



**The PlaNet Bank**  
**A new approach to the challenge of world poverty**

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The problem of poverty will be the greatest challenge of the twenty-first century. At a time when world growth is at its highest in human history, the most realistic forecasts are simultaneously predicting a doubling of world production (from 35 to 70 trillions US\$) in less than twenty years and of the number of those obliged to live on less than one dollar a day (from one to two billion people). Moreover, according to these same forecasts, the poorest will remain the principal victims of multiple, non-financial, aspects of this misery - lack of education, poor health, bad housing, lack of work, shortage of drinking water, and so on, always affects the poor more than others. They will also remain the leading victims of AIDS, of air pollution, of forced labour and of sexual abuse. Compared to that, the international assistance, adding bilateral and multilateral assistance, is less than a quarter of a percent of world GDP.

How do we explain this? Firstly, by the very nature of our economic system. Although this has served better than any other for global development, it has not done significantly better than others in the reduction of poverty. World poverty, born before it, feeds on the mechanisms of the market and the ideology of globalisation, organised around the value placed on liberty, individual success, and egotism. Compassion and solidarity are not components of the world market economy. In addition, in the market, power is exercised more and more through pension funds, by the wealthy older generations, with little altruistic behaviour patterns and oriented mainly toward the satisfaction of their own immediate needs. Therefore, the market, while pushing ahead economic efficiency and growth, will also sharpen the inequalities and maintain radical exclusion.

Neither can one tell whether the action of governments will deal fully efficiently with these problems, by the re-distribution of national wealth. The rich nations will have to concentrate more and more on problems of their own disadvantaged minorities, and will therefore reduce their aid budgets to the poorest countries; trade, which will be the best thing that the North can do to the South, is used mainly as an instrument of increased domination and not of open competition. The poorest nations, even those which have entered into the dynamic of world growth, will not be able to solve alone the problems of their own excluded minorities, even if they succeed in creating a modern, transparent, fair and democratic institutional framework. Everywhere the ideology of the market will push the rich minorities to refuse solidarity to the poor majority : we enter into the reign of selfish minorities.

Neither can we expect, hope or fear that misery will lead to a sufficiently credible revolutionary threat to worry the elite of the world and make it change its priorities. Misery is merely leading more and more in the poor to collective resignation and to personal ambition, political scepticism and individual cynicism.

The international organisations (the World Bank, the UNCTAD, regional development banks, the UNDP, WHO, etc.) have made enormous efforts to address the multiple and complex forms of

poverty. However, none of them has ever had the means to do what they frequently know has to be done, because they are too centralised, too bureaucratic, not in a situation to take risks, and their very nature often prevents them from acting either to compensate for the effects of poverty or to eliminate its causes. Their resources are derisory in view of the magnitude of the challenge and there is nothing worse than a good reform when it is ruined by the homeopathic character of its implementation. Finally, their actions, which are mainly devoted to the re-establishment of large macro-economic balances, frequently aggravate, at least temporarily, the inequalities and the exclusions.

The NGOs play a growing role but cannot be considered as a solution by themselves. The wakfs in Islamic world, the trusts in the West play also a useful role in private charity.

Solving the problem of poverty would enable *every person to get the means to live at a level above an internationally defined threshold of dignity*. Unless there is a drastic change in the world economic and political system, this is outside the scope of a competitive world market, even in the case of high world economic growth. The number of human beings in a situation of poverty will grow (in absolute if not in relative value) over the next 50 years. I will not focus here on what is needed in terms of domestic reforms of poor countries, international trade and governmental assistance; but mainly on the need for a reform of the international institutions and of the creation of a totally new institution : the PlaNet Bank.

## **1. A MEAGRE OUTCOME, INDICATING AN INCORRECT ACTION MODEL**

Is there a need for new international institutions or can we live with the existing one?

### **1.1. To compensate for the effects of poverty**

The existing international financial institutions were not created to battle against poverty (even though this objective does indeed sometimes appear in their charter), but rather in order to help with the development of the market economy, macro-economic stabilisation, and the financing of viable projects of states, individuals or companies. They organize loans, which have to be repaid, finance equity, which require collateral. Therefore, they are mainly able to finance those entities which have already attained a sufficient level of development and organisation to give the guarantees also expected by a private investor in the market. Whether it is the IMF (whose competence is clearly limited to the support of macro-economic reforms and to the financing of balance of payment deficits), or the development banks (which have to assist with the development of the productive sector and public infrastructures), or even the UNDP, the multilateral institutions cannot lend to the poorest, who are unable to come up with such collaterals. They are not able to provide them with significant

charitable help or, with some very marginal exceptions, with grants, social protection systems, or education systems, health systems, or the battle against pollution.

They are not in a position to organize the re-distribution of wealth, because they do not control any tax system; and when they advise governments on the subject of taxation, it is generally to recommend that they reduce their transfer expenditures, which usually worsens the situation of the deprived.

## **1.2. To act on the causes**

Since their creation, the international financial institutions have explained that the elimination of poverty depended almost exclusively on supporting the market economies, and on making efficient public goods available to everyone. It is largely true :

Raising the rate of growth together, by means of public and private investment, and a suitable macro-economic policy, would have the effect of increasing the income and the well-being of the most deprived. Financing the collective infrastructure (education, health, transport, etc.) would help to reduce the inequalities between social classes and constitute middle classes necessary for development of the market economy.

But it will not reduce poverty:

- Promoting market economy may speed up urbanisation and reduction in excessive public expenditure, leading to an increase in the inequalities, both relative and absolute.
- Stabilizing macro-economy may jeopardize the political mobilisation around the priority objective of social justice and protection of the weak.
- Financing collective infrastructure by means of privatization may prevent the poorest and weakest part of the population from taking advantage of it. Furthermore, these public services, if too expensive, play no part in encouraging social mobility and equity.
- Financing collective infrastructure through taxation, may lead that to fall in many countries onto the most deprived, who do not have the means to defend their interests among the budgetary regimes and procedures, which comply but rarely with the demands of equity or transparency.
- Developing collective infrastructure can aggravate inequalities by creating an unsuitable educational or health infrastructure level and diverting scarce resources from more constructive uses.

- Assisting in the creation of a positive investment climate does not necessarily help to improve democracy.

One can therefore understand why the international financial institutions are frequently considered as the scapegoats of those who criticise failures in the fight against poverty.

### **1.3. The international institutions have discovered new ways**

For the last fifteen years, the management of several international financial institutions, often without the prior agreement of the governments who mandate them, have been attempting to remedy to these serious deficiencies. However it is not enough to create in a development bank a department responsible for poverty, or to decree a "decade for the fight against poverty", to really solve this problem. And in most cases, the international financial institutions have developed only homeopathic-type programmes which have enabled them to provide:

- Technical assistance (either using their direct resources, or more frequently by means of co-financing with developed countries), enabling them to support the very poorest, in particular by gifts of training for women, improvement of health and education systems, and with the fight against pollution.
- Humanitarian assistance through non-governmental organisations. This applies particularly to medical action (Médecins du Monde), emergency help in food crises (Care), and sometimes even outside of their budgetary rules, to organisations which are more orientated toward structural action and the financing of micro-credits for very deprived communities (Grameen). Infrastructure financing through soft loans is the mission of IDA. IDA is a very important element of fight against poverty. The future of IFI is threatened by the trends existing in international fora to focus these institutions on compensating the market failures, which is to give to the market agents the missing information. This will lead to a quasi-privatization of IFI, transforming them in merchant bank, competing with public money, with the private ones. This will lead to their real privatization, while not addressing the real failure of the market, which is not the lack of information but the lack of connexion.

## **2. TO CHANGE THE ACTION, THE THEORY AND THE INSTITUTIONS MUST BE CHANGED**

At the moment when the United Nations is almost bankrupt, and the governments of the richest nations do not pay their contributions to the international organisations unless it can be demonstrated that the fallout for their private sector will be at least equivalent to their contributions, it is hardly the

time to be creating new institutions or to propose a radical reform towards more efficiency in poverty reduction.

This does not prevent us from looking a little further ahead however, and to underline the directions in which international action can be re-oriented in the next century.

In what follows, there is neither naiveté nor idealism - merely what I believe to be necessary, even if I know it is not possible at the present time.

### **2.1. Another theory of poverty**

It is therefore not possible to reduce economic poverty unless the international community decides to consider as a first priority :

- a) to place every person in a situation of power to create wealth, by providing him with the intellectual and financial resources to work for a decent income.
- b) to create the conditions to allow the introduction, for those who are not able to get work, of an explicit world-wide minimum income (WMI), and not as it is today, the implicit result of market action. Such an income would be different in each region in relation with the average income. It will be the counterpart of a contract, in which the person receiving it undertakes to supply services to the limits of his ability.
- c) to put in place a responsible democracy and assume complex institutional action (on the status of women, the associative life, the setting of quotas, affirmative action, etc.).
- d) to establish a clear agenda to do it in an explicit time frame.

### **2.2. International organisations of a new type**

We have plenty of ongoing institutions dealing with poverty eradication mandates, most of them built on the basis of a top-bottom approach.

We have some (NGO's) built on bottom-up approach.

Each has advantages and disadvantages.

We should concentrate on networking, the existing resources, skills etc.

At the top level this requires providing political authority, hence resources to the initiative.

At the roots level this requires strengthening the necessary mechanisms for networking, e.g. rating agencies capable of evaluating poverty-credit-standing in terms acceptable to investors with a humanitarian slant.

- a) In my opinion, only one single international institution fits this bill, because it simultaneously has the mandate and the resources of a trade policy, and a wealth distribution policy from the North to the South, and the power to decree standards to protect the interests of the weakest - the European Union. In fact it has its own mandate and its own budget, and considerable resources which can help to reduce the effects of poverty and to attack its causes, both on behalf of the poor in member states (ERDF) and those of associate states (the Convention of Lome). In my opinion, it constitutes a model for the effective international organisations of tomorrow.
- b) Before contemplating the creation of new institutions, there must be a proposal to introduce into the existing institutions the means to orientate the instruments of which they dispose toward the fight against poverty. In essence, any financing offered by these institutions must be associated with two conditions for the recipient countries and two conditions for the foreign partner :

For the recipient countries :

- a democratic condition, enabling verification that the project supports the development of all of the participants in the democracy.
- a social condition, enabling verification that the project is serving the most underprivileged, even reserving access quotas for the poorest if necessary.

For the foreign partner :

- a trade condition enabling to open its own market to the products of the recipient country.
- an innovation condition organizing the transfer of a significant part of knowledge.

The major intrinsic difficulty of any one single institution is the need for accountability which inevitably transform it into a bureaucratic structure.

Too complex conditionality leads to ineffectiveness within the needed and desirable short time frame. It is better to have few very clear objectives and a light conditionality superstructure.

c) If the existing international financial institutions do not obtain such a mandate from their member states, the future of the fight against poverty will be with the regional organisations and maybe in new organisations, which we can envisage in the context of the following two viewpoints:

### **Trade**

The promotion of trade between neighbours is the key condition for development. There is a domino theory of development where countries will develop by the presence of a strong neighbour. Then institutions such as NAFTA are the vanguard of real assistance. They will lead to a better equilibrium between countries. But the priority will be an alliance of poor countries before they ally with the North. For example in Africa, a Mahgreb common market is needed before an alliance with the European Union.

### **Re-distribution**

The fight against poverty demands the creation on a world scale or on a regional scale of that which already exists on the national scale - the mechanisms for transferring resources. The development of the world market should be accompanied by the development of world or regional instruments for correction of market misbehaviour, beginning with a mechanism for re-distribution to the poorest, irrespective of their nationality.

The financing of such re-distribution has already been the subject of many publications. As an example, Professor Tobin has stated that such planetary re-distribution could be financed by a tax on financial speculation. A tax of one thousandth part of financial transactions would bring in 600 billion dollars, when in fact the current world budget for development aid is only 60 billion dollars. Such a sum would allow a world minimum wage to be guaranteed to those who cannot work, or doubling of the income of the billion people who live and work with less than one dollar per day.

Naturally, such a tax is utopian and inapplicable at present. It would be impossible to manage, because it would require a gigantic bureaucracy for its acquisition and its re-distribution. It would be based on the assumption that all fiscal paradises would be banned, and that one could acquire a world-wide administration capable of distributing such sums without waste. There is no need to dwell on the illusory character of such an organisation in this present age - but perhaps no more than the minimum wage, when this was discussed for the first time in England two centuries ago, and which has recently been implemented in several European countries.

## **Production**

Each human being should have the means to create wealth in proportion to his or her ability and talents. Financial institutions of a new type would have to provide each person with the means to be creative. For that, there is a massive need for microcredit to try to bridge the gap between democracy and market. By virtue of Grameen, the micro-credit already exists in 57 countries. International financial institutions could assist with the creation of Grameen multiples, to attribute and guarantee financing of their loans for housing, for individual work, for communication networks, for artisans, for capital, etc. In this way, micro-credit could reach 300 million people in 2005.

It is why regional institutions are certainly the most interesting embryo for future development.

We should think about ways of going from the existing system to the one here sketched. This should be done through political actions in each and every . It could be also possible to discuss a new specific institution.

### **2.3. An institution of a new type - PlaNet Bank**

The aim should be to create and assist the development/growth of locally (not regional in terms of countries) operational entities that qualify and gain acceptance and credibility.

The PlaNet Bank would eventually create itself by itself, perhaps without the need for a name, and address or identity, but as a social phenomenon.

Leaving aside the mistakes done, which are exceptional circumstances, the activities carried out by existing, official institutions (WB, etc) in infrastructure etc. correspond to real needs, and it is wrong to play them against other, perhaps novel, institutions for poverty eradication (as opposed to alleviation). Indeed, such a confrontational view puts the new initiatives in the perspective of competing for the same resources on the basis of the unproved claim that the new would do better (why after all?).

What we need is to increase the amount of resources for this aim. It may surprisingly turn out to be by relatively modest amounts in absolute (world) terms.

The existing international financial institutions cannot take all that on board. They would simultaneously need the skills to manage very large financial masses, in order to provide a minimum income, the competence to manage micro-credits, in order to assist each individual, and the instruments for regional integration. It would just insist on one dimension : the use of new technologies in creating new instruments.

One can envisage that future information technologies will allow the operating costs of international financial institutions and development agencies to be reduced tremendously, and will be able to handle these matters. One could then contemplate the creation of new structures for the fight against poverty, for less costly management, and capable of financing activities at very low cost.

This is not entirely utopian. At the current pace, all of the inhabitants of the planet may well be given access in one way or another to electronic mail. This will be also a shortcut towards giving them access to communication, education and health. This will also be useful for financial institutions. Already, large numbers of commercial banks have a presence on the Internet. Several bank projects are starting up - with totally virtual private banks. The NGOs are also using the Internet. Finally, the multilateral institutions have their Web sites, in order to present their activities.

A new financial institution, entirely virtual, which I will name here as PlaNet Bank, would be based on the following principles:

- **PlaNet Bank** would make loans to individuals and shareholders in the capital of companies, by means of electronic credits at network pay-points. It would provide a guarantee for loans made by known NGOs and it would ensure the security and liquidity of shares representing assets. It would also deliver grants for technical assistance and institutional reforms. Later on, if such an orientation was adopted, such an institution could provide every person in a region with the World Minimum Income (WMI) mentioned earlier.

It will be very important to link strictly these activities with the most relevant 10/15 environmental priorities. Such an action will give to the whole exercise a more attractive role and function and can create also part time jobs for a large part of the poorest population.

To begin with, **PlaNet Bank** would be financed by private patrons and not by states.

**PlaNet Bank** would have virtually no head offices, if not a virtual one, and scarcely any full-time staff. It would use expert volunteers in a network, young retired people from companies, states and international organisations, who would study individual development aid projects brought to them by the NGOs and institutions of the Grameen type, and populations targeted for the WMI. Its operating budget would be very much less than that of the current international organisations.

**PlaNet Bank** would monitor its operations, no longer on a regular basis using local experts sent on site, but continuously, being connected into the accounts of these clients, who, in return, would have to guarantee the transparency of their activities.

Several **PlaNet Banks** could of course be created simultaneously by different groups of patrons. The first one would focus on the two most urgent issues : Africa and children.

**PlaNet Bank** could be started up by a group of individuals of good will, putting together at the start a sufficient capital of skills and financial resources. It could also be created by an existing international institution as a new affiliate.

Such a project would not be capable on its own of solving the problem of poverty, and would only be the reflection of a political will, which would also have to be translated into all other dimensions of international action, and mainly in the fostering of regional integration.

Naturally, it is a utopia. But is this not what has always animated any wave of significant reforms? The 19th century had the utopia of Liberty, with Toqueville and the awakening of nationalism. The 20th century had the utopia of Equality, with Marx and socialism. Both had their successes and their nightmares. History has shown that Liberty and Equality are incompatible. The 21th century could have as its utopia a value which could reconcile Liberty and Equality : Fraternity.