and inflows of FDI can enhance economic growth, this growth does not automatically translate into reduced poverty. Pro-poor growth requires an enabling environment which allows people, especially the poor, to benefit from globalisation at minimal risk. Earlier research had highlighted improved skills, better governance and domestic policy reform as major factors determining the impact of globalisation on poverty. However, the relationship of these factors to globalisation on the one hand and poverty reduction on the other was poorly understood when this activity was launched in 2001.

*Pro-poor growth
requires an
enabling
environment ...*

48. The difficulty in achieving consensus on the final impact of globalisation on poverty is due to several factors: *i*) the effects occur through numerous channels; *ii*) some linkages are positive and some are negative and therefore cannot be analysed qualitatively but require quantitative assessments, e.g. formal numerical models; and *iii*) trade expansion and growth (key aspects of globalisation) are essentially macro phenomena, whereas poverty is fundamentally a micro phenomenon. This last factor has created a cleavage among economists, separating those dealing with international trade issues from those interested in poverty and income distribution.

*... but the
relationship
between
globalisation
and poverty is
extremely
complex.*

49. In a field replete with interdisciplinary research, the Development Centre has mainly focused on two channels linking globalisation, empowerment and poverty reduction, namely how globalisation is affecting the supply of skills and what governments can do to empower people.

Human Capital Development

50. Building on earlier Centre work on education and health policies in developing countries, Miyamoto (2003) seeks to evaluate the contribution of foreign investors to local efforts to raise skill levels and thereby increase the ability of local residents to participate in the global economy. The literature indicates that human capital is the principal attractor for inward FDI. That MNEs train more than domestic firms — both in terms of incidence and amount — is less well known. The training provided by MNEs has the potential to be an important driver of human capital upgrading among post-school age workers. Furthermore, there is evidence that the training provided by MNEs not only upgrades their own workers but also facilitates technology transfer through backward/forward linkages, labour turnovers and spin-offs. An important result of the Development Centre's studies has been to show that for technology transfer from MNEs to local firms to happen, local firms must invest in human resource development and R&D activities too (Todo and Miyamoto, 2002). A virtuous circle of human capital development, FDI and technology transfer requires then a minimum level of human capital (at least at the secondary schooling level), along with a flexible higher education and training system which is complementary to the skill development provided by MNEs. This indeed was the main conclusion of an experts' meeting organised by the Centre in December 2001.

A virtuous circle links human capital, FDI and technology transfer.

51. Education and health are recognised to be important for economic development and poverty eradication. This motivated the Centre's effort to improve measurement of these factors (Cohen and Soto, 2002). Data on human capital generally pertain only to the level of education. Even for this one dimension, statistical studies have proved very unsatisfactory. Having undertaken the ambitious task of collecting new data, the Centre now has at its disposal good quality data which enable it to measure precisely the contribution of education to economic growth. The analyses have contributed to bringing to the fore once again the importance of education for economic growth; an influence which due to the lack of sufficiently high-quality data

Comprehensive measurement shows that education and health are important building blocks for pro-poor growth ...

was being increasingly discredited by economists. This work has been presented at the Annual Bank Conference on Development Economics (ABCDE) and at the 12th Annual Conference of the Development Centre and the IDB, hosted by SECIB in Madrid on 10-12 November 2001.

52. At the economic policy level, it is sometimes stressed that education policies should be targeted in priority towards women: educating young girls seems to be the most promising way of promoting their participation in the economy and accelerating the demographic transition towards more moderate fertility, giving more importance in turn to the education of subsequent generations. Work undertaken for the Development Centre at MIT (Breierova and Duflo, 2002) has explored this question using data on Indonesia. This research reveals that the educational level of women explains the age at which they get married and at which they give birth to their first child. The number of children nevertheless appears to be well and truly determined by the education level of the two parents rather than just the mother. *... particularly in relation to women*

53. The role of health in economic growth is another area in which the Centre's work has been particularly innovative. This work (Alleyne and Cohen, 2002) has been undertaken in collaboration with the WHO in the framework of its Commission on Macroeconomics and Health. It seems to be quite clear that improvement in health is one of the essential factors behind increased economic growth. Research has demonstrated quantitatively that health is a factor which contributes positively to labour productivity. Furthermore, and perhaps above all, since those on low incomes tend to be the most susceptible to ill health then public health policies should be regarded as key elements in the fight against poverty. *Improvements in health are a necessary ...*

54. For policy making purposes it needs to be stressed that improvements in education and health alone will not be sufficient to reduce poverty. An analysis undertaken by the Centre (Cohen and Soto, 2002) has shown that a lasting effect on income levels can be achieved only through simultaneous improvements in health conditions, education, physical capital and technological knowledge. *... but not sufficient condition for sustained poverty reduction.*

Governance and Peer Pressure

55. The efficiency of government action in reducing poverty is not only determined by what governments do but also by how they do it: it is often suggested that improved governance strengthens the pro-poor orientation of government policies. Controlling for other influences such as the level of income per capita and other country-specific attributes including culture, the Centre's research (in particular, Bonaglia, Braga de Macedo and Bussolo, 2001) has shown that globalisation can have a beneficial effect on governance inasmuch as increased competition in domestic markets helps to reduce corruption, a policy message contained in a presentation to the Pontifical Academy of Social Sciences and disseminated through various fora, including the International Labour Office, the European League for Economic Co-operation, the OSCE's Office for Democratic Institutions and Human Rights, and Makerere University in Uganda. Because the interaction between globalisation and governance can be positive or negative, reforms to political governance are needed at the national, regional and global levels in order for policies to be more effective.

*National governance
can be improved
through
globalisation, ...*

56. Peer pressure is often advocated as an instrument to improve political and economic governance. While European integration is often cited as a model, care should be taken when transposing the procedures used in developed countries (European Union and OECD in particular) to very different countries. The Centre has attempted to define the appropriate forms of adaptation, those for the NEPAD being a prominent example. Public interventions by the Centre's President on this theme include presentations of a paper on "*Peer Reviews as Inputs into Credible African Surveillance*" at a UNECA *ad hoc* Expert Group in Accra, an International Colloquium chaired by President Wade of Senegal at Clermont Ferrand (see also Paragraph 83) and at an Experts' Meeting held at OECD Headquarters organised by the Centre for Global Studies, University of Victoria, Canada and the Development Centre.

... peer pressure, ...

57. As well as through attempts at enhancing peer pressure along European Union lines, national decision making can also be improved at the local level. An example of this would be the

participation of civil society, especially the poor, in government decision making as it is envisaged in the PRSP processes. A review of experiences of one key aspect of such processes, viz. participation in public expenditure management [participatory budgeting (PB)], has revealed both best practices and pitfalls of participatory decision making (Heimans, 2002).

... and participatory decision making processes.

58. By reshaping both the substantive content of public budgets and the process of budget policy-making in developing countries, PB can have far-reaching effects on poverty reduction and social justice outcomes, citizen empowerment and public learning, as well as confidence in nascent or precarious public institutions. The initial results of experiments in PB are promising, though participation is not without risks for existing democratic institutions and for the integrity of the policy-making process. Participatory processes that emphasise civil society participation while marginalising the role of legislatures risk damaging the legitimacy of what may be the only institutional counterweight to executive power. There also exists considerable potential for participatory processes to be hijacked by interest groups or local elites, or for participation to become simply a venue for distributional conflict, both of which would distort the resource allocation decisions made using such processes. Reaping the benefits of PB requires that governments, civil society and legislatures be *willing* and *able* to play their part. The analysis suggests that participatory budgeting will be most effective when domestic stakeholders are politically committed to the participatory process, have sophisticated technical capacity and are willing to form strategic alliances and build relationships of trust without jeopardising the more radical aims of participation itself.

59. By helping all domestic stakeholders to build their capacity to participate effectively, external actors, including bilateral and multilateral donors and private charitable foundations, can promote the phasing in of PB programmes. Depending on the national context, this will include some combination of funding for civil society budget work and, where there is some openness to participation, offering expertise and resources to strengthen the capacities of government departments and legislatures. These actions can improve the quality and accessibility of public budget information and create an enabling environment for

Support by external actors is essential.

governments and parliaments to work with civil society. By lending their legitimacy to appropriate PB programmes, external actors can help overcome weak political will on the part of governments. At the same time, external actors should avoid the temptation to impose participatory budgeting programmes on developing countries, as these may not be sustainable in countries with little experience of participation.

Pro-Poor Growth

Achieving pro-poor growth requires domestic policy reforms ...

60. Poor countries that rely heavily on trade taxes may incur large budget deficits when opening up to trade. Previous research by the Centre has shown that, in some cases, the compensatory measures taken by the government to balance the budget may cause negative shocks to the poor larger than the initial benefits of tariff reductions. In other cases, globalisation-friendly policies are accompanied by a set of additional domestic reforms, such as labour market reforms and deregulation of investment and capital markets; their interaction will determine the final poverty outcome. Case studies on Ghana, India and Colombia were undertaken to further clarify the complex relationship between economic policy, development and poverty.

... in such areas as taxation and ...

61. The Ghana case study (Bussolo and Round, 2003) focused on what governments might be able to do to protect the poor when needed structural adjustment policies are implemented. Interestingly, the answers change when different time frames are considered or different distributional assumptions (parametric or non-parametric) are examined. The choice of financing method matters (corporate or income taxes) and large differences are observed in outcomes for urban and rural households. Additionally, quite different outcomes are recorded for each financing method when the long run is contrasted with the short run.

62. The India case study (Bussolo and Whalley, 2003b) introduced transaction costs into the analysis of poverty and growth and answered the question of how our view of the development process of a large country such as India can change when they are explicitly taken into account. Almost always, what

characterises the poor is their isolation from the rest of the society and the economy, and thus from the potential benefits of increased aggregate incomes. In order to design winning pro-poor policies, the causes of this low connectedness must be fully understood and dealt with. This entails in-depth analysis of transaction costs related not only to geography and inappropriate policies (such as high and sectorally disperse protection measures), but also to other less obvious causes, such as infrastructure development and maintenance, and institutional arrangements.

... infrastructure development, ...

63. The Colombia case study (Bussolo and Lay, 2003) explored a novel method for merging macro and micro approaches. The main lesson here is that ignoring distributional issues may result in the wrong answers. Taking into account flows into and out of poverty and examining in detail the whole income distribution may assist in the formulation of anti-poverty policies and in assessing the poverty outcomes of macro-policies such as trade liberalisation.

... but also depends on the initial income distribution.

64. This work was undertaken in co-operation with two major external research efforts focusing on globalisation and poverty: *i)* the IDRC funded Micro Impact of Macro Adjustment Programs (MIMAP); and *ii)* the DFID Globalisation and Poverty project. This co-operation has been mutually advantageous, bringing research insights into the Development Centre and disseminating those produced in the Centre to a broader audience. A meeting to examine the main lessons from these projects was held at OECD Headquarters in December 2002.

Publications

- ALLEYNE, G. and D. COHEN (2002), *Santé, Croissance et Lutte Contre la Pauvreté*, Report No. 1 of the Commission on Macroeconomics and Health, OECD and WHO, Paris and Geneva.
- BLOMSTRÖM, M. and A. KOKKO (2002), *FDI and Human Capital: A Research Agenda*, Technical Paper No. 195, August, OECD Development Centre, Paris.
- BONAGLIA, F., J. BRAGA DE MACEDO and M. BUSSOLO (2001), *How Globalisation Improves Governance*, Technical Paper No. 181, November, OECD Development Centre, Paris; and CEPR Discussion Paper No. 2992, October.
- BRAGA DE MACEDO, J. (2001), "Globalisation and Institutional Change: A Development Perspective", in E. MALINVAUD and L. SABOURIN (eds.), *Globalisation, Ethical and Institutional Concerns*, Pontifical Academy of Social Science, Vatican City.
- BRAGA DE MACEDO, J. and H. BLOMMESTEIN (2002), "Reducing Poverty under Global Finance" in M. BORGHI and L. POSTIGLIONE BLOMMESTEIN (eds.), *For an Effective Right to Adequate Food*, Fribourg University Press, Switzerland.
- BRAGA DE MACEDO, J., K. FUKASAKU and U. HIEMENZ (2002), "Sustainable Development and Social Protection in East Asia" in *Towards Asia's Sustainable Development: The Role of Social Protection*, OECD, Paris.
- BREIEROVA, L. and E. DUFLO (2002), *The Impact of Education on Fertility and Child Mortality: Do Fathers Really Matter Less than Mothers?*, Webdoc No. 5, OECD Development Centre, Paris.
- BUSSOLO, M. (2003), "Examining the Links Between Economic Policy and Poverty: Examples From Ghana and India" in *Agricultural Trade and Poverty: Making Policy Analysis Count*, OECD, Paris.
- BUSSOLO, M. and J. LAY (2003), *Globalisation and Poverty Changes in Columbia*, Webdoc No. 14, OECD Development Centre, Paris.
- BUSSOLO, M. and J. ROUND (2003), *Poverty Reduction Strategies in a Budget-Constrained Economy: The Case of Ghana*, Webdoc No. 8, OECD Development Centre, Paris.
- BUSSOLO, M. and J. WHALLEY (2003a), "How Many Forms do I have to Fill in to Export my Coffee? The Role of Transaction Costs in Explaining Economic Performance in Latin America", *Integration and Trade INTAL/IDB*, and *Economie Internationale CEPII*, forthcoming.

- BUSSOLO, M. and J. WHALLEY (2003b), *Globalization in Developing Countries: The Role of Transaction Costs in Explaining Economic Performance in India*, Webdoc No. 7, OECD Development Centre, Paris.
- COHEN, D. (2002), "Growth in Theory and in Practice" in J. BRAGA DE MACEDO, C. FOY and C.P. OMAN (eds.), *Development is Back*, Development Centre Studies, OECD, Paris.
- COHEN, D. and M. SOTO (2001), *Growth and Human Capital: Good Data, Good Results*, Technical Paper No. 179, September, OECD Development Centre, Paris; and CEPR Discussion Paper 3100.
- COHEN, D. and M. SOTO (2002), *Why Are Some Countries So Poor? Another Look at the Evidence and a Message of Hope*, Technical Paper No. 197, October, OECD Development Centre, Paris; and CEPR Discussion Paper 3528.
- HEIMANS, J. (2002), *Strengthening Participation in Public Expenditure Management: Policy Recommendations for Key Stakeholders*, Policy Brief No. 22, OECD Development Centre, Paris.
- JÜTTING, J. (2003), *Health Insurance for the Poor? Determinants of Participation in Community-Based Health Insurance Schemes in Rural Senegal*, Technical Paper No. 204, January, OECD Development Centre, Paris.
- KAPSTEIN, E.B. (2002), *Virtuous Circles? Human Capital Formation, Economic Development and the Multinational Enterprise*, Technical Paper No. 191, August, OECD Development Centre, Paris.
- MIYAMOTO, K. (2003), *Human Capital Formation and Foreign Direct Investment in Developing Countries*, Technical Paper, OECD Development Centre, Paris, forthcoming.
- RITCHIE, B.K. (2002), *Foreign Direct Investment and Intellectual Capital Formation in Southeast Asia*, Technical Paper No. 194, August, OECD Development Centre, Paris.
- SLAUGHTER, M.J. (2002), *Skill Upgrading in Developing Countries: Has Inward Foreign Direct Investment Played a Role?*, Technical Paper No. 192, August, OECD Development Centre, Paris.
- SOTO, M. (2002), *Rediscovering Education in Growth Regressions*, Technical Paper No. 202, November, OECD Development Centre, Paris.
- TE VELDE, D.W. (2002), *Government Policies for Inward Foreign Direct Investment in Developing Countries: Implications for Human Capital Formation and Income Inequality*, Technical Paper No. 193, August, OECD Development Centre, Paris.
- TODO, Y. and K. MIYAMOTO (2002), *Knowledge Diffusion from Multinational Enterprises: The Role of Domestic and Foreign Knowledge-Enhancing Activities*, Technical Paper No. 196, August, OECD Development Centre, Paris.

Activity 5. Co-operation with Civil Society and the Private Sector

Broadening the knowledge base is key to creating trust among development partners.

65. Civil society and business associations can make important contributions to improving governance structures, nationally, regionally and internationally. Nevertheless, building trust amongst them and with governments requires that all partners share a common knowledge base. Continuing its long tradition of co-operation with non-governmental organisations (NGOs), and extending it to business organisations and firms, the Development Centre has searched for solutions to improve information sharing between governmental and non-governmental actors.

Public-Private Partnerships (PPPs): Broadening the Knowledge Base and Creating Trust

PPPs help establish a social dialogue ...

66. Among the instruments mentioned in the Monterrey Consensus are PPPs designed to bring about dialogue between the business community, civil society and government. In OECD member states with a tradition of social dialogue, PPPs strengthen private participation in public decision making. In developing countries, the most appropriate PPPs are those that seek to enhance knowledge and adaptive capacity. By providing quantitative information on entrepreneurial activities and the business climate, they allow decisions in the public and private sectors to be based on the same, locally generated, information.

... but inadequate economic data is an obstacle.

67. Trust is essential to putting in place efficient mechanisms of participatory governance in developing countries, as illustrated by the Centre's pilot project on PPPs in Mozambique. Although formalised public/private policy dialogue has existed for almost a decade in this country, relations between business and government have largely remained adversarial. Inadequate data

was part of the problem: until recently, an up-to-date statistical base covering elements such as quarterly GDP, or quarterly or monthly industrial output, and acknowledged by both the public and private sectors as an adequate account of the state and evolution of the Mozambican economy did not exist.

68. In order to fill this gap, and broaden the knowledge base available to social partners, a composite Indicator of Economic Activity in Mozambique (ICAE) was developed in Tibana (2003), improving on existing studies, indicators and data collection mechanisms. The OECD Economics Department and the OECD Statistics Directorate supplied valuable advice, and special attention was paid to the consistency between firm-level, sectoral and aggregate data. A report was presented in Maputo, where views of high-profile members of the Mozambican business community and trade unions, the government and foreign investors were heard. The meeting also explored innovative approaches to improve the financing conditions for the private sector and discussed long-term strategies for some important sectors of the economy.

For Mozambique, the Centre helped develop a new economic indicator.

NGOs: Challenged to Take on a New Role in Global Governance

69. The legitimacy of humanitarian and development NGOs in OECD member countries as *the* civil society actor “responsible” for, and experienced in, development has been called into question. They are also under pressure to reform their practices and redefine their identities. Mc Donnell and Solignac Lecomte (2002a) suggest three main avenues for change:

- *Forging links with new partners*, such as the corporate sector, civil society organisations in developing countries, or private foundations with large budgets. Partly for reasons of complementarity, and partly due to financial constraints, in the future NGOs’ work will have to be undertaken in an increasingly collaborative manner. Development co-operation donors are increasingly keen to involve “Southern” organisations in their work but very often still consider them too weak. Their strengthening should be made a priority.

NGOs in OECD countries need to create new alliances.

- *Establishing a set of principles for collaborative work with governments.* NGOs should recognise that donor funding generates the risk of their becoming co-opted or of limiting themselves to “publicly popular” work. Merely helping governments disburse ODA budgets may result in an impoverished environment for development co-operation in the long run. The safeguard should be clear, internalised and unshakeable values and principles.
- *Stepping up advocacy work at home.* An NGO’s legitimacy in advocacy derives from its experience in the field as well as its capacity to mobilise private funds and, increasingly, public opinion.

70. Creating and maintaining healthy and efficient links between NGOs, government agencies and new partners requires mutual trust. Yet, leaving aside the well-known major players, governments, companies and indeed NGOs themselves find it difficult to work with organisations which they do not know well. They need to increase transparency, to reinforce mutual confidence, and to facilitate joint action and knowledge sharing. The Centre’s popular *Directory of Non-Governmental Development Organisations* which provides users in the North and in the South, governmental and non-governmental, with reliable and easily accessible data on development NGOs, provides a useful contribution to these processes. Last published in 1996 (for OECD European member countries) and 1998 (for other OECD member countries), the Directory was updated and made available on the Web free of charge.

The Centre provided a modern information tool ...

71. This operation was implemented in partnership with five other European governmental and non-governmental organisations: the European Centre for Development Policy Management (ECDPM), the International Institute for Communication and Development (IICD), the European Association of Development Research and Training Institutes (EADI), *Coopération internationale pour le développement et la solidarité* (CIDSE), and Europe’s Forum on International Co-operation (Euforic). All partners contributed their own contact list of partner organisations, totalling over 8 000 entries. Exchange of data or multi-database searching will be further explored with owners of other databases, and individual organisations will be encouraged to update their own information directly.

... in collaboration with European governments and NGOs.

Public Opinion and International Development Co-operation Policy in OECD DAC Member Countries

72. Sustaining the fight against global poverty will be possible only if citizens in richer countries actively and critically support international development co-operation efforts. A study by Mc Donnell, Solignac Lecomte and Wegimont (2003a), published jointly with the North-South Centre of the Council of Europe, found that public support in OECD DAC member countries for helping poor countries has remained consistently high for almost two decades. There is no aid fatigue. One indication is that donations from the public to development and emergency NGOs have been steadily increasing, although mostly in reaction to emergencies and natural disasters. Though there is concern among the public about aid effectiveness, it exists alongside continued high support for aid.

Centre study finds no aid fatigue.

73. Although official expenditure on global education and on information about national aid programmes has been increasing in some OECD countries, it remains very low. The adoption of the Millennium Development Goals remains a largely untapped opportunity on which to peg more vigorous efforts to inform and engage the public. The available evidence nevertheless indicates that citizens in OECD DAC member countries support international development co-operation. If they were more and better informed, and if their capacity to critically engage in the policy debate was stronger, they could be a precious constituency for its reform and improvement. This conclusion is consistent with recent OECD (GOV) work on promoting information, consultation and active participation of citizens, with a view to enhancing both the *legitimacy* and the *efficiency* of public policies.

The Millennium Development Goals: an untapped opportunity to mobilise public support ...

74. Finally, the study stressed the lack of harmonised data on public opinion across OECD DAC member countries. In response to this, the informal group of DAC Heads of Information, jointly steered since 2000 by the Centre and the DCD, has developed some common questions for member countries to use in their future national public opinion polls, with a particular focus on the MDGs.

Centre contributing to improved polling.

Publications

Directory of Development Organisations, a joint venture by the OECD Development Centre, CIDSE, EADI, ECDPM, Euforic, and IICD, is available on line at OneSiteEurope: <http://www.euforic.org/actors/en/place.htm>.

BRAGA DE MACEDO, J. (2003), "Partnerships: The Essential Role of The State", in A. LIEBENTHAL, O. FEINSTEIN and G.K. INGRAM (eds.), *Evaluation and Development –The Partnership Dimension*, Transaction Press, London and New Brunswick, N.J.

MC DONNELL, I. and H.-B. SOLIGNAC LECOMTE (2001), "L'opinion publique et la coopération au développement dans les pays de l'OCDE", *Techniques financières et développement*, No. 64-65, Septembre-Décembre, Épargne Sans Frontières, Paris.

MC DONNELL, I. and H.-B. SOLIGNAC LECOMTE (2002a), "Civil Society and Development", in J. BRAGA de MACEDO, C. FOY and C.P. OMAN, (eds.), *Development is Back*, Development Centre Studies, OECD, Paris.

MC DONNELL, I. and H.-B. SOLIGNAC LECOMTE (2002b), "Public Opinion, an Ally of Development Assistance", in *Capítulos: The New Paradigms of International Cooperation*, N° 64, January-April, Latin American Economic System, SELA, Caracas.

MC DONNELL, I. and H.-B. SOLIGNAC LECOMTE (2002c), "Apparences trompeuses", in *Développement I : modèles et financements en panne - Courrier de la Planète*, No 67, Vol. I, Janvier, Solagral, Montpellier.

MC DONNELL, I., H.-B. SOLIGNAC LECOMTE and L. WEGIMONT (eds.), (2003a), *Public Opinion and the Fight Against Poverty*, North-South Centre of the Council of Europe and OECD Development Centre, Paris.

MC DONNELL, I., H.-B. SOLIGNAC LECOMTE and L. WEGIMONT (2003b), *Public Opinion Research, Global Education and Development Co-operation Reform: In Search of a Virtuous Circle*, Webdoc No. 10, OECD Development Centre, Paris.

TIBANA, R. (2003), *The Composite Indicator of Economic Activity in Mozambique (ICAE): Filling in the Knowledge Gaps to Enhance Public-Private Partnerships (PPP)*, Webdoc No. 15, OECD Development Centre, Paris.

Supplementary Activities

75. The Centre's current and past work generates considerable interest in government agencies, international institutions, civil society and academia. The visibility and reputation of the Centre in these circles leads to numerous invitations to staff members to participate in conferences, to act as evaluators of research projects and institutions, as well as to provide advice to national government agencies and international institutions.

The quality of the Centre's work is recognised, ...

76. Some of the more important international involvement includes the participation of the Centre's President in the Comprehensive Development Framework (CDF) Evaluation Steering Group and the preparation of the 2003 ABCDE Europe, and the election of staff members to decision-making bodies of international networks. These include the Governing Body of the Global Development Network (GDN), the Executive Committee of the European Association of Development Research and Training Institutes (EADI), the Management Board of the EU-LDC Network, the Steering Committee of the Sustainability Impact Assessment (SIA) of the new Economic Partnership Agreements between the ACP and the EU, and the Board of the Centre for the Study of Globalisation and Regionalisation (CSGR) in the United Kingdom. Several staff members also serve on the editorial boards of academic journals.

... creating demand for the Centre's participation ...

77. In all these activities, the Centre's staff have capitalised on the accumulated experience generated by past work. One of the clearest examples of this experience is the study entitled *Development is Back* prepared for the 40th Anniversary of the Centre in October 2002. Preceded by an overview by Véronique Sauvat of the institutional development of the Centre, its main activities and how they have changed, the study traces development thinking over the past two decades and outlines the Centre's contribution to this evolution through chapters written by the staff presently associated with the Centre.

... as well as requests for extensions to earlier work, ...

78. Another indication of the impact of the Centre's activities is the demand for updates and expansions of work undertaken in the context of earlier work programmes. Some of the demand has originated in the OECD Secretariat, such as the presentations to the Committee on Capital Movements and Invisible Transactions (CCMIT) by the Centre's President on the experience of Portugal in dismantling exchange controls, and the literature survey — requested by the OECD Directorate for Financial, Fiscal and Enterprise Affairs (DAF) and based on the Centre's work in the early 1990s — on the growth effects of capital account liberalisation in non-OECD countries. The survey showed that the various liberalisation experiences in the 1990s confirm the earlier finding regarding the importance of well-functioning institutions in a process of capital account liberalisation. The survey was discussed at the CCMIT and used in the OECD study *Forty Years' Experience with the OECD Code of Liberalisation of Capital Movements*.

... from both within the OECD ...

79. Results of recent research on the effects of competition among governments to attract FDI were presented to the Committee on International Investment and Multinational Enterprises (CIME) and constituted the basis for extensive joint efforts with DAF in 2001 and 2002. These included authorship of CIME documents "Do Developed and Developing Countries Compete for the Same FDI?" and "Policy-Based Competition to Attract Investment: Issues for Discussion"; colloquia on Tax Incentives and FDI in Southern Africa and on the Taxation of FDI in Developing Countries (jointly organised with the French Foreign Ministry); and, the production of papers on "Incentives-Based Competition for FDI: The Case of Brazil" (Christiansen, et al., 2002) and "Incentive Bidding for Mobile Investment: Economic Consequences and Potential Responses" (Charlton, 2003).

... and outside.

80. However, most supplementary activities were induced by the interest of either member countries or international organisations and enjoyed supplementary financial support. Some of the most important of these activities are presented below.

The African Economic Outlook Report

81. One of the outcomes of the Development Centre's *Emerging Africa* project (1997-1999) was to bring to the fore the need for closer monitoring of economic growth and development in African countries. This led to the setting up in 2000 of a joint project by the African Development Bank and the Development Centre, with the support of the European Commission: the production of an annual *African Economic Outlook* report (AEO), primarily aimed at decision makers — public and private — in African and OECD countries. The project combines the expertise accumulated by the OECD, which produces the *OECD Economic Outlook* twice a year, and the African Development Bank's knowledge of African economies. The AEO provides a unique set of comparable information, analysis and forecasts on macroeconomic and structural issues, including poverty developments.

Comparative review of African countries ...

82. As much as a *product* designed to inform decision making, the AEO consists in a *process* of capacity building, both within the African Development Bank and among the network of local correspondents in the countries examined. This objective is being reached through providing training both to the African consultants in charge of contributing to the country notes and to the African Development Bank economists and statisticians on the techniques and methodology for generating the analyses and the statistical annex. These activities have also increased ownership of the report by Africans themselves, which is the ultimate objective of the project. One third of the content of the first edition (2001/02) and almost half — plus the whole statistical annex — of the second edition (2002/03) originated entirely from regional counterparts.

... and an instrument for capacity building in Africa ...

83. The first report, covering 22 countries and revealing a much more contrasted picture of the continent than many would expect, was launched in Paris during the 3rd *International Forum on African Perspectives*, in the presence of the President of Senegal, Abdoulaye Wade, one of the originators of the New Partnership for Africa's Development (NEPAD) and the first serving African Head of State to visit the OECD.

... welcomed by African leaders and institutions ...

as an input into the NEPAD process.

84. The AEO will serve as an important input in the foreseen “African Peer Review Mechanism” (APRM), an African self-surveillance mechanism currently being put in place in the framework of the NEPAD. The second expanded edition of the report, published in March 2003, focuses on privatisation and includes a comparative assessment of policies and processes across 22 countries. It was also presented at the OECD before a serving African Head of State, on this occasion the President of Mozambique, Joaquim Chissano.

AEO widely publicised and much-used.

85. Presentations of the key findings have been delivered at a Public Private Partnership conference in Maputo, Mozambique (see Activity 5, Paragraph 68) and at the African Economic Research Consortium in Nairobi, Kenya, as well as at a variety of European government and academic forums, among which the Centre for the Study of African Economies in Oxford and La Sapienza University in Rome. The first edition of the AEO has been used, moreover, in a wide range of contexts within Africa and elsewhere as a source of independent and reliable information on economic and social developments in Africa.

Comprehensive Development Framework (CDF) Evaluation

Centre invited to participate in evaluations ...

86. After contributing a paper to an evaluation workshop held at the World Bank in late 2000, where participants agreed that a multi-stakeholder evaluation should be carried out, the Centre’s President accepted in January 2001 to serve as member of a steering committee that included representatives of other international organisations, bilateral and multilateral donor agencies, civil society and the private sector, in addition to seven CDF pilot countries. The steering committee endorsed the need for timely assessment of how CDF principles were being implemented in country development processes, taking full account of the Poverty Reduction Strategy Paper initiative which was being launched for Heavily Indebted Poor Countries about the same time as the CDF.

87. The main objectives of the evaluation were to: *i)* identify the factors that have facilitated implementation of CDF principles and those that have hindered it; *ii)* assess the extent to which

CDF implementation has affected progress toward achieving the Millennium Development Goals; *iii*) promote learning and capacity development in countries where CDF principles are being implemented; and, *iv*) create an ongoing mechanism for providing periodic assessment of CDF processes and feedback to decision makers.

88. This evaluation followed the CDF principles of ownership, participation and partnership. Meetings were held in Bolivia, Denmark, France and Uganda. The report is to be presented to the Committee on Development Effectiveness (CODE) of the World Bank Executive Board.

The Spiral of Bad Governance and Economic Decline in the Democratic Republic of Congo

89. War prevented the inclusion of the Democratic Republic of Congo case study in the final synthesis of the *Emerging Africa* project. In response to the large number of requests for the data and analysis to be released, in particular the specially reconstructed macroeconomic and budgetary data series covering the 1965-1997 period which were seen as a unique resource, the study was completed and the figures updated to cover 1965-1999. This was published as a Technical Paper (Maton and Solignac Lecomte, 2001). Papers written by Graciana del Castillo ("Economic Reconstruction in Post-Conflict Transitions: Lessons for the Democratic Republic of the Congo") and Nuno Santos ("Financing Small, Medium and Micro Enterprises in a Post-Conflict Situation") were presented to an audience of business leaders and government officials at a seminar in Kinshasa in April 2003 on PPPs for the development of the Democratic Republic of Congo.

*... to deepen
country analysis, ...*

Co-operation with the Portuguese-Speaking Countries

90. In response to a proposal from Brazil, externally funded work on the Portuguese-speaking countries was agreed on by the Centre's Advisory Board in the context of its activities

*... to extend
earlier analysis to
other poor
countries, and ...*

focusing on the poorest countries. Since the majority of these are to be found in Africa, and considering the theme of the 2001-2002 work programme, an initial study of the interaction between governance and development was undertaken in the Cape Verde Republic (Lourenço and Foy, 2003). The study revealed the importance for equitable growth of both internal and external linkages — between levels of government, associations of workers and employers and civil society; and between the resident population and the diaspora — which could be reinforced by good governance and fair, uncorrupted officials and institutions. This has been followed up by a study of the potential role of PPPs (see Activity 5, Paragraphs 65-68), in the development of East Timor (Braz, 2003). Three objectives were identified: facilitating private-sector development; promoting transparency in the utilisation of oil and gas resources; and encouraging dialogue between different actors on issues relating to official and working languages for the new nation. Further studies of this group of countries will depend entirely on the availability of earmarked voluntary contributions. The Centre's President drew on and publicised the Centre's work on PPPs in Lusophone countries at a conference organised by the Portuguese Embassy (Luanda, September 2002) and at the Entrepreneurial Forum of the Community of Portuguese-Speaking Countries (Lisbon, June 2002).

Sovereign Ratings

*... to update
earlier work.*

91. A review of the determinants and the impact of changes in sovereign ratings since the Asian crisis was commissioned by CEPAL and the Ford Foundation, based on 1997-1999 work on sovereign ratings. The study, which predicts that the market impact of sovereign ratings will decline as a result of agencies modifying their country ceiling policies and as market participants try to exploit bond trading opportunities arising from the lagged return of ratings, was presented to CEPAL and UN-WIDER in March and October 2002, respectively.

FDI and Development

92. In collaboration with the Japan Bank for International Cooperation in Tokyo, the Development Centre has conducted supplementary work on the development dimension of foreign direct investment — initially analysed in the second half of the 1990s — and produced a report entitled “Foreign Direct Investment and Development: Where Do We Stand?” (OECD Development Centre, 2002). This report examines the potential impact of FDI flows on the long-term growth of developing host economies. It takes stock of existing empirical studies examining from different perspectives the complex interdependence between FDI and growth. It emphasises that host-government policies should attach greater importance to the stability and predictability of the local business environment in which foreign affiliates of multinational enterprises operate. To this end, host countries should pursue both multilateral and regional approaches to adopting more constructive, rules-based policies towards FDI. This work was also used as the Development Centre's contribution to the OECD report (2002b) on *Foreign Direct Investment for Development*.

*An input to
OECD work on
FDI.*

Asia and Europe: Services Liberalisation

93. The Asian Development Bank and the Development Centre jointly organised their 8th *International Forum on Asian Perspectives*, held in Paris on 24-25 June 2002. The 2002 Forum sought to examine both European and Asian experiences of service sector liberalisation and to draw some policy lessons on what Asia might have to gain from more competition in services. Focus was given to the recent experience of several specific sectors, such as telecommunications, electricity, postal and transport services in Europe and telecommunications, financial and energy services in Asia. As weak competition in the service sector may negatively impact on the expansion of Asian exports, as well as the attractiveness of Asian economies to private investors (both domestic and foreign), achieving progress in this sector will be one of the key developments in determining Asia's future path

*8th International
Forum on Asian
Perspectives
focused on trade
in services.*

of growth and stability. There was broad agreement that Asian countries would benefit from the adoption of an integrated approach that combines institution building, domestic regulation and external liberalisation, the sequence of which is of critical importance if instability in the service sector as well as in the overall economy is to be avoided. The proceedings of this forum will be published in mid-2003 (Asian Development Bank and OECD Development Centre, 2003).

Climate Policies

Measures to control greenhouse gases can have sizeable local benefits ...

94. At the inception of the Centre's work on climate policy in developing countries in 1999, the dominant perception of policy makers was that the benefits of averting climate change are distant in time and uncertain, while other problems are pressing. The Centre's research has sought to bring into focus the possible complementarity between measures to slow greenhouse gas emissions growth and those to address pressing local environmental problems, notably air pollution and associated health damages. Through the use of numerical models, the Centre's research has sought to quantify the magnitude of those health benefits, in terms of both physical measures and money, comparing the latter measure to the welfare costs of a carbon tax. In this way, it has been possible to estimate the scope for so-called "no regrets" abatement, where the ancillary benefits are large enough to compensate for the economic adjustment costs. The work has focused on three countries: China, Chile and India. Unlike the Chile and India studies, which look solely at health impacts, the China study (O'Connor, *et al.*, 2003) also examines impacts of reduced ozone levels on crop yields and estimates these to be even larger than the health impacts. This is interesting from a policy perspective inasmuch as the principal beneficiaries of improved crop productivity are rural households, while the principal beneficiaries of cleaner air to breathe are overwhelming urban. Insofar as China is concerned with rural-urban income and other disparities, this equity dimension of climate policy is particularly noteworthy. More generally, the analysis undertaken by the Centre suggests a phased approach to climate policy beginning with a thorough emissions/sink inventory and

...both to human health ...

...and to agricultural productivity ...

establishment of a system for regular monitoring of emissions, followed by re-examination of key sectoral policies through a “climate lense” in an effort to exploit “win-win” or low-cost abatement opportunities, then eventually by the introduction of explicit instruments (carbon tax, tradable permits) to limit greenhouse gas emissions in the most efficient manner possible. *...especially in developing countries*

95. The Centre’s work has received wide exposure in international research and policy-making circles. The Chile study was one of several ancillary benefits studies reviewed in Chapter 8 of the Third Assessment Report of Working Group III of the Intergovernmental Panel on Climate Change (IPCC). The Centre’s work has also been presented at a number of OECD meetings on climate policy, most recently at an international conference (held in early December 2002) on “Estimating the Benefits of Climate Change Mitigation”.

History of the World Economy

96. In response to requests from several quarters — in Delegations, national development agencies, academia, and institutions in developing countries, as well as from within the OECD — for reliable, long-term data on economic growth, the Centre commissioned Angus Maddison to write a book that would trace the roots of development over the last millennium. One of the aims was to provide policy makers in developing and OECD countries with an additional tool for analysis of the growth phenomenon. The result has become a very popular volume used in government, civil society and universities. A more technical sequel will be published in the course of 2003. Historical series of original fiscal and monetary variables for sovereign borrowers during the operation of the gold standard, first presented at a Centre seminar, will also appear in 2003 (Flandreau and Zumer, 2003). This data and the accompanying analysis highlight the determining influence that financial and political reputation had on bond market spreads, with policy implications for today’s debate on monetary integration and exchange rate regimes (see Activity I, Paragraph 14). *New contributions to the construction of data sets for development research.*

Publications

- ASIAN DEVELOPMENT BANK and OECD DEVELOPMENT CENTRE (2003), *Asia & Europe: Services Liberalisation*, Development Centre Seminars, OECD Development Centre with the Asian Development Bank.
- BERTHÉLEMY, J.-C. and L. SÖDERLING with J.M. SALMON and H.-B. SOLIGNAC LECOMTE (2001), *Emerging Africa*, Development Centre Studies, OECD, Paris.
- BRAGA DE MACEDO, J. (2002), *Development Redux: Reflections for a New Paradigm*, Webdoc No. 3, OECD Development Centre, Paris.
- BRAGA DE MACEDO, J. and E. BURGEAT (2001), “La Chine et sa séquence de modernisation” in *La Mondialisation et la Chine – Actes du Colloque présidé par M. Olivier Giscard d’Estaing*, Fondation Singer-Polignac, Paris.
- BRAGA DE MACEDO, J. and B. EICHENGREEN (2001), “The European Payments Union and its Implications for the Evolution of the International Financial Architecture”, in A. LAMFALUSSY, B. SNOY and J. WILSON (eds.), *Fragility of the International Financial System — How Can We Prevent New Crises in Emerging Markets?*, PIE Peter Lang for Fondation Internationale Robert Triffin, Brussels.
- BRAGA DE MACEDO, J., Á. FERREIRA DA SILVA and R. MARTINS DE SOUSA (2001) “War, Taxes and Gold: The Inheritance of the Real”, in M. BORDO and R. CORTES-CONDE (eds.), *Transferring Wealth and Power from the Old to the New World*, Cambridge University Press, Cambridge.
- BRAZ, J. (2003), *Public Private Partnerships for Development: Three Applications in Timor Leste*, Webdoc No. 9, OECD Development Centre, Paris.
- BUSSOLO, M., M. CHEMINGUI and D. O’CONNOR (2002), *A Multi-Region Social Accounting Matrix (1995) and Regional Environmental General Equilibrium Model for India (REGEMI)*, Webdoc No. 1, OECD Development Centre, Paris.
- BUSSOLO, M. and D. O’CONNOR (2001), *Clearing the Air in India: The Economics of Climate Policy with Ancillary Benefits*, Technical Paper No. 182, November, OECD Development Centre, Paris.
- CASPARY, G. and D. O’CONNOR (2002), *Beyond Johannesburg: Policies and Finance for Climate-Friendly Development*, Policy Brief No. 21, OECD Development Centre, Paris.

- CHARLTON, A. (2003), *Incentive Bidding for Mobile Investment: Economic Consequences and Potential Responses*, Technical Paper No. 203, January, OECD Development Centre, Paris.
- CHRISTIANSEN, H., C. OMAN and A. CHARLTON, *Incentives-Based Competition for FDI: The Case of Brazil*, DAFWE Working Paper on International Investment, No. 2003/1, OECD, Paris, 2003.
- DESSUS, S. and D. O'CONNOR (2003), "Climate Policy without Tears: CGE-Based Ancillary Benefits Estimates for Chile", *Environmental & Resource Economics*, forthcoming.
- FLANDREAU, M. and F. ZUMER (2003), *The Making of Global Finance 1880-1913*, OECD Development Centre Studies, forthcoming.
- LOURENÇO, J. and C. FOY (2003), *Cap Vert : Gouvernance et développement*, Webdoc No. 13, OECD Development Centre, Paris.
- MATON, J. avec H.-B. SOLIGNAC LECOMTE (2001), *Congo 1965-1999: les espoirs déçus du "Brésil africain"*, Document technique No. 178, September, OECD Development Centre, Paris.
- O'CONNOR, D., F. ZHAI, K. AUNAN, T. BERNTSEN and H. VENNEMO (2003), *Agricultural and Human Health Impacts of Climate Policy in China: A General Equilibrium Analysis with Special Reference to Guangdong*, Technical Paper No. 206, March, OECD Development Centre, Paris.
- OECD (2002a), *African Economic Outlook 2001/2002*, OECD Development Centre, Paris.
- OECD (2002b), *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*, OECD, Paris.
- OECD DEVELOPMENT CENTRE (2002), *Foreign Direct Investment and Development: Where do We Stand?*, JBIC Institute Research Paper No. 15, Tokyo.

EVENTS ORGANISED BY THE DEVELOPMENT CENTRE IN 2001 AND 2002

2001

Date/Place (Paris except where otherwise indicated)	Type of Event	Title	Co-organisers
17 January	Expert's Seminar	Aid Effectiveness	DCD
22 January	Informal Seminar	"An Economic Theory of Human Rights in Developing Countries" by Dr. Stefan Collignon, former Deputy Director General of the German Federal Ministry of Finance	
5 February	Informal Seminar	"Globalisation and Catching-up: From Recession to Growth in Transition Economies" by Dr. Grzegorz W. Kolodko, former Deputy Premier and Minister of Finance of Poland	
28 February	Informal Seminar	"Taking Stock: The United Nations' Financing for Development Process" by Ambassador Oscar R. de Rojas, Executive Coordinator of the Financing for Development Secretariat, United Nations	
26-27 March	Regional Forum	2nd International Forum on African Perspectives. Topic: Regional Integration in Africa	African Development Bank Hosted in part by the French Ministry of Economy, Finance and Industry
9-10 April	Workshop	Towards Asia's Sustainable Development: The Role of Social Safety Nets	ELS and CCNM
23-24 April	Policy Dialogue	Corporate Governance in Developing Countries and Emerging Economies	With the co-operation of the European Bank for Reconstruction and Development (EBRD)

Date/Place (Paris except where otherwise indicated)	Type of Event	Title	Co-organisers
4-5 May Bologna, Italy	Conference	Internet, E-Commerce and Developing Countries	School of Development Innovation and Change at the University of Bologna, under the patronage of the Italian Ministry of Foreign Affairs
15 June	Seminar	Setting up a Social Safety Net in China: Some Current Issues	CCNM and the Centre d'études sur la Chine moderne et contemporaine de l'Ecole des Hautes Etudes en Sciences Sociales (EHESS)
18-19 June	Regional Meeting	7 th International Forum on Asian Perspectives. Topic: Technology and Poverty Reduction in Asia	Asian Development Bank Hosted in part by the French Ministry of Economy, Finance and Industry
22 October	Informal seminar	Reconciling Business Benefits and Development Impacts: A Partnership Approach	Care International
25-26 October Dublin	Informal Expert and Practitioner Workshop	International Development Co-operation in OECD Countries: Public Debate, Public Support and Public Opinion	With the support of the Swedish International Development Agency (SIDA) and Ireland Aid
10 and 12 November Madrid	Regional Meeting	12 th International Forum on Latin American Perspectives. Topic: Competitiveness and New Technologies in Latin America	Hosted by the Ibero-American Summit Secretariat (SECIB)
13-14 December	Technical Meeting	FDI, Human Capital and Education in Developing Countries	Financial support from the Government of Korea and the Ford Foundation

2002

Date/Place (Paris except where otherwise indicated)	Type of Event	Title	Co-organisers
28 January	Colloquium	Taxation of Foreign Direct Investment in Developing Countries	French Ministry of Foreign Affairs, with the co-operation of the magazine "Passages"
4-5 February	Regional Meeting	3rd International Forum on African Perspectives: The African Economic Outlook (included a Round Table on NEPAD)	African Development Bank
20 February	Informal Seminar	"Transportation in Urban Areas in the Developing World: Choices, Constraints or Crises?" by Lee Schipper, Visiting Researcher at the Development Centre	
26 March	Informal Seminar	"Some Reflections on Trade, Growth, Inequality and Poverty" by Richard Cooper, Professor of International Economics, Harvard University	
22 April	Informal Seminar	"Aid Effectiveness" by Paul Collier, Director of the Development Research Group at the World Bank	
20 May Seoul	International Forum	National Visions and Strategies	World Bank, KDI and ECO
4 June	Informal Seminar	"Peer Pressure as Part of Surveillance by International Institutions" by Niels Thygesen, Professor of Economics at the University of Copenhagen and Chairman of the Economic Development and Review Committee	ECO
14 June	Informal Seminar	"Building the NEPAD Process" by Wiseman Nkuhlu, Economic Advisor to the President of South Africa and Chair of the NEPAD Steering Committee	CCNM and DCD
24-25 June	Regional Meeting	8th International Forum on Asian Perspectives. Topic: Liberalisation and Competition in Services	Asian Development Bank Hosted in part by the French Ministry of Economy, Finance and Industry

Date/Place (Paris except where otherwise indicated)	Type of Event	Title	Co-organisers
10 July	Informal Seminar	"The Argentine Crisis: Hard Money's Soft Underbelly" by Ricardo Hausmann, Professor of the Practice of Economic Development at Harvard University's Kennedy School of Government and former Chief Economist of the Inter-American Development Bank	CCNM
26-27 August Mombassa, Kenya	Regional Workshop	OECD Regional Workshop on Trade Capacity Building: Experiences in an African Context	DCD and the United Nations Economic Commission for Africa, Addis Ababa
26 -27 September	Colloquium	The Internal and External Development Policy of the European Union: A Strategy for an Identity in the Face of Globalisation	International Foundation for a European Civilisation, Paris
1 October Maputo, Mozambique	Conference	Public-Private Partnerships in Mozambique	Steering Committee including representatives of the government, private sector and trade unions headed by Dr. Mario Machungo, President of the <i>Barco Internacional de Moçambique</i> and Prime Minister of Mozambique from 1986-1994
23-25 October	Experts' meeting	Effective Strategies to Realise NEPAD: "The Role of Action Mapping" and Peer Review	Centre for Global Studies at the University of Victoria, Canada
23 October	Symposium	40th Anniversary—Development Redux: Forty Years of Development Thinking. Organised to commemorate the creation of the OECD Development Centre in 1962 and to launch the Centre's book "Development is Back"	
11-12 November Chennai, India	International Conference	The IT/Software Industries in Indian and Asian Development	Government of India and the State Government of Tamil Nadu
9-10 December	Seminar	How Are Globalisation and Poverty Interacting and What Can Governments Do About It?	Supported by the United Kingdom Department for International Development (DFID) and the International Development Research Centre (IDRC) of Canada

ANNEX

40TH ANNIVERSARY OF THE DEVELOPMENT CENTRE

23 October 2002

Closing speech by H.E. Madame Joëlle Bourgois, Ambassador, Permanent Representative of France to the OECD

It was a great honour to be invited to close this meeting organised to celebrate the Development Centre's 40th anniversary. Just as the volume published today, *Development is Back*, testifies to the sustained quality and intellectual inventiveness of the Centre's work over the last 40 years, the presentations we have heard today bear additional proof, were such proof needed, of this institution's richness and originality.

What to add if not a few words concerning the future? It is incumbent on us today, in the absence of J.F. Kennedy but without forgetting him, to reinvent the Centre. Development is, after all, the New Frontier of our era.

I. Development or the New Frontier

The title, *Development is Back*, is not without ambiguity when translated into French. It has a slight connotation of obsolescence whereas reflections on development endlessly flourish, as the remarkable presentations we have just heard bear witness.

i) The issue of development is at the core of the international agenda

The 40th anniversary of the Centre coincides with a succession of important meetings on the diplomatic calendar — Doha, Monterrey, Kannaskis and Johannesburg — at which the international community has devoted the greater part of its energy to the topic of development. And it is not finished. The Evian Summit next June, followed by Cancun will continue on this path.

ii) Traditional approaches have been called into question

In the North, as in South, the questions posed on the issue of development aid have multiplied over recent years.

Donors and recipients query its efficacy. Figures in absolute or relative terms are scrutinised, the quality of procedures is examined. Even the concept itself is being called into question. The opening of markets and the ending of a certain number of subsidies are brandished as new panaceas, indeed alternatives. Though the principle of debt reduction has general support, its modalities have been questioned. Conditionalities graduate, diversify and multiply. The idea of partnership — public-private partnership, developed-developing country partnership — has become one of the central objectives, as well as one of the means, of development

The New Partnership for Africa's Development, which came from a continent long considered lost, appears to be an extremely promising endeavour at achieving what is still too often a hollow ideal.

iii) Development processes remain enigmatic

One needs only to refer to Daniel Cohen's impressive analyses of convergence to see just how complex and random development processes are. Data on widening income disparities, not only over the centuries but even over recent decades, which are also mentioned elsewhere in this volume, show that even the most well-informed speeches on development have had no impact on the problem. The gulf has also grown between the United States, the world's most powerful country, and India, a large democracy whose already sizeable economy is steadily increasing in global importance. The success of recipes such as the good governance of states and companies, the liberalisation of trade and capital flows and the combating of corruption, depends on a combination of time, place, rhythms, circumstances and intensity. Success is therefore difficult to explain after the event and even more difficult still to predict.

iv) Under-development could well be one of globalisation's most serious weak spots

Exclusion in developed societies, disparities in incomes between these countries and the vast majority of the global population, and gulfs within the developing world itself have created fertile ground for explosion. They cannot therefore be ignored, especially after 11 September. Everything is happening as if René Dumont and those prophets of development of nearly 50 years ago were particularly insightful forecasters, rather than revolutionary inventors of an idea when

they pointed out that dialogue with the South would be in the North's best interest. They were right, at least in their diagnoses if not always in their recommendations.

II. Reinventing the Development Centre

In our shifting landscape, development can no longer be regarded as merely one facet of the OECD's mission. It has become one of the central challenges facing this "rich-countries' club", the prosperity of whose members appears tied henceforth to that of the rest of the world. And if the Centre is called to join the family of the development cluster at the heart of the Organisation's development activities, it is because its original specific role of political dialogue and reflection on development phenomena must fuse with the larger undertaking of helping the OECD regain credibility on a topic on which, despite the work of the DAC, the CCNM and the Club du Sahel, it can no longer afford to appear to be on the margin. The Centre must then be reinvented.

Why?

i) As a result of changes in the geopolitical environment, the Centre no longer has a monopoly on the OECD's dialogue with the outside world

The Centre is no longer the sole bridge between liberal and other economies or between the full members of the international community and regions or entities the demands of diplomacy require be addressed indirectly. In fact, the OECD now works, in one way or another, with some 170 states. Of these, the 30 that comprise the Organisation's membership are little more than the central core. Were this not the case, the Organisation's work would lose all political, economic or technical pertinence.

Likewise, the Centre's ability to interact with the various actors in civil society, governments and international institutions as well as NGOs, foundations, universities, business associations, trade union groupings and so forth has spread across the whole of the Organisation.

ii) It remains the case nevertheless that the concepts invented by the OECD are not directly transposable to the infinite variety of non-members

The OECD finds itself confronted with a paradox. The economic landscape has been simplified. China excepted, liberalism has imposed itself as the alpha and omega of development. One might add that the Chinese "model" is not wholly

exotic — liberalism does enter as an ingredient — but for all that it is not the most replicable in the world. This doctrinal simplification of the economic universe notwithstanding, one cannot apply a single development recipe to all countries and expect it to succeed. The norms, recommendations, principles and legal instruments created at the OECD are wide-ranging. Their coverage spans from public governance through to private governance, from combating tax havens to fighting unfair tax competition, from the dismantling of tariff and non-tariff barriers to trade and the liberalisation of capital flows through to the inventory of regulations favourable to the blossoming of direct investment. Though, when taken in isolation, each of them has value, the idea that they can be applied without modification or nuance, from Bangladesh to Central Africa via Argentina, is, in the majority of cases, illusory.

How?

To reinvent the Centre is to accept that it becomes the Organisation's research centre for development-related issues.

It has been this in the past, albeit at the Organisation's margin. Henceforth, it should cast its rays from the heart of the OECD.

This requires that three obstacles be overcome:

a) First obstacle: the diverging interests of the Centre's shareholders

These divergences principally concern the application of the Centre's work. There are those who, like my country, accord the greatest priority to the fight against poverty and believe that the Centre should devote its analytical attention to the most deprived areas, even perhaps focusing only on Africa. Certainly, the Centre has made a welcome innovation in publishing not only *Emerging Africa*, but also the *African Economic Outlook*. It has thereby created a tool for comparative analysis which, though perfectible, is certainly essential. It has, above all, removed a recurring form of what I would term "intellectual apartheid".

Yet, how can one fail to admit that producing high quality policy-oriented research on development processes precludes focusing on a single region or aspect of underdevelopment? Where do we look for the examples and mechanisms, embedded though these may be in different cultural and sociological traditions, that might enrich and inform the lessons learned from Africa's experiences if not outside of Africa? And, by the way, what right do we have to suppose that Africa is homogenous?

In short, there exists within the Governing Board — the Centre's future governing body — divergent views about the Centre's geographic focus or non-focus. The developing world is not spared from the forces of clientship, historic linkages and geographical proximities, and its representatives within the Centre also have the natural tendency to want to see the Centre focus on their particular case or region. These conflicts of several interests are fed by the Centre's shortage of resources. One should spread oneself less thinly when resources are scarce. This budget rationale, based on apparent common sense, can only lead to intellectual error.

We should accept that the idea of expecting a fair return has nothing to do with development nor, above all, with possible discoveries from research into development. Let us leave the task of reconciling the quest of achieving the common good with the persistence of self interest, should such a thing indeed be possible, to international lenders and donors, multilateral and bilateral, and to major international negotiations. The Centre, like the OECD, must adopt an approach which, if not universal, is at least global.

b) Second obstacle: the gulf between members and non-members of the Centre

It is obvious that the countries that are members of the Centre but not of the OECD itself should continue to be full shareholders in the Centre. It is equally obvious that their number should be encouraged to expand and become as diverse as possible.

From the other side, how can those member countries of the OECD that have never joined the Centre continue to display indifference to collective research on development? Equally, what on earth is stopping those that left the Centre, due to particular disputes which may have ceased to be an issue, from coming back to participate in what is now a central part of the Organisation? I am well aware of the budgetary difficulties that have been hammering the Organisation for years. It is simply difficult for me to imagine that the Centre's membership fee is beyond the means of these countries.

Without doubt, we should not ignore, particularly in Europe, that North America's research capabilities in development are considerable. In light of this, the Centre's contribution might appear superfluous. But there again, such a view is, at least intellectually, debatable. It is the dissemination of research that renders it fruitful. What is the point of financing such work given that the IMF, the World Bank, the European Union and a variety of other institutions have considerable capacities in this area? The answer, pertinent to both macroeconomic analysis

and research on development is that, without the capacity for independent expertise, the work of the OECD in structural policy and other areas will be deprived of credibility. Credibility: that is what is at stake. The OECD, which is neither a lending institution nor a negotiating nor regulatory body, is influential because of the quality of its analyses.

c) Third obstacle: ensuring coherence

Coherence is the order of the day and not without reason. In the area of development, it is imperative that both the OECD Secretariat and the member countries make a sustained effort to ensure that coherence becomes part of the governing ethos. Regarding the Centre, however, there is concern that coherence would involve stifling a discordant voice among the harmonious choir of like-minded member states. There too, the accusation aims at the wrong target. If policies are to be coherent then research, which has neither a message nor recommendations to deliver, can and should, if it is to continue at all, allow itself the luxury of freedom of thought. There is no contradiction, actual or potential, here. It is simply a question of accepting that the worlds of research and of economic policy feed off each other without, for all that, resembling each other. The Centre, which does not have clients, which does not distribute money and which does not dance to the tune of international financial institutions can and should testify to the OECD's intellectual independence and thereby carry the Organisation's banner high. I would cite as an example the study on exchange rate regimes *Don't Fix, Don't Float*, which, in addition to serving the Organisation by simply being published, contains a line of thought that has not been refuted by subsequent developments in economic theory. At the OECD and especially the Centre, we all too often resemble apprentice wizards presuming to impose on mathematical theorists the solutions to an equation whose terms are yet unset.

Conclusion

Reinventing the Centre implies ambition and modesty: two complementary attributes which states and organisations, like human beings, are reluctant to exercise simultaneously. There is nevertheless a chance that should not be allowed to slip by. This is the chance to see the OECD's profile raised internationally in the quest for the solution to the major problem of our time. No longer external to it, this problem is development.

GLOBALISATION AND GOVERNANCE

Main Results of the OECD Development Centre's 2001-2002 Programme of Work

In its research activities, the Development Centre aims to identify and analyse problems the implications of which will be of concern in the near future to both member and non-member countries of the OECD.

This volume summarises the main results of the OECD Development Centre's 2001-2002 Programme of Work. Primarily aimed at formulating policy recommendations, the activities undertaken during these two years were perfectly in step with the major international concerns as expressed at Monterrey, Doha and Johannesburg. They helped to stimulate debate on development and opened up new and fruitful areas for future research.

**OECD DEVELOPMENT CENTRE
Le Seine Saint Germain
12, boulevard des Iles
92130 ISSY-LES-MOULINEAUX
France
Tel.: (33-01) 45 24 82 00**

