



Develop a global partnership for development

Millennium Development Goal 8, “Develop a Global Partnership for Development”, calls on the international community to jointly address issues including creation of open and non-discriminatory trading and financial systems, adoption of a policy of duty-free and quota-free access for exports from less-developed countries to other markets, resolution of the debt problems of developing countries, implementation of an “Enhanced debt relief programme for heavily indebted poor countries”, and provision of more generous official development assistance to these countries.

In addition to these general goals, the international community will need to develop and implement strategies that would help young people in developing countries find decent and productive work, provide access to affordable essential drugs in developing countries (in cooperation with pharmaceutical companies), and make available to these countries, in cooperation with the private sector, the benefits of new technology, including information and communications technologies.

Within the framework of global partnership for development, low-income countries are normally recipients of international assistance, and high-income countries are its donors. Middle-income countries can play both roles simultaneously, and that is relevant to the case of Russia, which is a heavily indebted middle-income country. Global partnership targets as applied to mid-

dle-income countries like Russia should be adapted to the specific development conditions of each country.

The summary report of the UN Millennium Project, prepared under the direction of Professor J. Sachs, Adviser of the UN Secretary General on Achieving the Millennium Development Goals, and entitled “Investing in development: A Practical Plan to Achieve the Development Goals As Stated in the Millennium Declaration”, says the following about the specific position of such countries as Russia in the global partnership for development: “Middle-income countries are challenged to complete the process of eradicating extreme poverty within their own countries and to join the ranks of donor countries at the same time.”

The Russian Federation, a legal successor of the USSR, became an independent political subject of political and economic relations in the modern world in 1991. The new Russia designed its foreign policy based on its new position and capabilities, and the state of its society, taking account of the major change in its “weight” in the world and qualitative shifts in international relations.

Russia’s policy on participation in the global partnership for development is in a formative stage. Creation of conceptual framework, principles and priorities is influenced by a number of internal and external factors. These include critical reconsideration

of Soviet assistance to developing countries, reference to post-Soviet Russia's experience of receiving help from the outside world, analysis of the resource base of Russia's foreign policy and trends in its evolution, as well as review of Russia's experience of participation in international development assistance programmes up to now.

7.1. RUSSIA'S HISTORICAL HERITAGE

In the USSR, aid policy was largely determined by ideological considerations and commercial aspects were secondary. The aim was to strengthen independence of developing countries from international "imperialism" and stimulate the recipient countries to choose the socialist model of development.

Soviet help was granted to countries, which declared their "socialist orientation" or abandoned the capitalist course of development, and was directed to development of key branches of their economy. An indispensable precondition for Soviet aid was that the recipient countries should promise not to transfer facilities, built with Soviet help, to private owners. Assistance was granted predominantly on a bilateral basis, which ensured compliance with foreign policy directives of the USSR leadership.

Generous economic, scientific and technological, and military aid to the socialist countries of Central and Eastern Europe, the People's Republic of China, Socialist Republic of Vietnam, Democratic People's Republic of Korea (DPRK), and to Cuba were intended to strengthen the position of Socialism worldwide.

Soviet aid contributed significantly to development of many countries in Africa,

the Middle East, South East Asia, as well as Afghanistan, Bangladesh, India, Iran, Nicaragua, Guyana, and other countries. In Syria alone, beginning in 1957, the USSR con-

Although in 1990 Russia accounted for only 61% of national income and 59% of national product in the USSR, the country assumed the entire 100% of former Soviet debt liabilities under a succession treaty on foreign debt and assets of the former Soviet Union.

structed 63 facilities, which now provide 22% of the country's electrical power and 27% of its oil. Implementation of this strategy to support socialist development made the Soviet Union one of the world's major donor states and creditors.

In the course of transformation of political decision-making after the collapse of the USSR and creation of the Russian Federation, development of a conceptual policy framework for aid to foreign countries had low priority. No special decision-making body was set up to ensure implementation of such a policy.

As steady financing dried up, former-Soviet economic structures began a mass "exodus" from recipient countries. However, their quite substantial economic interests in these countries were retained and inherited by the Russian Federation.

When the USSR collapsed, total debt of countries, which were receiving Soviet help, totaled about USD 80 billion. At the same time, Soviet debt to London and Paris clubs of creditors and other international financial organizations was USD 108 billion. Although in 1990 Russia accounted for only 61% of national income and 59% of national product in the USSR, the country assumed the entire

100% of former Soviet debt liabilities under a succession treaty on foreign debt and assets of the former Soviet Union. Russia also inherited all of the foreign property of the former USSR, and acquired the right to receive debt repayments by the countries, which had been receiving Soviet help.

7.2. FORMATION OF RUSSIA'S POLICY ON THE GLOBAL PARTNERSHIP FOR DEVELOPMENT

Following 1991, the Russian Federation had to find its place in a changing world, realize its national interests in the new conditions, and construct its domestic and foreign policy accordingly. In developing a national policy of global partnership, Russia must find the optimum balance between the need to address domestic issues and the need to increase its participation in international efforts to support development.

7.2.1. DOMESTIC FACTORS

Russia's position and capabilities in the global partnership for development are sensitive to major domestic factors such as successful completion of internal transformations, securing high rates of economic growth to rapidly overcome negative social and economic consequences of the dismantling of the socialist system, and increase of the resource base of Russia's policy.

Post-soviet Russia as a recipient of international aid. Dismantling of the political and economic systems of Socialism during the 1990s was accompanied by a grave production setback and violent drop of living standards for most Russians. The situation was aggravated by the amount of Soviet debt inherited by Russia, mass capital flight

(according to some estimates, between USD 50 and USD 200 billion were exported in 1992 alone). Russia's borrowing and loans from international financial organizations grew rapidly.

The Russian Federation had to deal with transformation of economic, social, and political systems, and at the same time address acute social and economic problems, take measures to preserve the country's unity, and deal with other pressing issues of the transition period.

In terms of purchasing power parity, Russian GDP in 1992 was 81% of 1990 level. By 1995 it had fallen to 63% of the 1990 level, and by 1998 to 57%. The country faced acute forms of many of the problems defined in the Millennium Development Goals (more detailed accounts are given in previous Chapters). This burden predefined Russia's role in global partnership as a recipient rather than a donor of international development assistance.

Financial and technical support from international financial organizations (the International Monetary Fund and World Bank), countries of the European Union and other states helped Russia to overcome the initial phase of the transition period. These parties provided assistance to Russia in order to strengthen "democracy, rule of law and public institutions". The IMF allocated USD 22 billion to support market transformations in the Russian economy and create conditions for growth. The World Bank approved 53 credit projects for Russia totaling USD 13.4 billion; the European Union (EU) set up Technical Assistance for the Commonwealth of Independent States (TACIS) and (since 1994) for Mongolia. The TACIS programme provided 1.2 billion ecu in 1991-1998 for implementation of 2000 projects in Russia. A

programme for higher education cooperation with the former USSR countries and Mongolia, TEMPUS, was also launched.

During the first phase of reforms, Russia has failed to achieve the living standard targets that were later set out in the Millennium Development Goals. Russia still needed international financial help to complete its transformations.

Dynamics of Russia's resource capabilities. The extent and forms of Russia's involvement in a global partnership must be weighed against development of its resource capabilities. The current state of these capabilities defines Russia's role in global partnership as both recipient and as donor.

The second phase of Russian reforms at the end of the 1990s was marked by partial recovery and early stages of economic growth, slight reduction of poverty incidence, relative macroeconomic and political stabilization. Budgetary and tax discipline was secured, and inflation was lowered from 86% in 1999 to 15% in 2002. The average economic growth rate, according to the IBRD, was 6% between 1999 and 2002.

In the last few years, the Human Development Index (HDI) in Russia has been showing signs of growth. In 1995 Russia was 72nd of 175 countries in terms of HPDI, in 2001 it was 60th and in 2002 it was 57th.

At the current stage of internal transformations in the country, priority is being given to infrastructure projects, which aim to ensure conditions for sustained economic growth, institutional transformations in the public administration, and support of social infrastructure. Programmes of cooperation between international financial organizations and Russia incorporate these issues (Box 7.1).

Box 7.1. Priorities of the international programmes of assistance for Russia

IBRD strategy in Russia for fiscal years 2003-2005 was directed to supporting improvement of the business climate and development of competition, enhancement of management of the state sector, social issues, combating infectious diseases, and protection of the environment. Future priorities for cooperation between the IMF and Russia include support for structural reforms and improving the country's administrative system on the federal and regional level.

The new 3.138 billion euro TACIS budget for 2000-2006 includes financial support for restructuring of the Russian economy, funding for development programmes in the private sector, agriculture, power industry and transport, support for reforms of the public administration, social services, and education. In April 1999, the EU Council approved the new TEMPUS programme for 2000-2006.

Completion of structural transformations is a large-scale and complex task that affects both resource capabilities of the country and the socio-economic status of its people. Considerable efforts and financial resources need to be allocated for the 10-year Programme of Social and Economic Reforms adopted by the Russian Government in 2000. Its implementation will allow Russia to make a decisive step towards reaching the Millennium Development Goals in full (as adapted to the country's conditions) by 2015. Russia would find it very difficult to start providing help to other countries on a large scale until it has resolved these domestic problems.

Despite relative success in addressing the most acute social and economic issues, and despite a turn to economic growth, Russia's GDP at the beginning of 21st century (in terms of purchasing power parity) was one and a half times lower than the GDP of

Table 7.1. Gross domestic product in terms of purchasing power parity¹

	Total GDP (billion USD)			GDP per capita (USD)		
	1999	2000	2001	1999	2000	2001
UK	1404.3	1485.0	1571.8	24014	25322	26627
Germany	1972.5	2042.5	2096.0	24030	24851	25456
Italy	1370.0	1427.5	1468.0	23766	24681	25343
Canada	812.5	873.4	911.2	26630	28367	29290
Russia	891.0	999.6	1066.7	6090	6867	7369
USA	9212.8	9762.1	10019.7	33014	34602	35179
France	1461.2	1532.5	1617.3	24235	25293	26552
Japan	3130.3	3285.8	3379.7	24709	25887	26551

¹ Data on all countries except Russia taken from OECD database.

Italy, UK, and France each, almost two times lower than GDP of Germany, over three times lower than GDP of Japan, and more than nine times lower than US GDP. Of the Group of Eight (G-8), only Canada had GDP somewhat lower than Russia (Table 7.1). GDP per capita in Russia was approximately three and a half times lower than that of Italy, Germany, Japan, France, and UK, almost four times lower than that of Canada, and almost five times lower than that of the USA. According to the OECD, of the 42 countries that participated in programmes of international GDP comparison in 2002, Russia ranked 38th between Mexico and Bulgaria (Appendix 7.1. Table). Any forms of Russia's participation in international development aid programmes, which would worsen the current situation in the country instead of improving it, cannot be in Russia's national interests.

However, the Russian government believes that it has the capacity to resolve the current economic and social problems, including meeting the Millennium Goals in Russia, primarily with internal resources, without further engagement of borrowed international funds. This is facilitated by growing monetary reserves at the Central Bank of Russia thanks to high prices for energy resources and some other Russian export articles in the world market.

The Russian Ministry of Finance plans to stop foreign borrowing completely in 2009. In 2006, the Russian Government intends to raise a total of USD 1 billion in credits from international financial organizations and governments of foreign states, then over USD 700 million in 2007, and over USD 600 million in 2008.

The above-mentioned report by experts headed by Jeffrey D. Sachs agrees that reduction of Russia's debt burden to a level,

which allows quickest possible achievement of the MDGs inside Russia, will help to expand the country's resource base for participation in international development assistance programmes as a donor state.

Russia's debt to international credit organizations. High rates of borrowing from international financial organizations since the beginning of 1990s increased Russia's foreign debts to USD 189.2 billion by 1999.

An agreement with the London Club, which includes the world's leading commercial banks, on 25-year restructuring of the bulk of former USSR debt with a seven-year payment delay was signed on November 16, 1995 in Frankfurt. Russia undertook to pay off USD 1.5 billion of interest in 1996, and pay back remaining interest over 20 years with the same payment delay as for the principal amount. Agreement on restructuring of Russia's commercial debt was signed February 11, 2000. It provided for remission of 36.5% (USD 10.6 billion) of the debt principal and 33% (USD 2.2 billion) of bonds issued by the Russian Foreign Trade Bank (Vneshekonombank). The remaining sum was converted into Eurobonds to be secured by the Russian Government, with 30-year payment delay and seven-year grace period.

This agreement created an important precedent, which was used as the basis for a similar agreement with the Paris Club of Creditors (PCC) on long-term restructuring of the USD 38 billion former USSR debt on similar conditions. However, no agreement on comprehensive restructuring of Russia's ex-Soviet debt to the PCC was reached.

Meanwhile, the average servicing rate of Russia's foreign debt is now as high as 7.13% or close to USD 7 billion yearly. The Russian Minister of Finance, Alexei Kudrin,

believes that servicing cost of this debt is three to four times higher than international debt servicing costs paid by other countries in the Group of Eight (G-8). Between 1996 and 2001, hard currency payments to PCC countries totaled USD 19.08 billion, including USD 8.78 billion of debt principal and USD 10.3 billion interest. Settlement of former USSR debt was USD 9.94 billion, or 52.13% of total payments.

The debt to PCC countries is now Russia's biggest debt. Its repayment is scheduled for 2012-2015. Russia currently spends USD 2 billion a year in interest payments. As of January 1, 2005, Russia's ex-Soviet debt to the PCC was USD 43.1 billion, representing the largest part of Russia's debt to the Club. Russia's key creditors in the PCC are: Germany (USD 20.3 billion), Italy (USD 5.7 billion), Japan (USD 3.7 billion), USA (USD 3.5 billion), and France (USD 3.4 billion). Russia is willing to pay these debts ahead of schedule, as it has already done with IMF debt. Anticipatory payment of its USD 3.3 billion debt to the IMF, due in 2005-2008, has saved Russia USD 204 million in interest payments.

Attempts by the Russian Government to obtain discount on interest due on PCC debt that is discharged ahead-of-schedule have not yet met with full understanding among PCC creditors, but acceptance of Russia's proposals would let it direct substantial funds, saved on interest payments, to partial financing of accelerated MDG implementation efforts in Russia. This could strengthen Russia's credit rating. Settlement of a considerable portion of Russia's debt to the PCC could lower the country's national-debt-to-GDP ratio to 14% by the end of 2006 from over 100% at the end of 1999.

In June 2005, Russia signed an agreement on advance repayment of USD 15 billion of (predominantly Soviet) debt to the Paris Club

of Creditors at face value, to be carried out in June to August 2005. The Agreement reduces Russia's debt to about USD 25 billion. According to the Russian Minister of Finance, this early repayment will save Russia USD 6 billion. The Minister emphasized that the funds saved will be used for social issues and investment, enhancing resource capabilities of Russian development aid policy.

Changes in the domestic decision-making procedure. Reforms in Russia have led to fundamental changes in the domestic deci-

Representative bodies (federal and regional parliaments) and civil society organizations will perform key functions in determining the nature of Russia's participation in global partnership for development, in providing resource potential, and in controlling implementation.

sion-making procedure, as new social and economic interest groups emerged within society. These groups have created political parties, business structures, trade unions, uncensored mass media, and civil society organizations to protect their interests and for political lobbying (these issues are discussed in more detail in Chapter 9).

Public opinion is becoming an important domestic factor that can influence the future content of Russia's participation in global partnership and the extent of its official development aid. In order to gain the support of public opinion, Russia's policy in this respect must not clash with efforts to raise well-being and living standards inside the country.

Representative bodies (federal and regional parliaments) and civil society organizations will perform key functions in determining the nature of Russia's participation in global partnership for development, in pro-

viding resource potential, and in controlling implementation. Involvement of these parties in decision making about Russia's participation in the global partnership has been limited before now, but that is likely to change.

Russian business circles play an increasingly significant role in implementation of development assistance projects. Closer coordination between public and private institu-

Russia's participation in international development assistance projects can help employ thousands of people in various branches of Russian industry and supply Russian businesses with foreign orders.

tions in the effort to secure long-term economic interests of the country helps to create favorable conditions for Russian business on foreign markets and to protect legitimate interests of Russian business abroad. This purpose is served by cooperation agreements between the Chamber of Commerce and Industry (CCI), Russian Union of Entrepreneurs and Industrialists (RUEI), Union of Oil and Gas Producers, the NGO Business Russia (Delovaya Rossiya), and the Ministry of Foreign Affairs.

Russia's participation in international development assistance projects can help employ thousands of people in various branches of Russian industry and supply Russian businesses with foreign orders, thus boosting prosperity of Russians and promoting a more favorable attitude towards the country's participation in global partnership.

7.2.2. INTERNATIONAL FACTORS

Large-scale economic, political, and social reforms in Russia have caused violent transformations in social relations, customary ways of life, and understanding of nation-

al interests. Systemic transformation of Russian society has overcome former incompatibility of its values, and economic and political system with those of Western countries, helping lay a groundwork for Russia's integration into the world economy.

Ensuring favorable external conditions for Russia's progressive development is the major goal of the country's foreign policy. Russia's strategy for participation in the global partnership must rely on clear understanding of the role, which "global public benefits" play in Russian national interests, and of how global problems influence Russian socio-economic development.

"Global public benefits" and national interests. Protection of national interests is the main priority of Russia's foreign policy. Everyday life of Russians, the country's socio-economic development, and the state of its human potential are increasingly influenced by global demographic, migrational, environmental, energy, resource, and food issues.

As Chapter 5 of this Report indicates, the Russian dimension of the global spread of AIDS poses a real threat to national interests. Russia will also be unable to completely free itself from the virulent poliomyelitis virus until this infection is eradicated in a number of countries of Asia and Africa. Russia's demographic situation is a matter of growing concern, since natural population decline in the last 14 years has totaled 10.4 million people. Replenishment through migration has compensated the loss to some extent, limiting the total decline to 5.3 million. But Russia's employable population may decrease by about 10 million more in 2006-2018.

According to the Minister of Regional Development, if current demographic

trends persist, there will be four dependants per working citizen in Russia by 2025. Existing demographic trends could create serious obstacles to social and economic development in most regions of the Russian Federation and jeopardize financial stability of the pension system, the medical insurance system, and other vitally important spheres of social security.

There is an increasingly urgent need for an immigration policy to match national interests, allowing replenishment of the Russian population with young, educated, and employable citizens. Russia will have to be absorbing up to 2 million such immigrants annually in 10 years time to maintain strong rates of economic growth. Surplus labor in some CIS countries and in many developing countries offers the main source for such immigration.

Russia has vast deposits of energy, raw materials, and other natural resources of global importance, and its involvement in international natural-resource trading directly affects national interests, well-being of the population, prospects for development of a number of industrial sectors, and employment levels. In this area, fundamental national interests of the country have obvious global dimensions.

Global challenges cannot be properly resolved by efforts of one country or several countries: international mechanisms need to be created to address them jointly with relevant joint financing. It would be in Russia's interests to focus its attention and resources on top-priority support of national and international programmes targeting global problems, which are particularly manifest in Russia itself and have serious impact on the country's human potential.

National programmes of economic and social development must give high-

priority to Russian cooperation in resolving these problems on a global scale. Otherwise, the relevance of these national programmes is dubious. This approach will give conceptual integrity to Russia's participation in global partnership for development based on the MDGs, and will define the place of "global public benefits" in Russian national interests.

Russia's integration to the world economy. High economic growth rates offer a solid basis for accelerated implementation of the Russia-adapted MDGs, improvement of the country's well-being, and growth and development of its human potential. Strong economic growth also helps Russia to intensify its contribution to international development assistance programmes as a donor.

A central precondition for high economic growth rates in Russia is the country's integration into global economic structures and comprehensive and equal participation of Russia in development of basic operating principles of global financial and economic systems. The country also needs to be

It would be in Russia's interests to focus its attention and resources on top-priority support of national and international programmes targeting global problems, which are particularly manifest in Russia itself and have serious impact on the country's human potential.

involved in multilateral mechanisms that govern international trade and economic, monetary, scientific, technological, and investment relations. Dealing with these issues is the top priority of Russia's foreign policy in international economic relations.

The process of Russia's accession to the World Trade Organization (WTO) has

Chapter 7

reached its concluding phase, and work to align Russian legislation with WTO standards is mainly complete, although a limited number of issues need to be coordinated in bilat-

Lack of conceptual integrity and well-designed long-term strategy meant that, until recently, Russia's participation in international development programmes tended to be influenced by short-term economic or political goals of particular Government agencies or their heads, rather than Russia's strategic interests.

eral negotiations. The 2005 World Bank report – “Russia’s Accession to the WTO. How This Will Affect Macroeconomics, Various Industries, the Labor Market, and the Population” - says that Russia’s yearly profit from accession to the WTO will be USD 19 billion thanks to liberalization of barriers, which keep foreign companies off the Russian market. However, experts of the Russian Academy of Sciences (RAS) estimate that WTO membership will not give Russia either losses or dividends exceeding 1% of GDP. Accuracy of optimistic or pessimistic estimates will depend on the final conditions, on which Russia enters the WTO.

Russia has become a member of the G8, and actively participates in the work of the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), and the Paris Club of Creditors. The country has also been a stockholder in the World Bank since 1992. In 1998, Russia joined the Asia-Pacific Economic Cooperation (APEC) intergovernmental forum. Russia and the EU have an agreement on partnership and cooperation, and the EU has offered to promote integration of Russia into the world trade system. In 2002, the Russian Government and the European Investment Bank (EIB) signed a Framework Agreement. In

1994 Russia and the Organization for Economic Cooperation and Development (OECD) signed a declaration on cooperation. The OECD is considered to be the “brain center” of the world economy, setting the “rules” for international economic relations. Russia is also making steps toward further cooperation with regional and sub-regional integration structures in Africa and Latin America.

7.2.3. RUSSIA'S PARTICIPATION IN INTERNATIONAL DEVELOPMENT PROGRAMMES

Lack of conceptual integrity and well-designed long-term strategy meant that, until recently, Russia’s participation in international development programmes tended to be influenced by short-term economic or political goals of particular Government agencies or their heads, rather than Russia’s strategic interests. That inevitably led to dispersion of limited resources, reducing their impact.

Despite the grave economic situation in 1992, the Russian Government decided in that year to contribute 100 million SDRs (Special Drawing Rights) to the International Development Agency (IDA). This decision was implemented over the next eight years. After failing to keep up payments to the IDA, the Government nevertheless decided to make its scheduled contribution in 1996, although Russia could not afford to do. This can be taken as an illustration of the lack of a well-thought-out concept for participation in international development programmes.

It seems more reasonable to judge tendencies and priorities of Russia’s global development partnership policy by practical actions in very recent years.

Speaking at the OECD forum “Russian Experience in Development Assistance and Reduction of Poverty: Implementing the Millennium Goals” in February 2005 in Paris, the chief Russian delegate emphasized that Russian efforts are focused on relief of debts owed by the world’s poorest countries. Russia has written off debts of developing countries to the value of more than USD 40 billion in the last three years alone (Box 7.2 and Table 7.2).

In terms of debts written off versus Russia’s Gross Domestic Product, Russia’s debt forgiveness of poor countries has been more generous than that by any other lender, even though Russian resource capabilities are appreciably lower than those of high-income countries and even some middle-income countries. Absolute figures of Russian write-offs have exceeded figures of all G8 members except for Japan and France. And the real extent of Russian participation in international development aid is even higher.

As is known, Russia has relieved ex-Soviet republics (now independent countries with low incomes), including Azerbaijan, Georgia, Kyrgyzstan, Moldova and Tajikistan of their shares of Soviet debt, and now pays high interest on that debt to the Paris Club. Russia thus has to pay a surtax to the Paris Club for the amount of debts forgiven by Russia to these countries. Such creditor practice is unprecedented; it does not match the spirit or letter of global partnership for development based on the MDGs.

It is also a fact that many CIS countries receive major Russian aid in the form of money, which they save due to differences between the prices at which Russia sells various goods (notably fuel) to these countries and world prices. Finally, Russian business plays an important role in economic and social development of many CIS countries (Table 7.3).

Box 7.2. Write-offs by Russia of debts owed to it by other countries

In January 2005 Russia decided to write off USD 9.78 billion out of Syria’s USD 13 billion debt. Syria agreed to pay the remaining USD 3.618 billion in parts: USD 2.118 billion should be transferred to Russia’s account in a Syrian bank and the other USD 1.5 billion is to be repaid within 10 years.

Russia has granted a debt amnesty of USD 11.1 billion to Mongolia, which had repaid USD 300 million of its debt to Russia. Vietnamese debts totaling USD 9.53 billion have been written off and remaining USD 1.5 billion is to be repaid between 2016 and 2022.

In 2001 Russia wrote off 80% of debt owned by Ethiopia and a further USD 1.12 billion was practically written off in March 2005, in the framework of the PCC. Outstanding USD 164 million should be repaid before 2035.

In 1992 Russia wrote off USD 2.55 billion of USD 3.11 billion owned by Nicaragua. However, Nicaragua failed to keep up payments and the balance returned to USD 3.4 billion by 1996. Russia then forgave 90% of the Nicaraguan debt, suggesting payment of the remainder over 15 years. In 2004 the residual 10% was also forgiven.

Angolan debt of USD 5 billion was restructured in 1996, when Russia wrote off 70% of the debt, having received Angola’s obligation to repay the remaining debt in the form of bills by 2016. In 1997 Russia forgave 80% of USD 2.54 billion debt owned by Mozambique, and 50% of the remainder was forgiven in 2002 with creation of a 30-year installment plan to settle the rest of the debt. About 70% of Laos’ debt of USD 1.08 billion was written off by Russia in 2003. The rest, with interest at a special reduced rate, is to be repaid by Laos before 2036. In 2001 Zambia’s debt of USD 798 million was re-structured with similar conditions.

In March 2005 Russia decided to write off more than 90% of the Iraqi debt totaling almost USD 9 billion, based on an understanding that Russia’s economic interests and interests of Russian companies in Iraq will be taken into account. USD 117 million of Tanzanian debt and USD 114 million of Mali debt have been written off in the last four years, as have at least half of debts owed by Algeria, Ghana, Guinea, Yemen, Bangladesh, Cambodia, and Guyana. Agreements have yet to be reached with other debtor countries, including Afghanistan, Algeria, Yemen, Cambodia, the Democratic People’s Republic of Korea, Cuba and Libya.

Such investments are likely to grow quickly thanks to deepening cooperation between the CIS countries in aerospace, transport development, oil and gas (including the Caspian Sea region), electric power, information and communication technologies and other segments. There are additional stimuli for growth of Russian direct investments in CIS countries based on development of integration between

Absolute figures of Russian write-offs have exceeded figures of all G8 members except for Japan and France.

Russia and Belarus, the Common Economic Space between Russia, Belarus, Ukraine and Kazakhstan, as well as Euro-Asian and Black Sea economic cooperation, etc.

Russia trains specialists for many CIS countries and developing states. Besides teaching foreign students in Russian educational institutions, Russia assists in establishing vari-

Chapter 7

Table 7.2. Largest debts written off by Russia

Rating	Country	Year of debt write-off agreement	Total amount of debt to Russia (USD billion)	Debt write-off amount (USD billion)
1	Mongolia	2003	11.4*	11.1*
2	Iraq	2004	10.5	9.5-9.8**
3	Syria	2005	13.4***	9.782
4	Vietnam	2001	11.3	9.53
5	Nicaragua	1992, 1996, 2004	3.11****	5.95
6	Ethiopia	2001	6.0	4.8
7	Angola	1996	5	3.5
8	Mozambique	1997, 2002	2.54	2.331
9	Laos	2003	1.08	0.7
10	Zambia	2001	0.798	0.56

Source: "Kommersant Daily", No. 16, February 1, 2005

* As evaluated by Vnesheconombank. According to Standard and Poor's rating agency information, the debt was USD 10 billion, and the write-off was USD 9.7 billion.

** Preliminary estimation by Russian Ministry of Finance.

*** After clearing (cross-cancellation) of Russian debt to Syria.

**** The initial amount of the debt for 1992 without interest for the next years

ous professional educational institutes abroad. Slav universities in Baku, Yerevan, Bishkek have been opened with Russian assistance, a branch of Moscow State University functions in Crimea, and agreement has been reached on opening of a University in Egypt with Russian assistance. Development of such activities in the future will be an important element of Russian participation in global partnership for development, and will have an influence on the country's long-term immigration policy.

Development of equitable and mutually advantageous relations with other CIS states and Russia's traditional partners is in accordance with the Government's National Security Concept, matches Russia's national interests in the international sphere and has priority significance for the country.

Russia supports in particular the efforts of CIS countries in the struggle against manifestations of global problems, which are also having serious effects in Russia. For example, according to World Bank experts, increase of HIV-infection in some parts of the former Soviet Republics of Central Asia has exceeded 1000% in just four years. In

Tajikistan the number of people infected with AIDS has grown by 1700% since 2000 and a similar situation has developed in Uzbekistan. The World Bank has allocated USD 25 million to fight HIV and AIDS in Uzbekistan, Tajikistan, Kazakhstan and Kyrgyzstan. Aid for this purpose is also being provided by the Global Initiative to Fight AIDS, Tuberculosis and Malaria, in which Russia is both a donor and a recipient.

Russia has taken a USD 150 million loan from the IBRD to finance the project "Prevention, Diagnostics, Treatment of Tuberculosis and AIDS", which aims to stabilize and then reduce statistics on these diseases in Russia. Effectiveness of the struggle against HIV and AIDS in Russia will be significantly impaired unless Russia helps to combat the disease in neighboring Central Asian countries. The same applies to other global problems, whose negative manifestations are felt both in Russia and in neighboring CIS countries.

Russian aid to countries, which have been victims of natural and man-made disasters, has increased significantly in recent years. In particular, Russia contributed USD 30 million of targeted humanitarian, technical and medical aid in the beginning of 2005 to Asian and South-East Asian countries affected by the catastrophic tsunami.

As well as offering assistance on a bilateral basis, Russia is expanding its participation in financing of United Nations agencies. The country also helps to replenish resources of the International Development Agency (IDA) and other international financial organizations, and helps to realize their development assistance initiatives, including the Global Fund for the Struggle Against HIV/AIDS, Tuberculosis and Malaria, the Trust Fund for the Initiative for Heavily Indebted Poor Countries (HIPC), and the

Global Initiative on Liquidation of Poliomyelitis. Russia allocated average USD 65 million dollars annually for these purposes in 1998-2002. In 2004 Russia invested USD 11 million as multi-partite aid under the World Food Programme. The country supports activities of regional economic commissions of the Economic and Social Council (ECOSOC), in particular the United Nations European Economic Commission (EEC), as well as the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP, the only universal body on multipartite socio-economic cooperation in that region).

Russia, as a shareholder of the World Bank, supports the Bank's efforts to provide international development aid. An agreement between Russia and the World Bank to hold regular consultations on problems of the Central Asian region was reached in November 2002, within the framework of these efforts. Russia has also expressed interest in discussing questions of economic development of Transcaucasia, and reconstruction of Afghanistan and Iraq.

Russia pays special attention to helping countries in Africa, which is often regarded as the world's "poverty epicenter", both on a bilateral basis and within the framework of UN projects, the G8 and other multipartite forums. Russia views the international project "New Partnership for Africa's Development" (NEPAD), approved in 2002 on the initiative of African countries, as the key strategy for cooperation between Africa and the international community.

In 1998-2004 Russia wrote off debts of African countries totaling about USD 14 billion and at the summer 2005 G8 meeting the country expressed readiness to write off a further USD 2.2 billion dollars of African debt. Russia grants trade preferences to 50 African countries, including the 29 least developed, whose imports to Russia are not liable to customs

duties. Goods falling under such preferential treatment had value of USD 345 million out of total USD 600 million Russian imports from Africa in 2003.

Russian companies are involved in a number of large African investment projects in mineral resources, power, and metallurgy, and Russia provides much aid to African countries in education and public health services. Russian business is taking part in efforts to intensify trade and economic cooperation between Russia and the South Africa Regional

In 1998-2004 Russia wrote off debts of African countries totaling about USD 14 billion and at the summer 2005 G8 meeting the country expressed readiness to write off a further USD 2.2 billion dollars of African debt. Russia grants trade preferences to 50 African countries, including the 29 least developed, whose imports to Russia are not liable to customs duties. Goods falling under such preferential treatment had value of USD 345 million out of total USD 600 million Russian imports from Africa in 2003.

Development Community (SADC), which incorporates 14 African states. Negotiations are underway for signing of cooperation agreements between Russia's Chamber of Commerce and Industry and partner organizations in the SADC countries (Angola, Mozambique, Namibia and Tanzania).

Russia is evolving political dialogue with the Organization of African Unity (OAU) and sub-regional organizations, hoping to work through these organizations in order to access multipartite economic projects on the African continent. In August 2002 the Russian Government decided to co-finance expenses of the IMF's Comprehensive Programme of Technical Assistance to African Countries,

Table 7.3. Total amount of Russian investments in CIS economies

	2000		2001		2002		2003	
	USD ths.	% of total						
Total investments	130981	100	310182	100	239692	100	544141	100
including:								
Azerbaijan	26	0.2	62	0.0	92	0.0	1613	0.3
Armenia	5	0.0	127074	41.0	4321	1.8	7650	1.4
Belarus	77238	58.9	61408	19.8	98292	41.0	243355	44.7
Georgia	133	0.1	59	0.0	—	—	1182	0.2
Kazakhstan	3453	2.6	19151	6.2	6143	2.6	27135	5.0
Kyrgyzstan	7	0.0	338	0.1	1400	0.6	608	0.1
Moldova	31224	23.8	93480	30.2	192	0.1	372	0.1
Tajikistan	—	—	—	—	71	0.0	18	0.0
Turkmenistan	2934	2.2	1280	0.4	855	0.4	857	0.2
Uzbekistan	929	0.7	428	0.1	2027	0.8	582	0.1
Ukraine	15032	11.5	6902	2.2	126299	52.7	260769	47.9

and Russia joined Great Britain, Germany, Italy, France, Japan, and the African Bank of Development to help fund an IMF programme for creation of African regional technical help centers. The programme is being implemented within the framework of the African Fund for Consolidation of Personnel and Organizational Potential.

This review of Russian participation in bilateral and international assistance programmes combined with analysis of domestic and international factors, and trends in Russia's resource base gives an idea of how Russia's role in the global partnership for development is shaping up.

7.3. RUSSIA'S URGENT OBJECTIVES IN THE CONTEXT OF GLOBAL PARTNERSHIP FOR DEVELOPMENT

The Report to the UN Secretary General, "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals As Stated in the Millennium Declaration" notes that average-income countries, such as Russia, can provide financing to achieve the

MDGs at home using their own resources and regular credits (loans provided by the World Bank and regional development banks on commercial terms). The experts suggested that the definition "acceptable indebtedness level" be replaced with a new wording – "indebtedness level, which does not block achievement of the goals of development as set out in the Millennium Declaration" – and recommended to speed up relief of debt burdens of the most indebted middle-income countries, particularly through the Paris Club.

At the current stage of its development, Russia is gradually laying aside its role as a recipient of international development, and aiming to attain the MDGs domestically through its own efforts and, in large measure, at its own expense. Russia is also making efforts to increase its contributions to international aid programmes and international development initiatives.

1. Russia's domestic development priority for the coming decade is to complete its process of social transformation, including such expensive and socially painful reforms as transformation of the state administration, education and health, housing-and-municipal utilities, and structural reorganization of the economy.

2. The major element in Russia's transformation will be steadily high rates of economic growth including no less than doubling of Gross Domestic Product.

3. Complete achievement of the MDGs within Russia is a task of paramount importance in the coming decade. Domestic implementation of the MDGs, in a form adapted to Russian conditions, is an excellent way of ensuring that current socio-economic transformations have a social orientation. Successful advance in this direction will enable Russia to strengthen its capacities as a donor of international development aid.

4. At a time when Russia has to tackle large-scale socio-economic problems and achieve

the MDG at home using its own resources, the diversion of significant funds to meet debt liabilities and the high interest on those liabilities hinders and protracts the country' progress towards becoming an international aid donor. Advance payment of Russia's liabilities to international financial institutions on conditions that are adequate to national interests will speed up economic growth, help attain higher standards of well-being in Russia and significantly expand the resource base for Russia's participation in the global partnership for development as a donor country. Such a scenario would meet both Russia's interests and interests of the entire international community. Russia's mass write-off of debts of the poorest countries to the former Soviet Union helps those countries to attain the MDGs and deserves to be reflected in lightening of the burden of service of Russia's own indebtedness to the PCC in order to help accelerate achievement of the MDGs inside Russia. Freeing Russia from the obligation to pay high interest on debts of CIS states, which Russia itself wrote off, would comply with standard practice of rendering development assistance.

5. A precondition for successful and secure achievement of the first seven MDGs inside Russia is its partnership in international efforts to solve mainly those problems, which are particularly acute in Russia itself and which affect its native national interests. Acting both as a recipient and as a donor, Russia should also support similar efforts by neighboring countries, on both bilateral and multipartite bases. Russia's participation in such international programmes as a donor state should be viewed as an integral part of its efforts to solve these problems domestically.

6. Russia's policy of participation in the global partnership for development is not yet fully formed and not yet integrated in programmes for current and future national development. Russia has yet to develop and ratify basic dimensions of its future strategy in this area,

which are adequate to national interests. They should be reflected in Russia's Foreign Policy Concept and National Security Concept. Priority significance at an initial stage should be given to programmes which can bring direct or appreciable indirect benefits to Russia.

7. The concept of Russian policy in global partnership for development should define the place of "global public benefits" in Russian national interests, and should make clear what is Russia's understanding of the global partnership itself, of forms of participation in it by various groups of countries, and of the purposes and means for achievement of such global benefits. The Concept should take account of the specificity of Russia's participation in such partnership as a middle-income country and formulate conditions whose fulfillment would allow Russia's transformation from a predominantly recipient country into a donor of international development assistance.

8. Until now Russia has no special establishment responsible for realization of Russian policy in the relevant area and authorized to coordinate activity of various ministries and departments, economic entities, business structures, scientific research institutes and civil society organizations. It might be expedient to create a National Agency for Development Assistance, taking account of specificities of Russia's participation in global partnership and experience of the work of similar establishments in other countries.

9. Contents of Russia's future strategy in this area should take account of fundamental values reflecting the new state of Russian society — adherence to respect of human rights and personal freedom, a market economy and democratic values.

10. State policy in global partnership, and the forms and amounts of Russia's development assistance should be discussed openly with Government representatives at various levels, mass media, public organizations and Russian business. There is a need to convince enlight-

Chapter 7

ened public opinion in Russia of the benefits for the country from participating in the task of global development.

The analysis in this Chapter suggests the following *formulation of MDG 8, adapted for Russia*: "Participation in global development partnership adequate to Russian national interests, focused on:

- creation of favorable international conditions for elimination of internal obstacles to human capital development and achievement of the MDGs inside Russia;
- priority assistance by Russia in solution of global problems, which are acutely manifested inside Russia itself;
- gradual build-up of Russia's contribution to international development programmes as a donor country."

We will now consider possible interpretation of targets attaching to MDG 8 for Russia.

Target 12: *To continue creation of open, rule-based, predictable and non-discriminatory trade and financial systems.* Russia adheres to the rules, which govern international finance and trade. It aspires to participate in regulation of acting rules in accordance with its national interests, being guided by adherence to respect of human rights and personal freedoms, market economy principles and democratic values. Russia's membership of the IMF, the World Bank, its cooperation in the framework of G8, participation in regional agreements, growing cooperation with the European Union and with other CIS countries, and intention to join the WTO follow the spirit and letter of target 12.

Target 13: *Satisfy special needs of the least developed countries.* Russia is among world leaders by amounts of debt write-off for the poorest countries. It also renders consider-

able aid to the poorest CIS countries, and promotes solution of acute economic, social and other obstacles to stable development in those countries. Russia also participates in bilateral and international programmes of assistance to African countries. Support for Russian business investments in CIS countries and other developing states would be of special significance in this respect.

Target 14: *Satisfy special needs of developing countries, which do not have access to the sea, and small island countries.* Land-locked countries with which Russia maintains active economic ties includes many Central Asian countries, Armenia, Moldova and Mongolia.

Target 15: *To solve debt problems of developing countries in a package, using both national and international actions.* National actions were described in this Chapter. Russia, as a permanent member of the G8, the IMF, the World Bank and other international bodies, can assist efforts of the international community in achieving this target. In particular, at the recent meeting of the G8 in Scotland, Russia took an active part in formulating G8 initiatives for helping development of African states.

Target 16: *In cooperation with the developing countries to develop and realize strategies allowing young people to find worthy and productive work.* Russia should participate in solution of these problems, since the country already trains young people from developing countries and could enhance quality of their workforce, partly for subsequent employment in Russia.

Target 17: *In cooperation with pharmaceutical companies provide availability of inexpensive basic pharmaceuticals in developing countries.* This task is urgent inside Russia itself. Solution of the problem domestically will

prepare the Russian Federation to increase help to developing countries in this domain, including cooperation with national and foreign pharmaceutical companies.

Target 18: *In cooperation with the private sector to take actions so that all countries could enjoy the advantage of new technologies, especially information and communication technologies.* Again this task also requires urgent solution inside Russia. While working to install such technologies at home, Russia is also helping to finance relevant technical assistance to African countries, working with many CIS countries in this field, and providing relevant educational support.

7.4. MONITORING OF RUSSIA'S ADVANCE TO GOAL 8

Most of the issues that relate to the global partnership for development have significant domestic and international political dimensions. Monitoring of these dimensions is very difficult. Several parameters can be suggested, none of which give a complete picture of Russia's advance towards Goal 8 (in its form adapted to Russian conditions), but which help to ascertain whether or not progress in the right direction is being made:

1. Amount of funds borrowed from external sources and intended for financing of activity to achieve Goals 1-7 of the MDG.
2. Rate of reduction of Russia's debt burden to the PCC and its yearly payments to PCC members.
3. Amount of funds being paid to Russia annually by debtor countries.
4. Amount of funds provided by Russia to support official bilateral aid.
5. Amount of funds provided by Russia as a participant of international programmes and projects for development aid.
6. Amount of Russia's direct investments in

CIS countries with low incomes and in other developing countries.

7. Amount of funds provided by Russia to finance professional training of young people in developing countries.

8. Dynamics of legal immigration into Russia.

7.5. POSSIBLE SCENARIOS

The international target parameter of Official Aid for Development (OAD) allocated by developed countries is 0.7% of gross national product. At present this parameter is achieved (or exceeded) by Denmark, Luxembourg, the Netherlands, Norway and Sweden. Commitments to follow a schedule for achievement of this target by 2015 have been given by Belgium, Ireland, Spain, Great Britain, Finland and France. OAD in donor countries in 2002 averaged 0.23% of gross domestic product. Russia as a middle-income country with per capital GDP three-five times lower than donor countries, the 0.23% target parameter is unlikely to be achievable in the coming decade (not including sums of written-off debts and price preferences in trade with low-income countries).

Whether various scenarios for Russia's further participation in global development partnership are realistic does not only depend on change in Russia's available resources for this purpose, but also on internal and external political factors, which can only be assessed hypothetically. Political and economic vagueness makes it impossible to realistically predict the character and scale of Russia's participation in global development partnership in the coming decade.

It can be assumed at any rate that Russia will continue to write off bad debts of the poorest countries, that the amount of borrowings from external sources specifically for achievement of the MDGs (adapted to

country conditions) will be reduced, and that the Russian Government will work to reduce the burden of Soviet debts to be repaid by Russia to the Paris Club. It is realistic to assume more Russian involvement in various forms of assistance to CIS countries. Russia will also continue assisting development of African countries on both a bilateral and international basis, including aid with involvement of Russian business. In addition the poorest countries will be granted further preferences in trade (import of their goods to Russia will not be liable to customs duties). As it increases its resources the Russian Federation will take a greater part in

international aid programmes for development and projects for solution of global problems, particularly those with immediate impact on socio-economic conditions in Russia. It can also be assumed that Russia will implement programmes to stimulate legal immigration of excess labor from the CIS and developing countries, and make efforts to train the migrants. Priorities of Russia's global partnership policy will evolve as the domestic situation and available resources allow, and will be influenced by success or failure of international efforts to solve problems of sustainable development worldwide.

Box 7.3. Russia's participation in G8

Russia views G8 as a key international forum in which leaders of the main democratic industrial countries coordinate collective approaches to solving pressing problems of global politics and the economy, as well as global problems of human development. The scope of issues discussed by G8 is very wide and substantially coincides with the issues set out in the United Nations Millennium Development Goals (MDG). Therefore, realization of G8 decisions promotes achievement of the Millennium Goals, including the development goals.

Russia views its participation in G8 as an important and distinct trend of its foreign policy, one of the major tools for realization of its national interests based on multilateral interaction, and a means for acceleration of integration into the world economy and creation of favorable external conditions for further socio-economic development inside Russia.

The Russian position in G8 has been considerably strengthened in recent years, as acknowledged by the decision of the Kananaskis Summit (Canada, June 2002) that G8 presidency functions should be granted to Russia in 2006. The decision demonstrates recognition by other G8 members of Russia's increasing role in the modern world.

Active participation by Russia in G8 promotes international security. Our country takes an active part in fulfilling G8 decisions aimed at non-proliferation of weapons of mass destruction and materials and technologies for their development.

G8 involvement in the war against terrorism is very important for Russia. Decisions at the Kananaskis, Evian and Sea-Island summits have generated a substantial basis for anti-terrorist cooperation, including suppression of terrorism financing, detection of persons and organizations participating in terrorism, and prevention of transport terrorism. Russia is also taking an active part in cooperation to fight drugs, transnational crime and corruption.

Further consolidation of Russia's positions in G8 financial and economic activity is promoted by the

country's recent strong economic development, growth of gold and currency reserves, responsible policy in the world energy markets, and a well-defined procedure for repayment of foreign debts.

Growth of the national economy enables Russia to increase its participation in G8 efforts to resolve acute problems of developing countries. Russia is one of the main participants in the programme for reduction of debts of the poorest countries. Russia has contributed USD 11.25 million to the Global Fund to Fight AIDS, Tuberculosis and Malaria, USD 11 million to the World Food Programme, and USD 8 million to the World Health Organization to fight poliomyelitis.

Together with its G8 partners, Russia takes an active part in implementation of the NEPAD programme and a long-term G8 Africa Action Plan as well as respective decisions of the Evian and Sea-Island summits. Russia has written off or committed to write off debts of African countries to the value of USD 16.5 billion. Russia applies preferential customs and tariffs on goods from African countries.

Development of joint approaches to solving global problems is an important aspect of Russian participation in G8. Thus, the innovative G8 decision on cooperation in the most promising science and technology initiatives (hydrogen power, bio- and agriculture technologies, global monitoring of natural processes) was approved by the Evian Summit (2003) with active participation of Russia.

Various activities to prepare Russia's G8 presidency in 2006 are now being carried out. Russia wants to ensure continuity of G8 activity, but also to put forward new initiatives relevant to the interests of its G8 partners and also with practical value for the whole international community. Main outcomes of the 2005 World Summit dedicated to the 60th anniversary of the United Nations will certainly be taken into account.

Ministry of Foreign Affairs of the Russian Federation

Box 7.4.

Box 7.4. The new Swedish policy for global development

The new Swedish Policy for Global Development (PGD) states that all policy areas should contribute to a more equitable and sustainable global development. The objective of the Swedish development cooperation is to contribute to an environment supportive of poor people's own efforts to improve their quality of life.¹

One of the most innovative and interesting features of the PGD is policy coherence, which means that development issues should be taken into account in all relevant policy areas and not just in development assistance. It also means that the millennium development goals (MDGs) should apply to all policy areas. This feature of the new policy emphasizes the idea that development is not about aid alone but rather a complex set of policy areas, such as agriculture, trade and finance. The belief is that a coherent or holistic view is necessary in order to meet the MDGs.

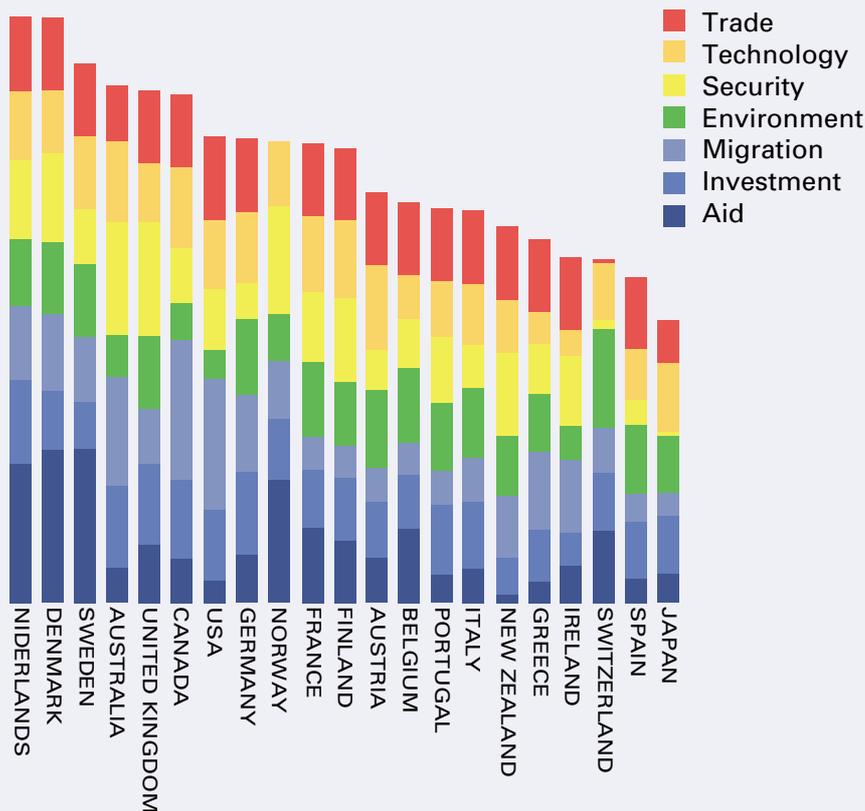
Although the policy is undoubtedly commendable and a step in the right direction in a globalized world, it remains to be seen how it will be implemented. The fact that some important aspects in this regard are beyond Sweden's own control, such as EU farm policy, illustrates both the need for a coherent international development policy and difficulty of its implementation by one country alone. The implementation chal-

lenge was also brought up by the OECD in its DAC peer review of the new Swedish policy. The OECD argued that "while the PGD mandate is clear and has high-level political support, much remains to be done to implement its policies and intentions, whether at headquarters or in the field." However, if implemented on a wider basis, it has the potential of moving global development into a new era.

The Centre for Global Development together with the magazine "Foreign Policy" has constructed an index that ranks rich countries' policies on a set of issues related to development.²

The CGD/FP index covers seven categories; aid, investment, migration, environment, security, technology and trade. It is a little ironic that Sweden is the leader of the 21 rich countries in the aid category, but only scores about average on the other indicators with investment and security being at the lower end of the scale.

However, the fact that Sweden improved its ranking from eighth to third between 2003 and 2004 (and the US from 20th to 7th) mainly due to a methodological change in the index illustrates the danger of putting too much emphasis on rankings.³ Moreover, as many of the coherent policies discussed in the PGD and in rankings such as the CGD/FP are more dependant on an international than national policy level, there needs to be increased



focus on global governance. The role of the EU in farm policy and the WTO in trade policy are the most obvious examples.

The most appealing feature of the PGD is arguably the simultaneous deepening (increased focus on poverty reduction) and widening (policy coherence), which it offers in approaching global development. The widening is especially crucial in the globalized environment, in which development assistance is taking place. Many of the challenges and opportunities facing developing countries are indeed international or even global. The prominent role of policy coherence is therefore a good sign that the new policy takes the increasingly complex set of issues, which affect global development, into account.

The aid-growth-poverty reduction formula explained⁴

Sweden's new Policy for Global Development (PGD) with a strong focus on poverty reduction in cooperation with the political and economic development in the transition countries in Central and Eastern Europe has brought about a reevaluation of Sweden's activities in the region. The objective of this brief is to present a possible conceptual framework for this reevaluation based on recent academic research. The brief focuses on discussion of the link between development aid, economic growth and poverty reduction.

Development aid, economic growth and poverty reduction

The link between development aid, economic growth and poverty reduction is central to the discussion within transition and development studies. The point of departure here is that economic growth is often a precondition, but no guarantee, for poverty reduction, which leads the analysis to a discussion of what brings growth.

It is all about institutions and enforcement

An important element in all the steps in aid-growth-poverty reduction is the importance of institutional environment. The ability of a particular country's institutions affect not only the general preconditions for economic growth, but also how the growth is distributed and how different development assistance interventions affect growth and poverty. In this context, institutions are defined in a wide sense to incorporate laws and rules necessary for the market to function but also the organs, which ensure that the rules are applied and implemented. The concept also includes the political institutions, which generate the laws and influence how they are applied. Moreover, a wide interpretation of the institution concept even includes the social norms and cultural patterns, in which the rules and laws are based.

Academic research has recently come to

focus on how institutional environment affects economic growth and what aspects of this environment are of particular importance. Very thorough research has established strong links between, on the one hand, institutional factors such as legal origin, quality of laws, level of corruption and the rule of law, and economic development and growth on the other. A clear pattern is emerging from the research; formal laws and rules are not of fundamental importance for economic growth, it is enforcement that matters. Many transition and development countries have comparable rule systems, but the authorities set to monitor and guarantee enforcement are much weaker than their counterparts in developed countries.

A central problem for understanding of the connection between institutions and economic growth is the identification problem, i.e. given that there is a statistical correlation between a given institution and economic growth it can determine if there is a causal connection between the them, or whether a third variable, such as geographical proximity, determines both. Even if there is a causal connection between them it may be difficult to establish the direction. Good growth can lead to the establishment of certain institutions, and the other way around. To understand the causality is of great importance when formulating and evaluating the effects of development assistance.

The role of external anchors

It is important, but not sufficient, to determine what institutions are most favorable for economic growth and how the initial conditions may have affected the choice of institutions. There are numerous examples of countries with apparently very similar initial conditions where the result in terms of both institutional development and economic growth has been very different. The importance of leadership is certainly one important factor but the external factors influencing the directions of the leaders are also important. The role of external anchors has, for instance, been obvious in Central and Eastern Europe where the possibility of EU membership has played a determining role in the political process and, ultimately, for the institutional development. The WTO is another example of a potential external anchor, which is evident in the case of China and perhaps in Russia and Ukraine in coming years.

An external anchor normally offers some form of economic and political reward, and its strength is determined by the size of the reward, the level of insecurity over the size of the reward and when it will be given, and how the reward will be distributed among individuals and groups.⁵ The impact of the EU enlargement process is to a great extent explained by the fact that

such large groups in society and the political elite wanted the membership, primarily as a token that they had re-entered European culture. The way the accession process was designed also had a great importance for institutional development in these countries. The effects of development assistance can be much greater if they are combined with external anchors and wide conditionality that is conducive to aspirations among large groups in the recipient country.

In the longer perspective, it is probably internal anchors, often in combination with external forces that sets the pace of institutional change. The importance of an economic middle class of entrepreneurs and civil servants with a strong interest in deepening of the rule of law is of great importance. But other users of institutions and organizations in civil society, such as an independent legal system and free media, are also important potential internal anchors. Strengthening these groups' political influence vis-a-vis monopoly interests and government is a central component of building and sustaining vital institutions. Transparency in decision-making and governance are particularly important to strengthen the winds of change.

Development assistance aiming at poverty reduction through economic growth should therefore be focused on institutional change and strengthening of already functioning institutions. Research shows that direct institutional copying and technical assistance based on institutions in the donor country have limited ability to succeed. To the extent that such assistance is given, much care should be devoted to the wider institutional context and considerable room should be given to adaptation to local conditions. The analysis must also take account of ability of the specific institutions to change.

Research shows that development assistance should instead focus on building external and, even more importantly, internal anchors. The relative and absolute importance of different types of anchors, and the prospects for development assistance to be successful is to a great extent dependent on the local conditions and change over time. Even if the basis for much of the institutional change is at a national level, the large differences between different regions in Russia, for instance, indicate scope for regional development projects as well.

From development assistance to regional public goods provision

Discussion of common solutions to shared problems has grown in parallel with growing interdependence and integration between countries. The issues surrounding production, management and financing of public goods are central features of this discussion. Global public goods are also put forward as one of the

main themes in the new Swedish Policy for Global Development (PGD). Sweden has, in cooperation with France, also established an International Task Force on Global Public Goods with a mission to study how the most important global public goods are provided today.⁶ The task force should also come up with recommendations on how management and financing of global public goods can be improved in order to fight poverty and promote sustainable development.

The global public goods discussion is, of course, not restricted to the global level and to development cooperation. This brief takes a closer look at how public goods are relevant on the regional as well as the global level and in regular international cooperation as well as in development cooperation.

Six policy areas are most often referred to global public goods: combating communicable diseases; conflict prevention; conflict management and humanitarian efforts; catastrophe management; financial market stability; the fight against organized crime and corruption; and environment. All of these public goods are not necessarily global, though. Migration, sea pollution and catastrophe management are examples of public goods that can be more relevant on a regional basis. The focus on regional public goods ought to be of special interest for areas, such as the Baltic Sea region, with a high degree of integration.

The most common definition of public goods is that someone's consumption of the good does not prevent someone else's consumption of the same good (non-rival) and that the good can be enjoyed by all consumers (non-excluding). The fact that public goods are non-rival and non-excluding make them very difficult to price and result in a free-rider problem as some individuals, regions or countries do not produce or finance the public good as they can enjoy it in any case. This leads to a constant supply problem as the public goods tend to be under-produced. This is a general problem for public goods provision but is even more difficult to manage on a regional or global level as the governance structure and added value is less clear compared to the national level. This is where development assistance has and can continue to play a crucial role.

Development assistance has been an important financing instrument of global public goods. The provision of public goods in the Baltic Sea region is a good example. About half of Swedish development assistance to Russia has, for instance, been directed to environment and common security. Given the difficulty in getting sufficient financing and production of these public goods in regular international cooperation, development assistance has been a convenient source for financing the production of these public goods.

Box 7.4.

There is, however, a potential danger for the future provision of public goods in general and for regional public goods provision in the Baltic Sea region in particular. It may be more difficult (at least intellectually) to finance these goods from the development budget with a policy focusing more strongly on poverty reduction, which the PGD does. As Sweden is phasing out its development assistance to the transition countries in the Baltic Sea region as a result of their strong economic growth, there will be much less available financing for these goods in the region. The need for provision of public goods in a region such as the Baltic Sea is, however, likely to increase as the region is becoming more integrated. Increased trade and interaction between countries in the region is bound to stimulate increased interest in and concern about common problems. There is already a wide public interest in, or fear of, issues like environment, health, migration and organized crime in the region. There are a number of regional and sub-regional institutions dealing with these issues that have recognized the importance of regional public goods provision. There is, however, a financing and management problem that

so far has been mitigated by relatively sizable amounts of development assistance.

There is clearly a need to continue and even increase the financing of public goods in the region, but it is not clear if these public goods should be financed from the development budget, regular international cooperation budgets, or from some other public or even private sources in the future. The PGD is unfortunately unclear on this topic. This is a complex issue, though, as some public goods are most effectively financed and managed on the global level whereas others are more suitable on the national or even local level. However, a few general considerations are valid. The principle of subsidiarity should be respected and a careful analysis of the institutional and financial capacity to provide the goods at each level should be carried out. Another general recommendation is to increase funding for regional public goods from various sector ministries, implying that part of the responsibility is moved from development cooperation to regular international cooperation. This is definitely relevant for Sweden's engagement in the Baltic Sea region, as development assistance is being phased out.

Marcus Sbedberg

¹ See <http://www.sweden.gov.se/sb/d/3102/a/18434> for details about the PGD

² For details about the index, see <http://www.cgdev.org/rankingtherich/>

³ See a comparison between 2003 and 2004 with the new methodology on <http://www.cgdev.org/rankingtherich/lastyear.html>

⁴ This is an abbreviated, slightly revised and translated version of a note to a background paper of a commission evaluating Sweden's future development cooperation with Eastern Europe.

⁵ Berglof och Roland (1997).

⁶ <http://www.gpgtaskforce.org>

Appendix 7.1

Table. Gross domestic product per capita

	Gross Domestic Product per capita by buying capacity (US dollars)	Gross Domestic Product per capita in % to that of USA	Purchasing-Power Parity (national monetary units per 1 US dollar)	Ratio between PPP and exchange rate (in %)	Country rating by Gross Domestic Product per capita
Russia	8087	22	9,27	30	38
Australia	27899	77	1,34	73	14
Austria	30101	83	0,91	86	6
Belgium	28630	79	0,88	83	12
Bulgaria	7064	20	0,58	28	39
Great Britain	28906	80	0,61	91	11
Hungary	14364	40	114,72	44	30
Germany	26655	74	0,96	90	19
Greece	19068	53	0,68	64	24
Denmark	30042	83	8,43	107	7
Israel	22617	62	3,46	73	21
Ireland	32881	91	1,00	94	4
Iceland	29355	81	92,18	101	10
Spain	23196	64	0,74	82	20
Italy	26733	74	0,82	78	18
Canada	29590	82	1,23	78	9
Cyprus	20483	57	0,44	72	23
Korea (South)	18443	51	778,78	62	27
Latvia	9553	26	0,25	41	36
Lithuania	10399	29	1,43	39	35
Luxembourg	52177	144	0,98	92	1
Macedonia	6031	17	20,02	31	42
Malta	18214	50	0,25	56	28
Mexico	9370	26	6,58	68	37
Netherlands	29939	83	0,92	87	8
New Zealand	21939	61	1,47	68	22
Norway	36682	101	9,14	115	2
Poland	11194	31	1,83	45	33
Portugal	18841	52	0,66	62	25
Romania	7017	19	9890	30	40
Slovakia	12604	35	16,21	36	31
Slovenia	18465	51	144,27	60	26
USA	36202	100	1,00	100	3
Turkey	6516	18	611479	40	41
Finland	27807	77	0,97	91	15
France	27701	77	0,90	85	16
Croatia	10578	29	3,75	48	34
Czech Republic	16585	46	14,27	44	29
Switzerland	32506	90	1,80	116	5
Sweden	28152	78	9,36	96	13
Estonia	11253	31	7,63	46	32
Japan	27207	75	143,67	115	17

The table outlines final results of Gross Domestic Product comparison by 42 countries of the world according to 2002 data, estimated and published by the Organization of Economic Cooperation and Development (OECD).