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"Role of the State in Trade and Development"

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"Role of the State in Trade and Development"

Sir Suma Chakrabarti

Introduction

It is a great honour for me to be invited to speak to you today. I am very grateful to the EXIM Bank for this generous invitation.

I am speaking in both a professional and a personal capacity. As head of the world's biggest bilateral official development organisation and a civil servant working for a Government that has made the elimination of global poverty one of its key aims. And as a professional development economist, interested in the progress of countries like India. And, as a member of a growing club: that band of people with roots and heart in this country and who are excited by the changes taking place here. I just hope I can do the invitation justice.

Importance of the Topic

Why have I chosen the topic of "the role of the state in trade and development"? Because, after a quarter of a century in this business, starting as a young economist in the Botswana Government and now as a middle-aged Permanent Secretary of the UK Department for International Development, I do believe the state has the capacity either to foster or to wreck trade and development. It is, for me, the fundamental issue in our profession.

This is not to suggest that the private sector is unimportant. Indeed, I view the private sector, large and small, as vital, the very motor of economic growth, at the heart of trading relations, of development itself. Whether the private sector is allowed to play that role is up to the state. That is why what the state does is make or break for development. I will not, however, be arguing for a nightwatchman state. I will be arguing for an effective state, one that provides the framework for non-state actors to perform to their potential.

I will start with some definitions. The framework I will then follow in this lecture is organised in three sections.

First, I want to outline what is most critical in the category of "the basics", by which I mean "what the state must do". Without these, the private sector cannot thrive. These were provided to a greater or lesser extent even in medieval states.

Second, and perhaps most importantly, we should look at state failure – what the state really ought not to do.

Finally, I will look at what else the state might usefully do. As the state's capacity increases, there is scope to take on more ambitious functions. For a modern economy, these functions are also more or less essential.

Some Definitions

Before getting started, let me say a few words about what I mean by the three concepts in my title. They may seem obvious, but it may nevertheless make things clearer if we at least clarify at the outset.

"The state" is clearly understood to mean not just the political party in government, but also the civil service and other organs such as the judiciary, civil service, and military, and the central bank. The state can include both federal and sub-national levels of government.

"Trade" may seem the most obvious of the three terms. But I would clarify here that I want to focus more specifically on international trade. This is not because I think that domestic trade is less important, but rather because the state has much greater role in the facilitation and inhibition of international trade. I do, of course, recognise that the barriers to inter-state movement of goods in India has been a stumbling block to economic development.

"Development" is perhaps the most complicated of the three terms. For a development agency like DFID, we speak here of much more than simple economic growth. It would encompass concepts of equality of opportunity, social justice, environmental sustainability, and human development and security. This is a phenomenon that is difficult to measure but one can certainly observe it.

For the purposes of this lecture, I will take "development" to mean simply the transformation of poor countries into middle income and ultimately high income economies. This concept includes all the associated institutional and other changes that typically take place, but with considerable variation in approach between countries.

The Basics: Preconditions for Development

We all have a good idea of the basics, and you may wonder why I am even bothering to talk about them. My reason is this. It is a sad and perhaps surprising fact in the twenty-first century that so many countries have not really cracked even the basics of what the state needs to do for trade and development.

Even the most developed countries have failed from time to time in various ways over the past decades.

Adam Smith is these days often derided, and wrongly in my view, as the grandfather of the worst excesses of unfettered market capitalism.

His most memorable concept, the invisible hand, is taken to imply that the private sector works automatically and perfectly without any role for the state. Nobel Laureate and former Chief Economist of the World Bank, Joe Stiglitz said, "the reason that Adam Smith's invisible hand is invisible is that it does not exist". Stiglitz, an expert on market failures, understands well that markets do not work in isolation.

Actually, it is wrong to view Smith as a private sector demagogue. Smith had a strong conceptualisation of the state. He recognised the need for state intervention, for example, to achieve collective action, assure property rights, provide public goods, and overcome market failures. Smith understood well that effective markets require effective states.

It is better to view state and market as complements rather than competitors, though it is also sadly true that a bad or predatory state does destroy, compete with, and undermine the private sector.

My list of absolutely basic functions of the state would include (1) peace and security, (2) property rights, and (3) macroeconomic stability. Let me give a few points of illustration for my list.

(1) Peace and security

Peace and security is perhaps the most fundamental requirement of all for trade and development, as without this, it is almost impossible to invest, and sometimes impossible even to do business.

It has been estimated by Paul Collier, a respected British development economist, that the average conflict in a developing country costs $50 billion, and there are on average two conflicts per year, so developing countries are losing much more from conflict than they are gaining in aid.

Nor is conflict restricted to only a few countries. 45 million people are affected annually by the devastating consequences of war.

(2) Property rights

The quality of property rights is now widely recognised as a key ingredient to trade and development. There is a strong correlation between property rights and per capita income levels.

It is vastly inefficient for individuals and firms to have to invest in assuring their own property rights without reliable state institutions to support them.

Hernando de Soto's "Mystery of Capital" provides a compelling case for why the poor stay poor in situations where their property rights are not formalised, or secure, so cannot be collateralised or traded.

India is improving the property rights of the poor through the provision of titles in informal urban settlements and computerised registration of landholdings.

And the bankers here will understand the importance of assisting the poor to become bankable clients.

There is a huge and profitable market out there, and until we can serve it, India will remain underdeveloped as far as the poor of the country are concerned.

(3) Macroeconomic stability

Happily, there has been much progress throughout the developing world in assuring macroeconomic stability, though it is important not to be complacent. Inflation rates in low income countries are now on average very low. The median inflation rate in low income countries with an IMF programme was less than 5% in the period 2000 – 2004.

Very high levels of inflation are bad for growth. One study found that, during periods of high inflation (more than 40%), economic growth is negative. On average it has been estimated that reducing inflation by 10 percentage points can increase growth by 0.5% per year. Over time, that has a huge impact on poverty rates.

Zimbabwe, with an inflation rate of close to 800%, is far from the basics of state performance in this area.

The Reserve Bank of India has done a superb job of managing the monetary performance of the economy to keep a relatively low rate of inflation despite a very high public deficit.

The 7 Deadly Sins

Having listed 3 basic things the state must do for growth, I now want to cover what the state should not do, which I characterise as the "7 deadly sins". I use this nomenclature not to moralise, but because I think it is a catchy way of describing what would otherwise just be an anonymous listing!

In the 6th Century, Pope Gregory the Great coined the seven deadly sins: pride, envy, anger, sadness, avarice, gluttony, and lust.

What are the seven deadly sins of statehood, from the point of view of trade and economic development?

My list contains the sins of corruption, bad regulation, excessive trade barriers, exchange rate distortions, stifling the financial sector, fiscal profligacy, and wasteful subsidies.

(1) Corruption

Corruption, the bribing of public officials, obviously results both from the willingness of the private individual to pay the bribe, as well as the public official's willingness to demand or accept it.

Corruption is rising up the agenda of many institutions and governments. It is now amongst the issues of greatest concern to the public in developing countries, and it undermines public support for overseas aid in donor countries.

This is not to say that corruption is the sole preserve of developing countries, but it is certainly associated with underdevelopment. The correlation between the Transparency International index of corruption and per capita income is striking.

Does corruption prevent development, or does development lead to the reduction of corruption? I believe that both of these forces are at work, but governments will promote growth if they take effective action against corruption as this improves the business climate.

(2) Excessive regulation

Regulation by the state, unlike corruption, has been all too often a road paved with good intentions.

Regulation is essential for many reasons – ensuring competition, protecting public safety, securing fair benefits for workers. Regulation is good up to a point, but beyond that, as with taxation, regulation kills growth and becomes a public bad.

The UK, which is one of the best places in the world for doing business, is now facing up to the challenge of regulatory costs. Gordon Brown, our Chancellor, has determined to reduce the regulatory cost on business by 25%.

Why is this so important? One reason is the cost on business in terms of management time. Indian managers spend one in every six working days dealing with public officials.

Another reason is that regulation slows down business. The World Bank found that whilst a business can be established in 2 days in Australia, it takes more than 200 days in Haiti. This constrains business growth.

Regulation also increases the incentive for firms to operate outside the formal sector. DFID sponsored research shows that countries with larger informal sectors tend to promote less poverty reduction for each unit of economic growth. If the informal sector is large, then the cost of collecting revenue falls more heavily on what remains in the formal sector.

Excess or inappropriate regulation and corruption are bedfellows. Every new regulation is an opportunity for unscrupulous officials to demand money.

Yet, year on year, the burden of regulation tends to rise as new problems are addressed through the regulatory process. Each regulation has a benefit, but each has a cost as well, and the latter is often ignored or underestimated by regulators.

India has made great strides in terms of deregulation since the end of "License Raj", but has a considerable further agenda to modernise and simplify business regulation, including labour laws.

(3) Trade barriers

Like regulation, trade barriers have a legitimate basis in economics.

The recent death of the great development economist, Sir Hans Singer, reminds us of the influential "Prebisch-Singer" thesis which highlighted the tendency of commodity prices to fall over time relative to manufactures.

This thinking led to the development path of import substitution industrialisation behind very high tariff and non-tariff barriers.

Infant industry protection may be justified, but the danger is that the protection is simply used to stifle foreign competition, which reduces innovation and costs the consumer dearly.

The other risk is that international trade is constrained – yet countries who have grown out of poverty have integrated successfully into the global economy.

I welcome the steps that the Government of India has taken to open the market to foreign trade and investment (with a fall in weighted average tariffs from over 70% in the 1990s to around 25% by 2004) and would welcome further steps to reduce tariffs, and as importantly to remove other non-tariff barriers to trade.

Although the WTO remains controversial with NGOs and public opinion, I believe that the WTO has been a massive force for good and gives great strength to developing countries in negotiation of a more equitable trading system.

(4) Exchange rate distortions

To integrate successfully in the global economy, it is necessary to maintain a competitive and fair exchange rate.

If the exchange rate is over-valued, this makes imports cheap relative to exports. This undermines the balance of payments and hits competitiveness.

It also creates a scarcity of foreign exchange and can create a black market for currency and provide opportunities for politicians or public officials to benefit illicitly from allocating foreign exchange.

Throughout the 1980s, many African countries had overvalued exchange rates, and black market premiums, which could be well over 1000%. This was typically associated with negative income growth.

Similarly, the fixed exchange rate regimes of some Asian countries proved very damaging in the 1990s during the Asian Crisis. This created vulnerability to volatility in the exchange rate which undermined the balance sheet of financial institutions and caused great adjustment difficulty.

Happily, most of the developing world has moved on from the era of fixed exchange rate regimes. But maintaining a competitive exchange rate – neither too high nor too low – remains a challenge for many countries.

(5) Stifling capital markets and the financial sector

I could not speak at EXIM Bank about the role of the state in development without mentioning the financial sector. Provision of credit and other financial instruments are fundamental to economic growth.

Around the developing world, there are many examples of government action which have done great harm to the ability of the banking system to operate effectively and efficiently.

Amongst the most important things the state must avoid is to set interest rates at levels which undermine the profitability of the banking system. This so-called "financial repression" is not uncommon in circumstances of very high inflation, and is very damaging.

Clearly, this is not to say that we don't need government action and regulation. The public needs protection from fraud and imperfect competition.

Central banks have a key role to play, and there is evidence that the more we can establish independent central banks which take account of technical issues and not political ones, the better the prospect for financial deepening.

In India, it will be important to expand gradually the scope of the private sector in banking and insurance. More open competition will allow financial sector deepening and broadening.

(6) Fiscal profligacy

In the UK, Gordon Brown's fiscal rules, including his "golden rule" that there should be no recurrent account borrowing over the fiscal cycle, has served us well in ensuring that we have fiscal stability as well as sound monetary policy which is assured by the independence of the Bank of England. After a period of fiscal expansion in the UK, these rules are starting to force difficult choices within the budget.

Across many developing countries, fiscal profligacy was facilitated by international development finance institutions and donors, and governments that were all too willing to mortgage the future on an unsustainable basis took advantage of available finance.

In India, whilst large public sector deficits have been well managed in terms of macroeconomic stability, their impact on the ability of the government to spend resources on current development priorities is a major concern. With interest payments accounting for more than a fifth of the expenditure at central level, development priorities are being crowded out.

There is also the "crowding out" effect that high state borrowing imposes on the rest of the economy through higher real interest rates.

In this regard, I would take the opportunity to commend those here who are seeking to bring down the fiscal deficits at national and state level. In the long term, I believe this will be good both for the private sector, as it will reduce the cost of borrowing, and for the public sector, which is struggling to accommodate the increased cost of borrowing.

(7) Inefficient subsidies

My final "sin" is the use of subsidies which are justifiable neither by concerns of social equity nor economic efficiency – known as "non-merit" subsidies in the jargon of the Indian White Paper on this topic.

Indeed, many subsidies are quite regressive in that the better off benefit most, and this is not just a problem in developing countries.

More often than not they pander to a vested interest. We have to live with buying off vested interests to an extent, but this should be minimised.

The controversy surrounding the introduction of university student fees in the UK focused on the fact that it would raise barriers to the poor from attending higher education. Yet, in practice, the main beneficiaries of the subsidy in question were undoubtedly the middle classes.

In India, DFID has sought to help governments wishing to reduce inefficient and poorly targeted subsidies such as in the power sector. These subsidies are substantial relative to important social sector spending activities, yet they are not well targeted on poor people and promote the inefficient use of scarce resources such as water. It cannot be sound economics or sound development when the state spends nearly twice as much on power subsidies as on health care, as India did in the year 2000.

Some of it has been due to economic ideology. But what makes some states more prone to these vices than others? I believe quite a lot is explained by the absence of capability, accountability, and responsiveness to citizens.

The 7 Heavenly Virtues

I turn now from deadly sins the state should avoid, to the heavenly virtues that the state "should" do to promote development. The list of virtues is of course very long – in fact too long in relation to the institutional capacity of most low income countries. The old adage that it is better to do a few things well than many things badly applies here.

From an economic perspective, I would highlight the following as the most important: (1) human development; (2) infrastructure; (3) competition; (4) raising revenue; (5) international linkages; (6) the environment; and (7) social protection.

These then could be my equivalent of the seven "heavenly virtues" – faith, hope, charity, fortitude, justice, temperance, and prudence. In the modern era, my economic virtues are all about empowerment and contestability.

Indeed, in most of these areas, unlike the basics, the state should not assume exclusivity. It needs to work in ways which complement and leverage the efforts of others – the private sector and civil society. But for reasons related to market failure, the market alone will not succeed.

(1) Promote human development

The case for the state's intervention in human development can be built on the modern notion of equity and social justice.

But from a purely economic perspective, there is of course a clear benefit from a skilled and educated workforce. Labour is not just one of the "factors of production", but the driver of innovation and enterprise.

The case for investing in education and health rests both on equity and efficiency.

Left to the market, investment in education would normally be insufficient because parents do not take account of wider benefits to society. Because of credit constraints they may not be able to access education even when they want to.

Nobel Laureate economist Kenneth Arrow showed how information asymmetry between the patient and the health care provider means that the provision of health care on a pay per treatment basis will not be efficient either.

On equity grounds, without state intervention, there are large inequalities of opportunity between rich and poor that will perpetuate.

Discrimination by parents between boys and girls in education investment is not only unfair, but it is also inefficient.

State provision in the human development sector should not crowd out private sector activities, and indeed we should separate the issue of who finances services and who provides them.

If the private and voluntary sectors are more efficient, there is no reason why state funding cannot be channelled through private providers. This is certainly within the UK current policy towards expanding services in the National Health Service.

(2) Provide infrastructure

The '94 World Development Report described infrastructure as the "wheels of economic activity". Infrastructure is a key ingredient of any successful trade and growth strategy.

It is important for the state to distinguish the role of the private sector from that of the state. The state should only provide infrastructure which cannot be provided more efficiently and more effectively by the private sector.

And where there are barriers to private participation, the option of addressing the barriers or working in partnership with the private sector should always be considered rather than simply assuming a role for the public sector.

In many circumstances, the state is involved in the regulation of infrastructure even where it is not a provider. For instance, where there are natural monopolies and it is impossible to price competitively, it is necessary for the state to control prices.

Problems frequently arise where prices are held below actual cost – as is typical in many countries in the water sector and to a lesser extent in the power sector.

If prices are held too low, investors cannot make a return on their investment unless there is an explicit subsidy from the government's budget. This is why it is increasingly recognised that pricing should be transparent and separate from the political process.

Where politics drives price setting, not only is there little incentive to invest, the quality of service collapses. I need not remind this audience about the impact of poor quality power supplies. The World Bank Investment Climate Survey found that 69% of Indian firms reported power outages – the second highest amongst 53 countries surveyed.

I fully back the government's efforts in India to improve infrastructure, increase involvement of the private sector, and move towards economic pricing of key infrastructure services. This will promote long term growth.

(3) Promote competition

The great Cambridge Economist Joan Robinson was a pioneer of the economics of imperfect competition, writing the first book on this topic in 1933.

Her famous quote "The only thing worse than being exploited by a capitalist, is not being exploited by one", can, ironically, be used as a justification for exploitation, but it is imperfect competition that will lead to exploitation.

Firms everywhere seek profits and will use whatever means they can to find opportunities to exploit what economists call "economic rents", that is profits in excess of what can be made in a competitive environment.

This leads to the raising of barriers to entry in markets, lobbying for protection against international

competitors, and the use of predatory pricing to destroy the viability of competitors.

Yet competition is in the public interest. Reforms can have a major impact on economic growth and innovation –a study in the US found gains of more than 7% of GDP from deregulation undertaken.

A key insight from institutional economics is that powerful lobbyists for firms will have greater sway on public policy than the diffuse and unorganised interests of the consumer. Yet examples of the state taking effective action to enforce competition and hold big business to account are fairly rare.

(4) Raise revenue fairly and efficiently

It is a challenge for all governments to finance their activity without distorting their economy and reducing the incentive to work or save or consume, all of which are essential for growth.

There is a tendency for public policy makers to view every increase in revenue as a positive indicator since this will finance investment or social development or reduce the need for public borrowing. There is a tendency for the taxpayer to view every increase in revenue as a negative indicator since this means less net income.

We should remember that if public expenditure is inefficient, it is not necessarily going to help development or growth.

But more public expenditure is needed in poor countries, and there is only so much that can be financed by public borrowing.

In developing countries, there is a large revenue reform agenda to modernise revenue collection. Taxes like sales tax and trade tax need to be replaced with progressive taxes such as income tax and less distorting taxes like VAT. So I am pleased to learn that the introduction of VAT at the State level in India in 2005 has yielded good growth in tax revenue for the State governments, and that this year's Budget commits the government to phase in a national goods and service tax in four years.

And overall revenue has to be increased without inhibiting economic growth. This will mean spreading the tax burden fairly across different sectors of the economy and not focusing the burden disproportionately on certain activities. The income tax system needs to be broad-based. Many external commentators, for example, find it surprising that only a tiny proportion of the Indian population pays income taxes.

(5) Foster external linkages

There is strong evidence that economic growth and poverty reduction is associated with greater integration into the global economy. This means more two-way trade and more foreign investment.

These processes have to be managed, and there is a strong role for government here.

In his brilliant essay, "Ricardo's Difficult Idea", the economist Paul Krugman explains the problems of the theory of comparative advantage.

"The idea of comparative advantage – with its implication that trade between two nations normally raises the real incomes of both – is, like evolution via natural selection, a concept that seems simple and compelling to those who understand it. Yet anyone who becomes involved in discussions of international trade beyond the narrow circle of academic economists quickly realizes that it must be, in some sense, a very difficult concept indeed."

The idea that exports are necessarily good and final product imports necessarily bad is a perspective of the producer, but does not reflect the interests of the broader economy. Yet, this perspective seems to dominate the discourse on trade reform and liberalisation.

The government must balance the interests of the consumer as well as the producer, and manage a process of providing incentives to the private sector for integration into the world economy.

It was certainly a missed opportunity to allow India's share of world trade to fall from 2.1% in 1951 to 0.4% in 1980. I strongly endorse the more open policies that have been pursued since then to the great benefit of India. Liberalisation has yielded good results – India's share of world trade has increased close to 1% in 2005.

The Indian Government's strategy to double the global trade share of India over 5 years by 2009 is a bold target, but I am extremely pleased that India is now focusing on this important question, and progress so far is extremely good.

(6) Sustain the environment

Failure to protect the environment is another classic case of market failure in which state intervention can redress the gap between what individuals will do in their own interests, and what is best for society as a whole.

When I started work in development 25 years ago, the attitude was that environmental standards would rise with economic development. If we could deliver growth now, the argument went, then the environment would sort itself out in the long term.

The costs of environmental degradation, for example in terms of air pollution and water pollution, are enormous, and fall disproportionately on poor people. And these costs are not trivial. An ADB report estimated the costs of water and air pollution alone to be $10 billion per year in India.

So from a poverty perspective we cannot afford to wait for development and growth to improve the environment. Direct action now can be extremely effective – witness the marked improvement in Delhi's air quality over the past few years.

In any case, the implicit model that there is somehow a trade-off between growth and the environment needs to be challenged. Growth at the cost of environmental assets is not really growth at all. Rising gross domestic

product gives a distorted measurement of progress if a country's natural capital depreciates at the same time.

And at least as important as sustaining the local environment is the challenge of sustaining the global environment. There is growing alarm in relation to the impact that climate change could have, for example, on Indian agricultural output.

One study estimated that Indian farm incomes could fall up to a quarter with temperature rises of 2 – 3.5 degrees centigrade. This will again hit the poorest as rain-fed agriculture will be hit hardest.

Whilst it is clearly the case that global emissions are largely the result of developed country activity, China and to an increasing extent India are contributing substantially to the rapid emissions growth that is now taking place.

We need effective action to tackle this, and it is not fair to expect the people of India and China to carry the burden of this, particularly since emissions per capita in India are still only a tiny fraction of those in the developed countries. But nor is it right to leave emerging economies outside of a global framework for action.

(7) Protect the vulnerable

As with environmental protection, thinking on social protection is changing globally. No longer is this thought to be a rich country luxury good, but rather an essential ingredient for effective states at all levels of development.

This is not just a moral imperative, but also an economic one. Including poor people in the economy is the only way to ensure that the whole population becomes more valuable as consumers and workers, the lifeblood of trade and the economy.

There is a fair amount of research being undertaken on the permanent impact of shocks on people's incomes. This is not just because of the impact of the shock – for instance by causing distress sales of assets such as livestock.

In addition, poor people are forced to adopt less productive but lower risk livelihood decisions, for instance by growing drought resistant crops. One study in India estimates that the returns to investment by poor Indian farmers are reduced by 25% by risk avoidance strategies.

The affordability of social protection schemes for the government is certainly an issue, but experience has shown that well-designed schemes can be both affordable and effective. The Maharashtra Employment Guarantee Scheme for instance is amongst a relatively small number of good practice examples in developing countries. I welcome efforts by the government to expand the level of social protection for the poorest and vulnerable. This is not just redistribution, it also promotes economic growth.

Concluding Remarks

This is a fairly rapid canter through the development "do's" and "don'ts" of state-hood. My lists are at a sufficient level of generality to be relevant to most country circumstances, though it goes without saying that agendas must be tailored to local circumstances. There is no single "model" of a modern state and there is scope for very different approaches to be effective in different cultural settings.

There may be few surprises here for this audience, and the question of what needs to be done is less challenging than the question of how to change things when they are going wrong. This moves us from the social science of economics to the social science of politics.

I think that we are more realistic these days about what the state can and can't achieve. Our expectations in the early days of development thinking, of the scope for public action to close the development gap were disappointed. The reasons for this are complex but include a very large element of inappropriate policies and state failure.

Looking globally, the pendulum of discourse on the role of the state swung substantially towards the private sector in the 1980s and 1990s, with Mrs Thatcher in Britain, and the pioneering 1991 reforms of Mr Singh as Finance Minister in India.

The emergence of the "Washington Consensus" policies associated with the era of structural adjustment embraced a vision of private sector-led growth supported by a state which did little more than create the enabling environment.

Since then we have learned that institutions matter even more than policies, and that the state needs to take a pro-active role in shaping economic growth and development.

Inequality – between richer and poorer, between men and women, between regions, and between ethnic groups – impacts on the ability of a nation to remain dynamic and cohesive. Without state action, such inequalities will tend to persist and sometimes increase.

So we need a strong and capable state to tackle an increasingly challenging national and international development agenda.

If the post-colonial expectations of states were disappointed in the early years, more recently they have been exceeded in Asia. I am excited at the prospect of seeing within my lifetime an India perform closer to its economic potential, begin to make a significant dent in its poverty problem, and play a bigger role on the world stage.

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Sir Suma Chakrabarti is the Permanent Secretary of DFID, United Kingdom. Earlier he served as DFID's Director-General, Regional Programmes, and was instrumental in devising and implementing a wide range of development programmes around the world. He was also the Head of the Economic and Domestic Affairs Secretariat in the Cabinet Office. He has also served in a range of key positions in the Treasury and the Cabinet Office in the United Kingdom.

Sir Suma Chakrabarti joined the Overseas Development Administration in 1984 as a Senior Economic Assistant providing advice on macroeconomic issues and UK aid projects after spending two years on an Overseas Development Institute Fellowship. After a brief stint in Washington D.C as part of the UK Delegation to the IMF and World Bank, he returned to England and has held various positions of prominence.

The Department for International Development (DFID) is part of the UK Government and is responsible for British Development Policy and for aid to other countries. The Millennium Development Goals of the United Nations represent an international commitment to reduce poverty by 2015. DFID works towards achieving these goals through a coherent international approach, with agreed policies to support development and effective collaboration between institutions and nations. DFID is involved in a variety of development initiatives in India, and has projects and programmes, both at the national and at the state level.

Sir Suma Chakrabarti was born in India and went to the UK as a young boy with his parents. Sir Suma was educated at the Sussex University and at New College, Oxford, where he completed his Masters in Economics. He has been the Permanent Secretary of DFID since February 2002. After years of outstanding service, he was knighted by the Queen in the New Year Honours 2006.

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