CHAPTER 4

A new design for development cooperation

The new demands of human security will require a new and more positive relationship between North and South—a new era of development cooperation.

Economic relations between North and South have for too long been based on antagonism and confrontation. And it might be thought that the widening income disparities between industrial and developing countries would perpetuate and intensify such disputes into the next century.

In fact, this divide will probably become increasingly irrelevant in the years ahead. The primary reason is that the history of recent international negotiations has exposed yawning gaps between the positions of individual countries within both groups. Many issues bind these groups—many others divide them. The traditional North-South cleavage is no longer a useful basis for negotiations.

Experience has also shown that, even when interests coincide, it would be naive for developing countries to believe that they can negotiate from a position of collective weakness. The only countries that have become major players on the international scene are those that have strong domestic economies.

Developing countries have tended in the past to argue that almost all their economic problems spring from an inequitable international order. There certainly are many changes needed in global economic affairs—including freer flows of trade, technology, capital and labour—but developing countries now recognize that no amount of external assistance can ever substitute for the fundamental reforms needed in their domestic economies.

This more pragmatic and realistic outlook suggests that now is the time to move on from the sterile confrontations of the past and to forge a new and productive economic partnership among the nations of the world—based not on charity but on mutual interest, not on confrontation but on cooperation, not on protectionism but on an equitable sharing of market opportunities, not on stubborn nationalism but on farsighted internationalism.

Development cooperation has often been interpreted narrowly to include little more than foreign aid. But industrial and developing countries interact in numerous other ways—culturally, politically and economically. Indeed, flows of official development assistance (ODA) are often swamped by the other international financial flows. Many of these were considered in *Human Development Report 1992,* which emphasized the importance of opening market opportunities both within and between nations.

No amount of external assistance can ever substitute for fundamental reforms in domestic economies

Beyond aid

The new design of development cooperation must be broadened to include all the international flows, not just aid. Some of the most significant non-aid flows are private investment, labour and international trade and finance, including debt payments.

Private investment flows

One of the most remarkable developments of the past decade has been the acceleration in private investment flows to developing countries—foreign direct investment, private loans and portfolio equity investment. Between 1970 and 1992, these flows increased from \$5 billion to \$102 billion (figure 4.1).

FIGURE 4.1
Private flows to developing countries exceed ODA

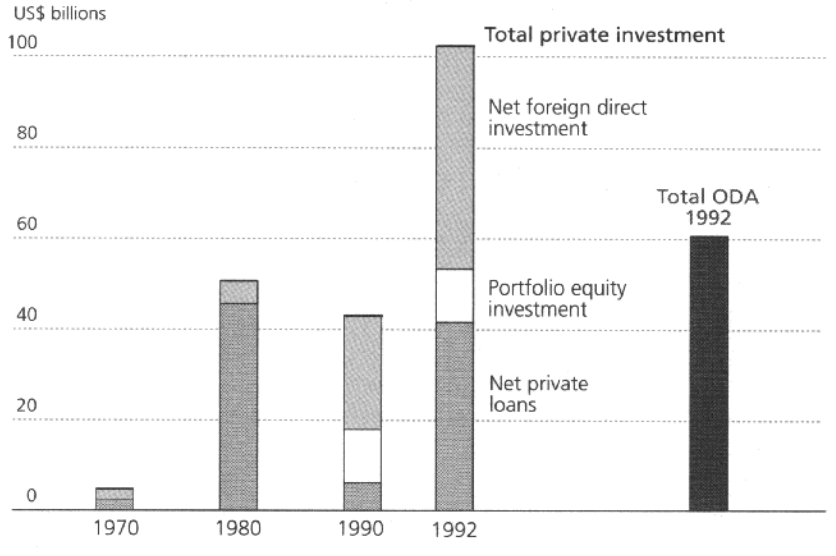
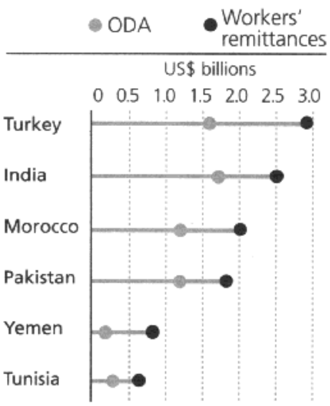


FIGURE 4.2
More from workers' remittances than from ODA



So far, the private capital flows have been concentrated in just a few countries. Of the total flows during 1989–92, 72% went to just ten countries: in descending order, China, Mexico, Malaysia, Argentina, Thailand, Indonesia, Brazil, Nigeria, Venezuela and the Republic of Korea. The poorer countries received only a very small share: Sub-Saharan Africa received only 6% of foreign direct investment in the late 1980s, and the least developed countries only 2%.

If more developing countries are to benefit from private investment flows, they will have to improve their economic management, invest considerably in their human capital and enlist the support of the regional and international development banks.

Labour flows

International migration has grown significantly in recent years. Around 80 million people now live in foreign lands, and their numbers are rising steadily. One million people emigrate permanently each year, while another million seek political asylum.

The proportion of foreign-born residents is now 21% in Australia, 16% in Canada, 8% in the United States and 4% in Europe. With annual arrivals having doubled since the 1960s, the United States receives more immigrants than any other country—almost more than all other countries put together. Most immigrants in industrial countries today come from developing countries.

Remittances from emigrants have become a major source of income for developing countries—more than $20 billion a year. Among the major beneficiaries: Bangladesh, Egypt, India, Jordan, Morocco, Pakistan, the Philippines, Tunisia, Turkey and Yemen. Remittance flows are equivalent to more than a third of ODA and have the advantage that they come with no conditions attached and do not have to be repaid. In some countries—such as India, Morocco, Pakistan, Tunisia, Turkey and Yemen—annual remittances outweigh ODA by a third or more (figure 4.2).

But the industrial countries are becoming increasingly resistant to immigration. With their economies stagnating and unemployment rising, there is strong public opposition to further arrivals. In the developing countries, however, emigration pressures will remain high, and if global opportunities do not move towards people, people will continue to move towards global opportunities.

If the industrial countries sustain the same immigration policies, there is a strong argument for compensating the developing countries for restrictions on the migration of their unskilled labour. But a better long-term solution would be to offer the developing countries greater trade opportunities—so that their goods move rather than their people.

Trade flows

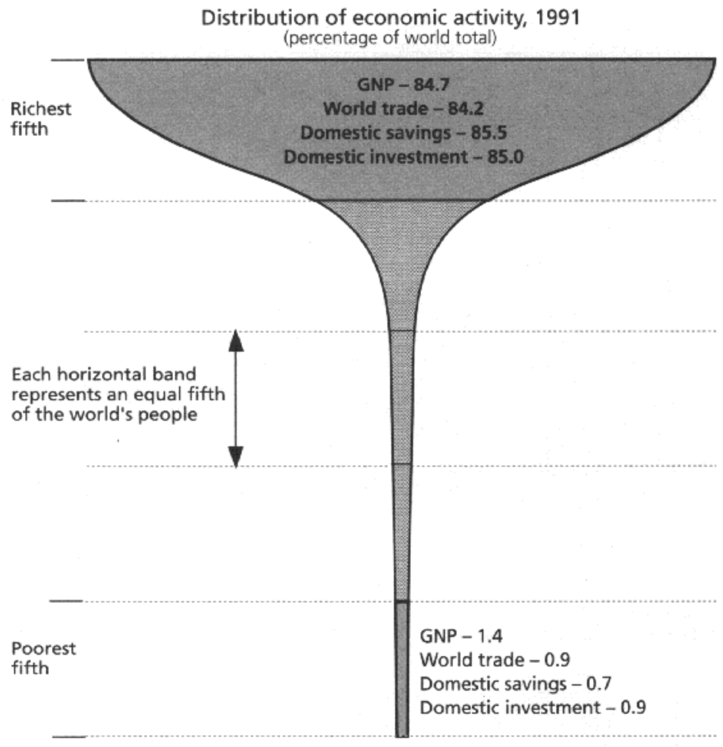
Since capital and labour markets offer only limited opportunities for developing countries, the burden for equalizing returns between rich and poor countries lies heavily on the trade in goods and services. Despite the barriers, some developing countries have done well in trade in recent years. But the main beneficiaries have been a handful of nations in East Asia and Latin America. The bottom 20% of the world population—in line with its dismal performance in global output and investment—had less than 1% of world trade (figure 4.3).

Developing countries are expected to gain, though only slightly, from the recently concluded Uruguay Round of trade negotiations. The gains to world trade by 2002 are estimated at $275 billion, but the developing countries are expected to see less than a third of this (table 4.1). And even these gains will be long delayed because of the period for phasing out some forms of protection: the Multi-Fibre Arrangement, for example, will be phased out over ten years.

Given the losses that developing countries will continue to sustain over this period, they have a strong case for compensation. Similarly, the developing countries gain little from the new agreements on agriculture since protection has been only slightly dented rather than eliminated.

It is ironic that some industrial countries are becoming more protectionist just as developing countries and the economies in transition are opening their economic systems. In the coming decade, the crucial structural changes will have to take place in the North.

FIGURE 4.3
Global economic disparities



Debt payments

For developing countries, debt is a major constraint on economic growth and on investment in human development. In 1992 alone, they had to pay $160 billion in debt service charges—more than two and a half times the amount of ODA, and $60 billion more than total private flows to developing countries in the same year.

The total external debt of developing countries grew fifteenfold over the past two decades: in 1970, it was $100 billion, in 1980, around $650 billion and in 1992, more than $1,500 billion. Because of the service charges, developing countries now pay more than they receive. In the past decade, net financial transfers on long-term lending to developing countries have been negative, with the industrial world receiving net transfers of $147 billion (figure 4.4). Although there are indications of an upturn, the net transfers to developing countries from the Bretton Woods institutions continue to be negative (figure 4.5). Despite several attempts to find a satisfactory solution, the total debt of developing countries continues to grow.

Their debt service ratio (the ratio of debt service to exports of goods and services), however, has been coming down. Since 1987, the debt service ratio for the

TABLE 4.1
Potential benefits from the Uruguay Round in 2002
(billions of 1991 US$)

Country or region	Scenario A[a]	Scenario B[b]
European Union[c]	78.3	71.3
Japan	35.5	42.0
European Free Trade Association[d]	34.2	38.4
USA	26.3	27.6
Canada	5.9	6.6
Australia	1.7	1.9
Total OECD	181.9	187.8
Non-OECD countries	29.9	86.4
Total world	211.8	274.2

a. Scenario A assumes that trade liberalization occurs only in the OECD.
b. Scenario B assumes that trade liberalization occurs in the entire world.
c. Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the United Kingdom.
d. Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland.

FIGURE 4.4
Net flows to developing countries turning positive again

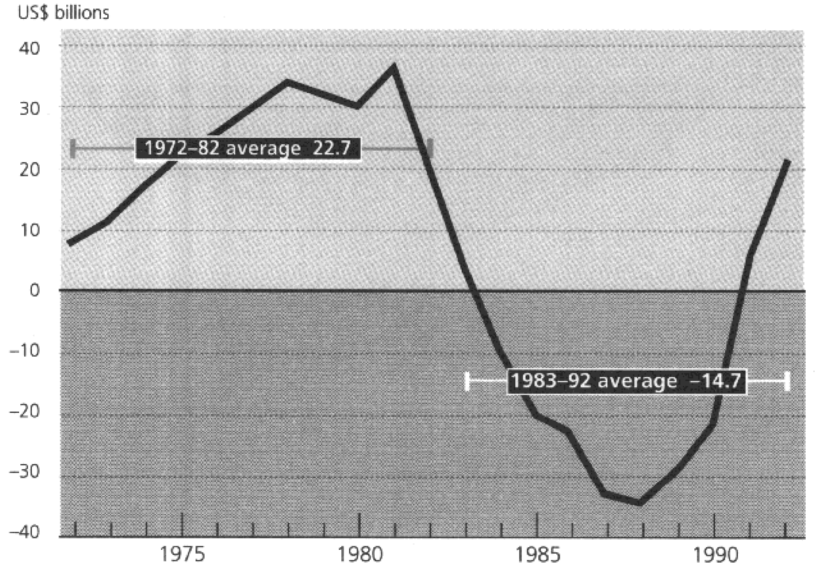
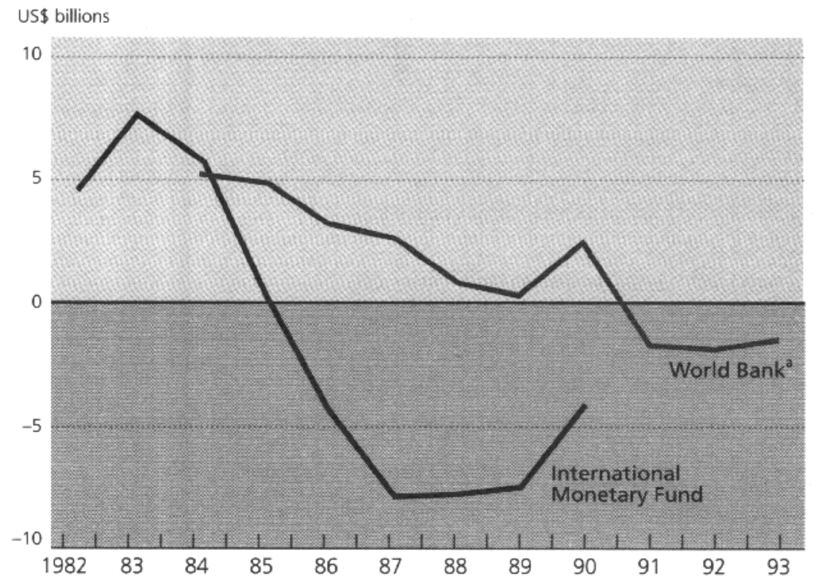


FIGURE 4.5
Net transfers to developing countries from Bretton Woods institutions



a. Current borrowers only.

developing world has declined from 24% to 21%—largely as a result of rising exports.

But the debt problem of the poorer nations is nowhere near a solution—and it is hampering their ability to meet urgent human development needs (figure 4.6). The Social Summit would make a significant contribution if it could persuade the industrial countries to respect their agreements at Toronto and Trinidad. Those countries could go even further and cancel the debts of the poorest countries—if the money released were earmarked for social development.

New forms of development cooperation

The relationship between industrial and developing countries has often been profoundly unequal, and the losses to developing countries as a result of this inequity have often thwarted the contributions of ODA. That is why a new approach to development cooperation will have to be more inclusive and more coherent. Foreign direct investment, international trade, capital flows and ODA—all should contribute to human development in the South and promote greater global equity.

Even when the industrial countries recognize the inequities in North-South relationships, they may still face many domestic compulsions in removing their restrictions against the developing countries. They may be reluctant to remove trade barriers, for example, before making needed adjustments in their own economies. And they may want time to redirect investment and retrain workers whose jobs may disappear because of competition from developing countries.

Compensation for damages

If industrial countries wish to maintain their restrictive practices, there is a strong case for compensating developing countries. The worst damage usually comes from restrictions on international trade. Free trade normally benefits all countries. Everyone gains in principle from a worldwide flow of goods, services, technology, capital and labour. In any transaction, the benefits might be unequally distributed, but in a liberal trading regime, most parties gain: markets are positive-sum games.

When markets are unfair within a national economy, a legal remedy is usually available. In many countries, it is illegal to discriminate against workers on the basis of their race, gender or religion. It can also be illegal for banks to discriminate against certain borrowers or businesses owned by specific groups. In these cases, the injured party can take the offender to court and claim damages.

But when it comes to international discrimination, there is no such recourse. Two cases where compensation might be in order are migration and trade.

Restrictions on migration

Rich countries often give immigration permits only to a selected number of technical and highly skilled people, denying entry to large numbers of unskilled workers. This can lead to two forms of damage. First is the brain drain from poor countries that lose the human capital these people embody. Second is the loss of income opportunities for unskilled workers—and the proportion of that income that would have returned to the migrant-sending countries in the form of remittances.

- *Brain drain*—The losses from the brain drain can be seen as the loss of the public investment made in their education or skill, or as a loss in productivity for the country.

African countries are among the hardest hit. Between 1985 and 1990, Africa lost an estimated 60,000 middle and high-level managers. In Ghana, 60% of the doctors trained in the early 1980s have left the country. Latin America and the Caribbean also lose a high proportion of their university graduates: in some countries, over 20% of all graduates choose to emigrate. And some of the smaller countries come off worse, particularly in medicine: to end up with one doctor, a country must train many more. The greatest exodus of trained professionals is from Asia, many of them scientists, with the United States as the principal destination. Between 1972 and 1985, the four major exporting countries (India, the Philippines, China and the Republic of Korea) sent more than 145,000 workers with scientific training to the United States.

One way to compensate partly for brain drain losses would be to require that emigrants, before their departure, should repay any education subsidies they have received. Another option would be a two-tier system of tuition charges: those paying the higher charges would be free to emigrate, while those accepting the subsidy would be required to work in their home country for a set number of years.

A tidier solution, however, would be for the payment to be made by the country receiving the immigration. This would be more consistent with the principle that people should be free to live and work where they please. And if the international community decides that it wishes to discourage the brain drain, it could increase the level of compensation accordingly.

- *Excluding unskilled labour*—It can be argued that the industrial countries are working against their own economic interests by excluding unskilled labour. Fuelling the economic boom in Western Europe in the 1960s and the explosive growth in the oil-producing states of the Middle East in the 1970s and 1980s were large flows of unskilled labour. Such flows result in temporary costs and social dislocations, including racial tensions, and there may be some dampening of wages at the bottom of the scale. But on the whole, immigration stimulates—rather than depresses—expansion and prosperity.

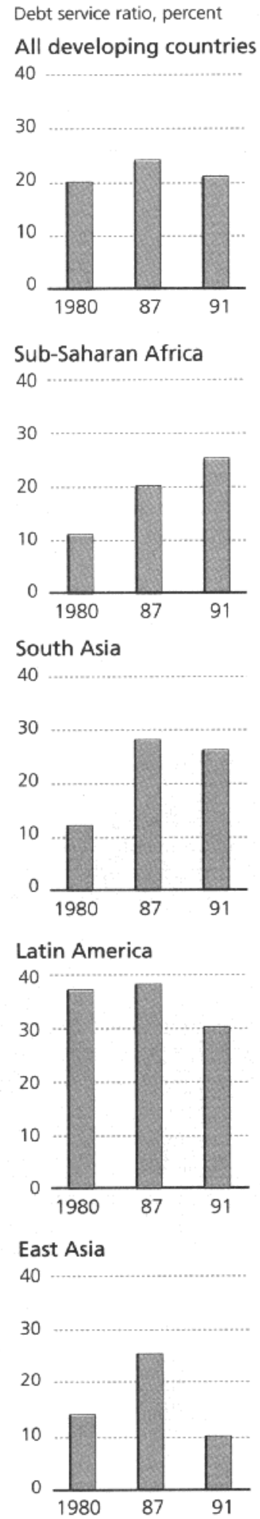
For political or social reasons, industrial countries choose to exclude large numbers of unskilled workers—as do some of the richer developing countries, such as the Republic of Korea and Singapore. If these restrictions on the international migration of unskilled labour were removed, remittances would increase sharply. To make up for the loss of earnings due to the restrictions on labour migration, the migrant-receiving countries might compensate the migrant-sending countries.

For the migrant-receiving countries to be persuaded of the value of such payments, they would need to be assured that the payments were being used to reduce emigration pressures. One way to achieve this objective would be to invest the payments in human development to create employment in the migrant-sending countries and reduce population growth.

Restrictions on trade

The industrial countries also place severe restrictions on the import of some goods

FIGURE 4.6
Burden of debt shifts to poorest regions



from developing countries, especially clothing, textiles, footwear, processed primary commodities and light manufactured goods. Moreover, protectionism against these goods is rising—frequently in the form of non-tariff barriers, which can more easily circumvent GATT rules. This is particularly galling for the developing countries now that their economies are more open than ever to outside competition. In fact, it is the affluent North, not the poorer South, that is now resisting structural adjustment of its economies.

How much do these restrictions hurt developing countries? Coming up with precise estimates is difficult, but the OECD estimates that their costs to developing countries exceed the value of aid flows to these countries. And *The Economist* reported that if rich countries abolished all their barriers to Third World goods, the increase in developing nations' exports would be worth twice what they receive in aid. For textiles and clothing alone, the damage has been estimated at more than $50 billion a year (box 4.1). Some studies have calculated that liberalizing the trade in agricultural commodities would yield an annual gain of $22 billion (in 1992 dollars) for the developing and formerly centrally planned economies (box 4.2).

So, the case is strong for a compensation scheme—operated perhaps by GATT or by its proposed successor organization, the World Trade Organization (discussed below). In addition to compensating developing countries, this scheme would provide a strong incentive for countries to liberalize their trade. Those that refuse to do this, fearing short-term labour dislocations, would have to pay an immediate price. And those that want to avoid paying compensation would be encouraged to reduce barriers. If such a scheme worked, it would progressively remove the obstacles to trade between rich and poor countries.

BOX 4.1

A $50 billion bill for trade barriers on textiles and clothing

The manufacture of textiles and clothing is one area where the developing countries have a comparative advantage—and achieve a trade surplus with the industrial countries. For many developing countries, these labour-intensive industries with simple technologies represent a great opportunity to accelerate the pace of their industrialization and diversify their exports away from primary commodities. In 1992, such exports were worth $60 billion.

But these are precisely the goods against which the industrial countries have raised the highest barriers—tariff and non-tariff—through the Multi-Fibre Arrangement (MFA). Under this arrangement, the industrial countries apply quotas to imports of textiles and clothing from developing countries, but not to those from other industrial countries—a clear breach of the GATT principles of non-discrimination.

The intention of the industrial countries is to preserve jobs in some of their weakest industries. But doing this is very expensive. The short-run gains for textile workers are more than offset by the higher prices that everyone has to pay as consumers. In the United Kingdom, it has been estimated that without the MFA, textiles and clothing (both locally produced and imported) would be 5% cheaper. In the United States, one study concluded that the annual cost of protecting one job was between two and eight times the average annual wage in the industry.

Developing countries pay an even higher cost. A study in the 1980s by the IMF suggested that a complete liberalization would enable developing countries to increase their exports of textiles by 82% and those of clothing by 93%.

In 1992, UNCTAD reported that quantitative restrictions affected 67% of the exports of textiles and clothing from developing countries. Average tariffs also remained high: 18% in the United Kingdom, 20% in Canada, 23% in Austria and 38% for some items in the United States.

Without tariff and non-tariff barriers, the developing countries could nearly double their exports of textiles and clothing. The industrial countries, by violating the principles of free trade, are costing the developing countries an estimated $50 billion a year—nearly equal to the total flow of foreign assistance.

Payment for services to ensure global human security

Many projects that the industrial countries support in the Third World have global effects and thus also serve their own interests—as well as those of other developing countries that may not be the direct recipients of their aid. Controlling the flow of drugs is an example, as is halting the spread of communicable diseases. To the extent that these projects serve the interest of industrial countries—and humanity—the funds to support them should be considered not as aid but as payment for services rendered. Although not mediated by markets, the payments are a type of market transaction, and they should not be confused with foreign aid (box 4.3).

Poor countries assist with the security of the rich ones in several ways.

- *Environmental controls*—The developing countries are home to most of the world's tropical forests, and it is in everyone's interest that these be preserved to help slow global warming and maintain biodiversity. So, the world community should share the cost of their preservation.

Similarly, the protection of the ozone layer demands global restraint in the production of chlorofluorocarbons (CFCs). The industrial countries have been responsible for most of the ozone destruction to date—through CFCs used as cheap coolants for refrigerators, for example. If the developing countries are to forgo cheap but destructive options, they will need to be compensated—through cash payments, perhaps, or through the provision of alternative technologies or the means to develop them.

A corollary of this principle is that countries that insist on polluting the global environment (usually the industrial ones) should be charged for such irresponsibility. The principle of "making the polluter pay" is already being applied within countries—and now is the time to apply the system internationally. This could be the basis for an international market for tradable permits for various forms of pollution (box 4.4). Some estimates suggest that such a system could transfer as much as 5% of the GNP of the richer nations to the poorer ones. Again, this should be considered not as aid but as a payment for services.

- *Destruction of nuclear weapons*—It is also in everyone's interest that the global nuclear threat be removed. Yet the task of destroying nuclear weapons and converting armaments factories to peaceful use falls disproportionately on some of the weakest countries—particularly the successor states of the former Soviet Union. It is unrealistic to expect them to finance this entirely out of their own resources. Instead, payments should be made on the basis of an international compact. Again, this should not be regarded as aid but as payment for services rendered. At present, however, both bilateral and multilateral donors are financing conversion programmes by raiding ODA funds intended for developing countries.
- *Controlling communicable diseases*—To contain such diseases as malaria, tuberculosis, cholera and HIV/AIDS is clearly in the interest of all countries, and it is much more efficient to do this as a global joint initiative rather than country by country. It makes much more sense to initiate worldwide vaccination campaigns against a contagious disease than to try to exclude individual carriers at national frontiers. It is easier to clean up the water supply in cholera-prone countries than to monitor all the agricul-

BOX 4.2

The cost of agricultural protection

The industrial countries have long aimed at agricultural self-sufficiency. They have achieved this partly by subsidizing their own farmers—and partly by raising tariff and non-tariff barriers against foreign producers. In most cases, however, this is now resulting in substantial overproduction, with products piling up in grain and butter "mountains".

This strategy is very expensive. In 1991, OECD subsidies for agriculture totalled $180 billion. In the European Union alone, protection costs around $38 billion a year, of which $2.6 billion is spent to store surpluses.

This may benefit farmers, but it is costly for everyone else in the industrial countries. Not only do people have to finance the subsidies by paying higher taxes, they also have to pay higher food bills since import barriers keep out cheaper foreign produce. For the industrial countries in 1990, the average additional bill for each non-farm family was $1,400 a year. In Japan and the European Free Trade Area, the cost was even higher—$3,000 per family.

Industrial country agricultural protectionism also causes damage in developing countries, though in these countries the farmers suffer. When industrial countries dump surpluses of products such as sugar, cereal and beef in developing countries, the local price plummets. In some African countries, where it costs $74 to produce 100 kilos of maize, the local market price has fallen to $21. A similar effect is evident in meat exports. In 1991, the European Community dumped 54 million tons of frozen and chilled beef in Africa—further impoverishing four million Sahelians who depend on cattle farming. In Côte d'Ivoire between 1975 and 1993, the proportion of beef imported from neighbouring countries of the Sahel fell from two-thirds to less than one-quarter. Developing country farmers also lose out because industrial countries use tariff and non-tariff barriers to exclude their produce.

Liberalizing the trade in agricultural commodities would benefit both industrial and developing countries. It has been estimated that complete liberalization would yield an annual gain (in 1992 dollars) of about $25 billion for OECD countries and $22 billion for the developing and formerly centrally planned countries.

BOX 4.3

Payment for services rendered—forest conservation in Costa Rica

If the industrial countries were to pay Costa Rica not to cut down its forests, how much would this cost? Consider the commercial value of the trees felled. In 1989, Costa Rica felled 10 million cubic metres of forest with an estimated net timber value of $422 million. Clearly, the industrial countries could not be expected to pay the entire cost of the harvest forgone, since Costa Rica would also gain in the long term by establishing sustainable rates of harvesting. But it does indicate an order of magnitude.

Similar, if smaller, payments have already been made to Costa Rica in "debt-for-nature" swaps. In 1988, the Netherlands purchased part of Costa Rica's external debt at a cost of $5 million and then wrote it off on the condition that Costa Rica spend an equivalent amount in local currency on forestry development. In 1989 and 1990, Sweden purchased a further $5.5 million of Costa Rica's debt for a similar purpose.

There is no need, however, to link these payments to debt reduction. They could be made directly—for services rendered.

BOX 4.4

Tradable permits for global pollution

One way of controlling greenhouse gases would be for an international authority to issue tradable permits that entitle the holders to emit a certain quantity of pollutants. The authority could lease the permits for a certain time and use the proceeds for environmental projects—or it could distribute the permits free of charge.

Countries that did not need their full quota could sell or lease their surplus to others. Those generating more pollution would thus pay more, and "ecological space" would be priced for all nations rather than being freely plundered by a few.

This scheme poses two major problems. First, it demands an international consensus on total permissible emissions of greenhouse gases—a consensus that might be difficult to reach. Second, if the distribution of permits were based on income, the largest share would go to industrial countries. If it were based on population, most would go to developing countries—though this would be the most equitable system since each person has an equal right to use the earth's atmosphere. An intermediate solution would be to allocate half the permits on the basis of population and the other half on the basis of GNP.

The industrial countries are the largest polluters, so if they wished to continue emitting at current levels, and a population- and GNP-based distribution were introduced, they would have to buy most of the permits from the developing countries. This could lead to a very significant transfer of resources from the rich to the poor nations: some estimates suggest $500 billion to $1 trillion a year. Such flows would be neither aid nor charity. They would be the outcome of a free market mechanism that penalizes the richer nations' overconsumption of the global commons.

The system would give all countries a strong incentive to reduce pollution—and generate funds that could be earmarked for environmental protection programmes in developing countries.

BOX 4.5

Global human security compacts

The components of human security are indivisible. Famine, pollution, ethnic violence—their consequences can spread rapidly around the globe. Yet the responses to these problems are usually national.

The Social Summit offers an opportunity to deal with global issues globally—through a series of global compacts to tackle the most urgent threats to peace and human development. These threats include:

- Drug trafficking
- International terrorism
- Nuclear proliferation
- Communicable diseases
- Environmental pollution and degradation
- Natural disasters
- Ethnic conflicts
- Excessive international migration.

Separate compacts could be negotiated for each threat. Potential sources of finance for such compacts are indicated in the table below.

Financing a global human security fund
(US$ billions)

Source of finance	Total revenues (1995–2000)	Annual revenues
1. A proportion of the potential peace dividend (20% of the amount saved by industrial countries and 10% of that saved by developing countries through a 3% reduction in global military spending)	85	14
2. A 0.05% tax on speculative international capital movements	900	150
3. A global tax on the consumption of non-renewable energy ($1 per barrel of oil and its equivalent in coal consumption)	395	66
4. One-third of existing ODA	120	20
Grand total	**1,500**	**250**

tural produce they export. Everyone will gain, too, if the spread of HIV/AIDS worldwide is slowed. This applies to both industrial and developing countries, but HIV/AIDS problems are likely to be greater in developing countries since they have fewer resources to control the epidemic.

The international community has a lot to gain by assisting in dealing with health threats in developing countries—investing money upstream rather than dealing with the consequences downstream. This is not to say that such threats come only from the South. They can come from anywhere. And countries that lack the means to combat them, but are nevertheless willing to take initiatives, act not only in their national interest—but in the global interest, too. They render a "global human security service".

• *Controlling narcotics*—Developing countries are the source of most internationally traded narcotics (see box 2.5). But the trade is fuelled by consumption, not just production, and sellers in the industrial countries get a big chunk of the profits. Poor farmers in developing countries get only around 1% of the street price. It is thus unreasonable to expect developing countries to bear the entire cost of clamping down on production and export. So far, the industrial countries have contributed mainly to administrative control and crop substitution programmes in developing countries, measures that have had limited impact. Experience shows that curbing demand for narcotics is more important than curbing supply. Rather than scattered national plans, a truly global effort is needed.

One paradox of these contributions is that the international community ends up paying in any case—and it pays a lot more downstream than it would have paid upstream. That is why it is important for the international community to address such issues through compacts for global human security (box 4.5).

How much should the industrial countries pay for the services that developing countries render in controlling drug production and export? In theory, they should pay for the costs borne by the developing countries. But these costs are difficult to measure. Payments might be not only directly programme-related but also include compensation for political risks taken by governments. In practice, a more pragmatic solution is simply for industrial countries to be generous in supporting programmes that are vital to global human security and development.

New funding sources

Changing the forms of development cooperation need not entail finding new funds—but it might.

- *Demilitarization funds*—These funds can be created from the cuts in military spending (chapter 3). And while a proportion will inevitably be taken up by the cost of conversion and the need to balance national budgets, many countries should also be able to earmark new funds for development cooperation.
- *Pollution taxes*—Tradable pollution permits, as suggested earlier, could also generate significant North-South financial flows and be an important source of development finance. Alternatively, a global tax of $1 per barrel on oil consumption (and its equivalent on coal consumption) could be considered to discourage excessive and wasteful use of non-renewable energy.
- *Taxing global foreign exchange movements*—Many transactions in the foreign exchange markets are purely speculative, not for international trade. About $1 trillion crosses international frontiers every 24 hours in response to the slightest tremor in interest or currency rates—or in anticipation of such changes. One way of dampening speculation would be to apply a tax (see special contribution by James Tobin, p. 70). Even a tax of 0.05% on the value of each transaction—Tobin suggests 0.5%—could raise around $150 billion a year.

These promising sources could yield the resources to meet many global security needs. And the Social Summit might consider establishing a global human security fund along these lines (see box 4.5).

Restructuring aid

Even though development cooperation in the years ahead will have to be a much more comprehensive concept, open to broader, more innovative approaches, aid will continue to be important. But it will have to be reassessed—with donors and recipients reconsidering why aid should be given and what form it should take. The end of the cold war offers a rare opportunity to make a fresh start and to focus aid much more sharply on strengthening global human security.

A new motivation for aid

The motives for foreign aid programmes have been diverse—sometimes driven by idealism, generosity and international solidarity, but often also by political expediency, ideological confrontation and commercial self-interest.

It is no surprise that such varied motives and objectives have produced some unsatisfactory outcomes—leading to considerable disenchantment on both sides of the ledger, for donors and recipients.

Some critics argue that foreign aid has failed altogether and should be stopped. This argument is obviously incorrect. While some aid has been misspent, and some development has been misdirected, legitimate criticism should lead to improvement, not despair.

The development process—along with foreign assistance—has had more successes than its critics usually concede (box 4.6). A comparison of the performance of industrial and developing countries at similar stages of economic development shows that the developing countries have made more progress in the past 30 years than the industrial countries managed in about a century.

Foreign aid has played a big part in this progress. Development cooperation has enabled vital technologies—from new industrial processes to vaccines for children to hybrid seeds for the Green Revolution—to spread rapidly throughout the developing world.

True, some development models have been wrong, and some technology has been inappropriate or environmentally destructive. And the donors have on occasion placed harsh conditions on their aid or blatantly violated the national sovereignty of

A small tax on global foreign exchange movements could yield $150 billion a year recipients. But there can be little doubt that, without this transfer of financial resources, technology, expertise and equipment, development in the poorer nations would have been slower.

Aid is not a very popular theme in either donor or recipient countries. The public in donor countries is questioning aid even more persistently now that the industrial countries are experiencing recession and

SPECIAL CONTRIBUTION

A tax on international currency transactions

Capital moves ever more freely across national borders, both by direct business investments and by purchases and sales of financial assets. Capital movements certainly can benefit the nations directly involved and the world economy as a whole, by directing world savings to high-productivity projects, wherever they may be. Savers in a capital-intensive economy often find more profitable investment opportunities in capital-poor areas.

However, the capital flows needed to achieve efficient allocation of world savings are today a minuscule fraction of worldwide transactions in currency markets, which are estimated to run at $1 trillion a day. Thanks to modern communications and computers, these deals are easy and cheap. The sun never sets on financial markets, from Hong Kong, to Frankfurt, to London, to New York, to Tokyo. Advanced industrial countries long ago abandoned exchange controls, and many developing countries are relaxing their regulations.

Here, as in so many other dimensions of human life on this globe, technologies have outrun political and social institutions. The bulk of those trillions of currency exchanges are speculations and arbitrages, seeking to make quick money on exchange rate fluctuations and on international interest rate differentials. They contribute little to rational long-term investment allocations. Exchange rates are at the mercy of the opinions of private speculators commanding vast sums. Their activities distort the signals exchange markets give for long-range investments and for trade. Interest rate arbitrages make it difficult for national central banks to follow monetary policies independent of those of major foreign central banks.

The mobility of financial capital across currencies is a problem whether exchange rates float freely in markets or are pegged by agreements among governments. The travails of the world economy since 1973 have inspired nostalgic longings for Bretton Woods, or for an older and purer gold standard. But no system in which parities can be adjusted on occasion eliminates opportunities for speculation or inhibitions on national monetary policies. But the recent crises of the European exchange rate mechanism demonstrated that neither individually nor collectively do central banks have sufficient reserves to withstand concerted pressures from speculators betting on the devaluation of weaker currencies.

A permanent single currency, as among the 50 states of the American union, would escape all this turbulence. The United States example shows that a currency union works to great advantage when sustained not only by centralized monetary authorities but also by other common institutions. In the absence of such institutions, an irrevocably unique world currency is many decades off.

In 1978, I proposed a realistic second-best option. An international uniform tax would be levied on spot transactions in foreign exchange (including deliveries pursuant to futures contracts and options). The proposal has two basic motivations. One is to increase the weight market participants give to long-range fundamentals relative to immediate speculative opportunities. The second is to allow greater autonomy to national monetary policy, by making possible larger wedges between short interest rates in different currencies.

A 0.5% tax on foreign exchange transactions is equivalent to a 4% difference in annual interest rates on three-month bills, a considerable deterrent to persons contemplating a quick round-trip to another currency. The intent is to slow down speculative capital movements; it would be too small to deter commodity trade or serious international capital commitments. The revenue potential is immense, over $1.5 trillion a year for the 0.5% tax.

J. M. Keynes in 1936 pointed out that a transaction tax could strengthen the weight of long-range fundamentals in stock-market pricing, as against speculators' guesses of the short-range behaviours of other speculators. The same is true of the foreign exchange markets.

The tax would have to be worldwide, at the same rate in all markets. Otherwise it could be evaded by executing transactions in jurisdictions with no tax or lower tax. Compliance would depend on the banking and market institutions where the vast bulk of currency exchanges take place. The transaction tax is designed to make international money markets compatible with modest national autonomy in monetary and macroeconomic policy. But it would certainly not permit governments and central banks to ignore the international repercussions of their policies. The G-7 would still need to coordinate policies, and their policies would still be powerful influences and constraints on other economies.

It is appropriate that the proceeds of an international tax be devoted to international purposes and be placed at the disposal of international institutions. This was my suggestion in 1978. Although raising revenues for international purposes was not the primary motivation of my proposal, it has been a major source of the recent upsurge of interest in it.

James Tobin

James Tobin, winner of the 1981 Nobel Prize for Economics unemployment (box 4.7). Why, they wonder, should they continue to send aid abroad when there is clearly so much poverty at home?

It is sobering to point out how the cake is currently divided. At present, the industrial countries commit an average of 15% of their combined GNPs to providing social safety nets at home, but they allocate only 0.3% of their combined GNPs to foreign aid. And these sums have to cover very different population sizes. The social safety nets in the rich countries serve around 100 million people living below the poverty line (with an average income of less than $5,000 a year). But the rich countries' aid to developing countries has to be shared among 1,300 million people living below the poverty line (with an average income of less than $300 a year).

The impression nevertheless persists that foreign aid is a major diversion of resources. But if all foreign aid were stopped tomorrow, this would enable the industrial countries to increase their domestic social safety nets from an average of 15.0% of GNP to only 15.3% of GNP—hardly the handsomest bargain in history.

The end of the cold war offers an opportunity to discard the ideological baggage that previously encumbered official aid programmes and made it difficult even for non-governmental organizations (NGOs) and commentators who supported aid in principle to justify it in practice. Governments need to ensure that their aid meets specific development objectives and to take care that it is neither misspent nor misappropriated.

Once aid has been targeted properly, it is important that the real purpose of aid be communicated to the public in donor countries. A small proportion of aid—say 2%, or around $1 billion a year—could be earmarked to cultivate public support through better communication of the objectives of aid, in particular, and of development cooperation, in general. The aim would not be to mislead or manipulate public opinion but to fulfil the duty of accountability. Bilateral donors could spend about half of these funds to reach their own people through the mass media (as the

BOX 4.6

Successes of foreign assistance

Foreign aid, often misdirected and misused, has its critics. But it also has many successes.

• *Food production*—Many developing countries have stepped up their food production through the Green Revolution, based on work on maize by US scientists in the 1930s. Plant geneticists extended their findings to wheat and maize in Mexico during the 1940s, and in two decades the country's wheat output tripled. Similarly important research was done at the International Rice Research Institute in the Philippines.

Since the 1960s, aid programmes have introduced the methods to many other countries. As a result, India has almost doubled its output and become self-sufficient in food. The Green Revolution in some cases worked against the interests of smaller farmers who could not afford the high-tech inputs—but it had a dramatic effect on overall production.

• *Infrastructure and communications*—Foreign aid has done much to establish physical infrastructure in developing countries. Loans and technical assistance have been crucial for the construction of roads, embankments and power stations. South Asia's transport and communications systems were developed mainly through foreign aid, as were Africa's airports.

• *Health*—One of the greatest successes of foreign aid in the health field has been the eradication of smallpox. Endemic in 31 countries in 1967, it had disappeared permanently by 1977. Other major successes include the immunization of children against the commonest childhood diseases. Ten years ago, 75 million children contracted measles each year, and 2.5 million died. Today, thanks to improvements in health care and immunization, annual measles cases have been cut to 25 million, and deaths to just over one million.

• *Family planning*—Foreign assistance has also played a major part in population programmes. Bangladesh, with significant foreign funding and technical support, has been remarkably successful in family planning. Between 1970 and 1990, the share of women of reproductive age using contraceptives rose from 3% to 40%, and the fertility rate declined from seven children per woman to less than five.

BOX 4.7

Public opinions on aid

Despite nearly five decades of development assistance, opinion polls suggest that people in the donor countries know little about it.

Most people—around 70% of those polled—approve of aid. But they rarely are aware of how much their country is giving. A survey in the Netherlands found that half the respondents had no idea what the figure might be. And in Canada, people assumed that their country was giving ten times more than it really was. They also typically underestimated the proportion of aid given as loans rather than grants.

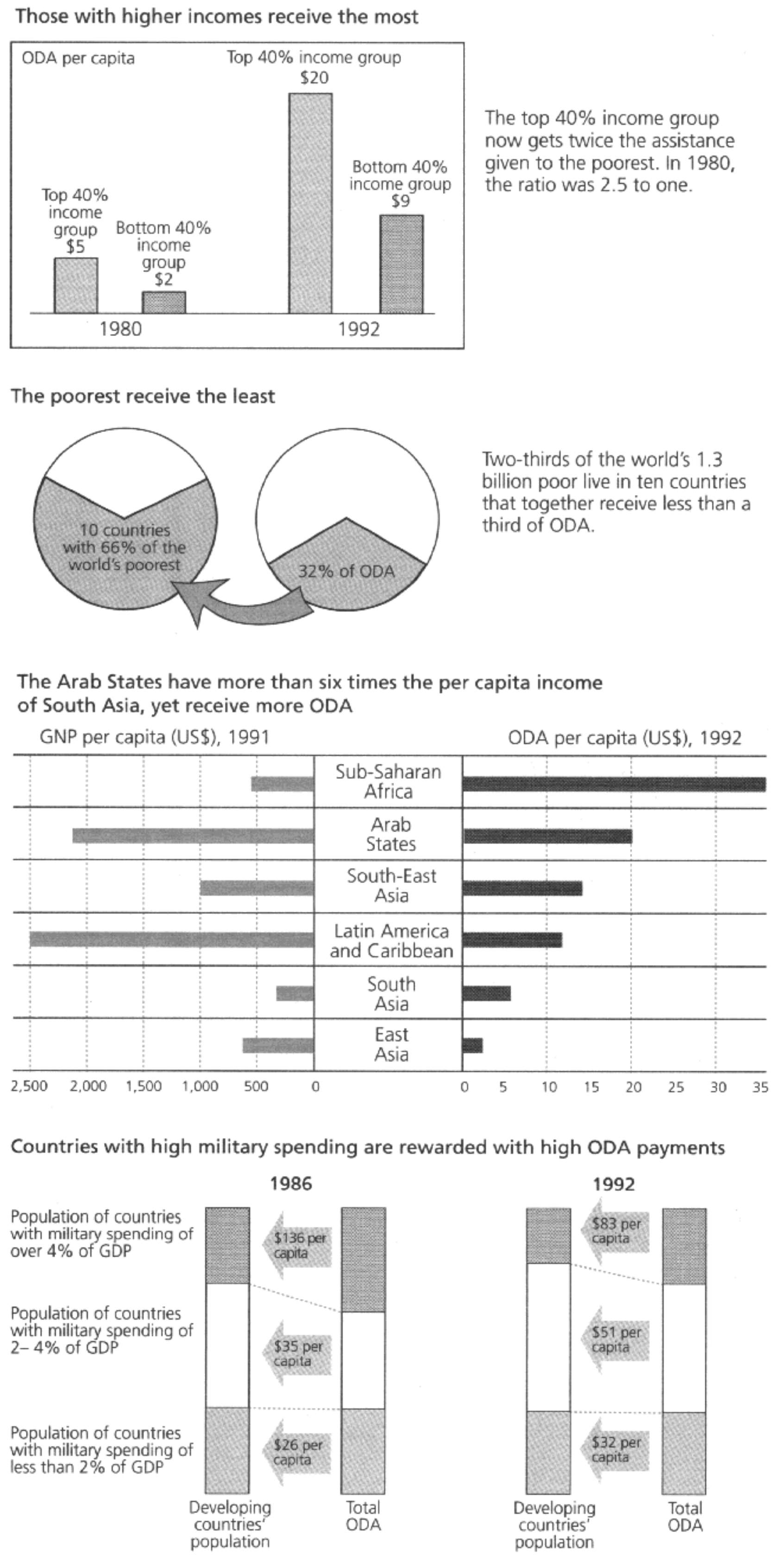
Most people see aid as helping the poor and mitigating the consequences of disasters. In a survey in the Netherlands in 1991, respondents identified the major problems they believed aid was combating: 20% said starvation, 15% poverty, 14% overpopulation and 12% drought—while 11% felt aid should be used to improve economic management.

Since most people approve of aid, they do not want their country to be seen as a "bad donor", giving proportionately less than other countries. They also disapprove strongly of tied aid: a survey in Canada found that 70% of respondents considered this an immoral and exploitative practice.

One of the most significant findings was that people do not place aid very high on the list of national priorities. They may approve of it, but they do not pay much attention to it. The donor governments clearly have a lot of work ahead if they are to explain their aid programmes to their constituents.

FIGURE 4.7

ODA distribution not linked to human development objectives



Netherlands does). The rest could be used to cultivate public support for multilateral assistance.

Aid fatigue has also been growing in the South. Those who have benefited most from aid have often been the elite in the urban areas and the richer peasants or landlords in the rural areas. Indeed, the poorest groups may sometimes suffer from aid programmes, as powerful local establishments pass on harsh aid conditionality and the burden of adjustment to politically weaker sections of society.

If aid is genuinely to benefit the poor, it will have to become much more participatory and people-centred. When there is an open public debate on aid, allowing people to decide whether their country needs aid and who should benefit, aid is likely to be more effective—and to help overcome disparities rather than reinforce them.

In general, aid programmes will have to become much more accountable to people in the South. Negotiation, planning and implementation should be much more open—enabling opposition groups, the media and other elements of civil society to insist on strict standards of accountability. Such transparency in aid negotiations is the best way to build public confidence.

Making aid serve specific objectives

Donor countries usually trot out a large number of objectives for aid. They believe, for example, that aid should help in reducing poverty, promoting human development, guaranteeing human rights, protecting the environment or improving national governance. But their programmes do not appear to be directly linked with these objectives. The main reason is that most aid allocations are country-focused rather than objective-focused—something clear from even a brief analysis of the record of development assistance.

- *Aid and poverty reduction*—Aid is not targeted at the poor. Donors send less than one-third of development assistance to the ten most populous countries, which are home to two-thirds of the world's poor (figure 4.7). As a result of these distortions, the richest 40% of the developing world receives twice as much aid per capita as the poorest 40%.

The contrasts among regions are even starker. The richer developing countries of the Middle East get $21 per capita, compared with $6 per capita for the poorer countries of South Asia. Egypt receives $280 in aid per poor person, while Bangladesh gets $19 and India only $7. India has 27% of the world's absolute poor, but receives only 5% of ODA (table 4.2).

This misdirection afflicts both bilateral and multilateral assistance. The United States gives $250 per capita to the high-income developing countries but only $1 per capita to the low-income countries. Multilateral donors do slightly better. The International Development Association (the soft-loan affiliate of the World Bank) gives about half of its aid to the ten countries with the highest number of poor people (table 4.3)—but it still has to ration its aid to countries such as India and Pakistan, despite their great poverty and comparatively better economic performance.

• *Aid and priority human development*—Aid is not focused on the priority areas of human development. Bilateral donors direct only 7% of their aid to such priority areas as basic education, primary health care, rural water supplies, nutrition programmes and family planning services (table 4.4). The differences among donors are marked: for Denmark the proportion is 25%, while for Germany it is only 2%. Note, however, that these ratios leave out programme assistance and contributions through multilateral agencies. The Development Assistance Committee of the OECD should present these flows in greater detail and analyse them more fully.

Multilateral institutions do somewhat better: they average around 16% (table 4.5). Again there is a spread, with the highest proportion for UNICEF, which has a specific mandate for development programmes for children. The agency with the lowest proportion is the African Development Bank. Although it serves the world's poorest region, it devotes only 4% of its aid to human development priorities.

Aid is not focused on the priority areas of human development

The small allocations for priority areas partly reflect the low spending on the social sector in general. And even in the social sector, the higher-status programmes get preference. Urban water supply and sanitation gets preference over rural, which gets only about 20% of total aid expenditures on wa-

TABLE 4.3
The World Bank and the poorest people, 1989/92
Ten developing countries with two-thirds of the world's poor[a]

Total poor people in these countries (millions)	855
Poor in these countries as a % of total world poor	65.9
Bilateral ODA allocation to these countries as a % of total bilateral ODA	31.7
World Bank allocation to these countries as a % of total World Bank lending	43.9
IDA	51.9
IBRD	40.0

a. Bangladesh, Brazil, China, Ethiopia, India, Indonesia, Nigeria, Pakistan, Philippines, Viet Nam.

TABLE 4.2
ODA to the poorest

Ten developing countries with highest number of poor people	Percentage of population in poverty 1980–90	Number of poor (millions) 1992	Poor as % of total world poor 1992	ODA per poor person (US$) 1992	ODA as % of total ODA 1992
India	40	350.0	26.9	7	5.2
China	9	105.0	8.1	28	6.5
Bangladesh	78	93.2	7.2	19	3.8
Brazil	47	72.4	5.6	3	0.5
Indonesia	25	47.8	3.7	44	4.6
Nigeria	40	46.4	3.6	7	0.5
Viet Nam	54	37.6	2.9	16	1.3
Philippines	54	35.2	2.7	49	3.8
Pakistan	28	35.0	2.7	33	2.6
Ethiopia	60	31.9	2.5	41	2.9
Total	29	854.5	65.9	17	31.7

Aid has often gone more to strategic allies than to poor nations

TABLE 4.4
Human priorities in bilateral aid allocations

Country	ODA (US$ millions) 1992	ODA as % of GNP 1992	Aid social allocation ratio 1989/91	Aid social priority ratio 1989/91	Aid human expenditure ratio 1989/92	Percentage of aid for human priorities[a] 1989/91
Denmark	1,392	1.02	38.7	64.6	0.255	25.0
Norway	1,226	1.12	22.9	78.2	0.200	17.9
Switzerland	1,139	0.46	29.3	50.7	0.068	14.9
Netherlands	2,741	0.86	25.9	53.2	0.118	13.8
United States	10,815	0.18	19.5	58.2	0.020	11.3
Australia	969	0.36	32.0	32.9	0.038	10.5
Canada	2,515	0.46	20.3	44.4	0.042	9.0
Italy	4,122	0.34	21.9	38.6	0.029	8.5
Finland	644	0.62	26.2	32.2	0.052	8.4
Austria	530	0.29	24.3	28.4	0.020	6.9
United Kingdom	3,126	0.30	15.4	42.8	0.020	6.6
France	7,823	0.59	13.1	27.4	0.021	3.6
Japan	11,128	0.30	9.7	35.4	0.010	3.4
Sweden	2,452	1.03	5.7	51.2	0.030	2.9
Germany	6,952	0.36	7.9	42.5	0.012	2.1
Total (15 DAC countries)	57,574	0.32	16.1	43.8	0.023	7.0

a. Human priorities include basic education, primary health care, safe drinking water, adequate sanitation, family planning and nutrition programmes.

ter supply and sanitation. Higher education gets preference over primary education, which gets less than 20% of total aid expenditure on education. Urban hospitals get preference over primary health care, which gets less than 30% of total aid expenditure on health.

Both donors and recipients encourage these distortions. The donors want their assistance to coincide with their commercial interests, so they prefer to use it as a vehicle to deliver their own equipment and consultants. For political reasons, they also want their aid to be highly visible, pushing them to focus more on the construction of buildings than on the recurrent spending needed to make good use of such buildings.

But the recipients must also share the blame (table 4.6). Having yet to recognize the importance of human development, many are tempted to undertake projects they believe will enhance their political prestige. They are particularly reluctant to budget adequate maintenance funds for running their social programmes.

- *Aid and military spending*—Aid has often gone more to strategic allies than to

TABLE 4.5
Human priorities in multilateral aid, 1989/91
(percent)

Agency	Aid social allocation ratio	Aid social priority ratio	ODA for human priorities[a]
UNICEF	91.3	85.2	77.8
IFAD[b]	16.8	100.0	16.8
IDB (including special funds)	22.5	72.9	16.4
IBRD/IDA	22.5	45.3	10.2
AsDB (including special funds)	31.6	30.7	9.7
AfDB/African Dev. Fund	20.7	20.0	4.1
Total	27.3	58.7	16.0

a. Human priorities include basic education, primary health care, safe drinking water, adequate sanitation, family planning and nutrition programmes.
b. 1988–89.

TABLE 4.6
Human priorities in bilateral aid expenditures

Country	Total ODA (US$ millions) 1992	ODA as % of GNP 1992	Percentage of ODA for human priorities 1989/91
Malaysia	213	0.4	30.3
Lesotho	142	13.3	24.4
Uganda	718	22.6	20.9
Namibia	140	6.2	20.1
Burkina Faso	444	16.1	19.6
Bangladesh	1,728	6.6	13.5
Pakistan	1,169	2.3	9.7
India	2,354	0.8	5.2
Indonesia	2,080	1.8	2.9
China	2,945	0.7	2.4

poor nations. And while donors have recently expressed a welcome concern about military spending levels in developing countries, their aid allocations have yet to respond.

Until 1986, bilateral donors on average gave five times as much assistance per capita to high military spenders as they gave to low military spenders (see figure 4.7). And even in 1992, the high military spenders were still getting two and a half times as much per capita as the low military spenders.

El Salvador received 16 times more US aid per poor person than did Bangladesh, even though the GNP per capita of Bangladesh is only one-fifth that of El Salvador. And Israel, because of its special strategic alliance with the United States, continued to receive a hundred times more per poor person than Bangladesh although it enjoyed a per capita income of over $12,000 (table 4.7).

TABLE 4.7
US ODA to selected strategic allies and to poor nations

Country	GNP per capita (US$) 1991	US aid per poor person (US$) 1990–91
Strategic allies		
Israel	12,110	176
El Salvador	1,090	28
Bolivia	650	26
Egypt	610	63
Poor countries		
Bangladesh	220	1.7
Madagascar	210	15.0
Tanzania	120	2.7
Mozambique	80	3.6

Multilateral institutions should have been free from cold war considerations. But since the same donors sat on their governing boards, many of the same influences prevailed. For example, recipient countries' military spending seemed to make little difference in the distribution of multilateral funds, such as the World Bank funds (table 4.8).

Some donors have protested that discriminating against high military spenders would have violated the recipients' national sovereignty—a strange argument, since donors have not been so bashful about violating national sovereignty in many other areas of government policy. They have required aid recipients to eliminate food subsidies, to devalue their currency, to privatize public enterprises and to show much greater respect for human rights.

This contrast was particularly noticeable during the structural adjustment period of the 1980s. Many donors were silent witnesses to severe cuts in social spending while military spending continued to rise. In Sub-Saharan Africa between 1960 and 1990, military spending increased from 0.7% of GNP to 3.0%. Developing countries were thus balancing their budgets by unbalancing human lives—not by cutting arms expenditures.

The major powers now seem to be taking a more active interest in disarmament, but with their arms industries attempting to

Many donors were silent witnesses to severe cuts in social spending while military spending continued to rise

TABLE 4.8
World Bank lending to countries experiencing a major rise or fall in military spending

Country	Military expenditures as % of GDP 1960	1990	Average annual World Bank loans per capita (US$) 1960s	1989–91	Loans as % of total World Bank loans 1960s	1989–91
Major rise in military spending						
Ethiopia	1.6	13.5	10.2	77.4	1.0	0.4
Tanzania	0.1	6.9	5.3	283.0	0.5	1.3
Zambia	1.1	3.2	5.7	92.7	0.5	0.4
Burkina Faso	0.6	2.8	0.1	68.2	0.0	0.3
Major fall in military spending						
Dominican Republic	5.0	0.8	0.0	41.3	0.0	0.2
Costa Rica	1.2	0.5	5.0	53.3	0.5	0.2

Note: IDA and IBRD commitments.

increase sales to developing countries, the effect so far has not been very marked.

• *Aid and human rights*—Many donors have suggested that aid recipients should be required to respect human rights and observe democratic processes. The United States, for example, adopted legislation for this purpose in the 1970s. And other donors —including Germany, Sweden and the Netherlands—have tried to link their assistance to the observance of human rights.

Technical cooperation programmes rarely have clear criteria

But rhetoric is running far ahead of reality, as a comparison of the per capita ODA received by democratic and authoritarian regimes shows. Indeed, for the United States in the 1980s, the relationship between aid and human rights violations has been perverse.

Multilateral donors also seem not to have been bothered by such considerations. They seem to prefer martial law regimes, quietly assuming that such regimes will promote political stability and improve economic management. After Bangladesh and the Philippines lifted martial law, their shares in the total loans given by the World Bank declined (table 4.9).

• *Aid and national capacity-building*—One central justification for aid is that in the long term it strengthens the capacity of developing countries—enabling them to stand on their own feet. Technical assistance was to be one of the most important instruments for this purpose.

In practice, the record of technical assistance has often been unsatisfactory. For one thing, its distribution has been skewed. The poorest countries, which have the lowest technical capacity, get an even smaller proportion of technical assistance (38%) than of ODA as a whole (46%). And even the assistance they receive seems to have built little national capacity. Sub-Saharan Africa has been receiving more than $3 billion a year in technical assistance, yet its human development indicators remain among the lowest in the world.

TABLE 4.9
World Bank loans and democracy
(annual average, US$ millions)

Philippines	1980–85	1986–93
IBRD	390	532
IDA	—	22
IBRD+IDA	390	554
Share in total IBRD +IDA loans (%)	2.9	2.6
Bangladesh	**1988–90**	**1992–93**
IDA	397	213
Share in total IDA loans (%)	8.0	3.2

Perhaps most disturbing is that, after 40 years, 90% of the $12 billion a year in technical assistance is still spent on foreign expertise—despite the fact that national experts are now available in many fields.

Often poorly planned and monitored, technical cooperation programmes rarely have clear criteria for assessing the existing technical capacity of recipient countries or for measuring and monitoring additional capacity-building. Nor do they seem able to forecast when each country is expected to graduate from the need for technical assistance.

Technical assistance is clearly in need of reform, and the opportunities for such reform are discussed later in this chapter.

• *Aid and governance*—Donors have also expressed concern in recent years about the need for "good governance"—for democratic pluralism, for the rule of law, for a less regulated economy and for a clean and noncorrupt administration. In general, however, there seems to be little agreement among donors on what good governance entails—or on how it should be monitored or built into aid conditionality.

The donors have also argued for greater decentralization, but they rarely monitor how much of their aid goes through local or provincial governments or NGOs. If anything, as *Human Development Report 1993* concluded, the aid they give has increased centralization, not decreased it.

These are just a few of the goals donors have identified for their aid—goals that their actual programmes do not serve. There are many other objectives as well—perhaps too many. The environment, for example, has become a priority, yet here again there is an awkward gap between declared goals and implementation.

Developing countries protest—reasonably—that they are subject to a host of objectives interpreted differently by different donors and pursued with fitful resolve. Aid could be much more effective if it were focused on a few clear global objectives, allocated on that basis and then carefully monitored to ensure a direct connection between intention and outcome.

If aid were directly linked to achieving certain human development priority objectives and emerging global human security threats, this would have a profound impact on its distribution. ODA allocations would be determined by how much each country could contribute towards meeting these objectives. Rather than being doled out to favourite clients, ODA would go where the need was greatest. It would become less a matter of charity and more an investment in global human security.

A compact for human development

One of the most important ways of linking aid to specific objectives is to negotiate a global compact for human development. In this compact, all nations would pledge to ensure that within, say, the next ten years, all their people are provided with at least the very basic human development needs. This would include such social services as primary education and primary health care. It would also give people equitable access to the assets—such as land and credit—needed to permit a decent standard of living. Achieving these objectives would probably require additional expenditure of $30 to $40 billion a year (box 4.8). Many countries can achieve these objectives using their own resources—often by restructuring their expenditure priorities. Others will need outside assistance.

One way to implement the global human development compact would be through a 20:20 formula. Experience shows that countries can achieve decent levels of human development if their governments allocate, on average, 20% of public spending to human development priorities.

Some poor countries may not, however, be able to afford this. And in some, poverty and deprivation may be so severe that governments would have to allocate more than 20% of their spending to achieve the human development targets.

Aid could help fill the gap, with donors allocating a significant share of their aid budgets to human development priorities. Again, 20% would be an appropriate figure.

Developing countries devote on average only 13% of their national budgets ($57 billion a year) to human development pri-

BOX 4.8

A 20:20 compact on human development

The global community has long hoped for the time when it could meet the basic needs of every human being. At times this has seemed an unrealistic goal, but it is now clear that it is financially feasible. And the Social Summit now presents the opportunity to turn this hope into reality.

The target over the next ten years should be that:

- Everyone has access to basic education.
- Everyone has access to primary health care, clean drinking water and sanitation.
- All children are immunized.
- Maternal mortality is halved.
- All willing couples have access to family planning services.
- Adult illiteracy is reduced to half the current figure. Female illiteracy is no higher than male illiteracy, and girls' education is on a par with that of boys.
- Severe malnutrition is eliminated, and moderate malnutrition halved.
- World population moves towards stabilization at 7.3 billion by 2015.
- Credit schemes are extended to the poor to enable them to seek self-employment and a sustainable livelihood.

Achieving these goals would require additional spending on the order of $30 to $40 billion a year. This seems a sizable amount, but it could be marshalled without having to find new money—merely by making better use of existing resources. Required is a 20:20 compact on human development—under which 20% of developing country budgets and 20% of industrial country aid are allocated to human priority expenditure.

For this compact, all countries would have to commit themselves to the following steps:

1. Drawing up national human development profiles—containing all the basic data and the benchmarks against which progress will be measured.
2. Establishing national human development priorities through a participatory national dialogue that includes all elements of civil society, and designing the strategies to achieve them.
3. Participating in annual reviews of the 20:20 compact—to be held as joint donor-recipient meetings on each country as well as annual reviews in the Economic and Social Council.

If the Social Summit were to agree on such a compact, it could give new hope to the majority of humankind.

BOX TABLE

Costing essential human development targets, 1995–2005

Sector	Specific targets	Approximate annual additional costs
Education	• Basic education for all and adult illiteracy reduced by 50%, with female illiteracy no higher than male	$5 to $6 billion
Health	• Primary health care for all, including complete immunization of all children • Reduction of under-five mortality by one-half or to 70 per 1,000 live births, whichever is less • Elimination of severe malnutrition and a 50% reduction in moderate malnutrition	$5 to $7 billion
Population	• Basic family planning package available to all willing couples	$10 to $12 billion
Low-cost water supply and sanitation	• Universal access to safe drinking water	$10 to $15 billion
Total for priority human agenda		**$30 to $40 billion**

orities. But they have considerable scope for economies in many areas—military expenditure, loss-making public enterprises and wasteful prestige development projects. Diverting funds could raise the proportion of government budgets devoted to human development priorities to at least 20% ($88 billion a year). Obviously, the restructuring would differ from one country to another.

Donor countries likewise have considerable scope for improvement. On average, they allocate only 7% of their aid to human priority concerns. The problem here is not so much the proportion of aid to the social sector (16% on average) as the distribution within the social sector. In education, less than 20% of the $7 billion allocation goes to primary education. And for some countries, the proportion is particularly low: Germany 6%, Canada 4% and the United Kingdom 4%. Similarly, in water supply and sanitation, less than 20% of aid goes to the rural areas and very little to low-cost mass-coverage programmes. The situation is somewhat better in health—with about 30% for basic health facilities.

The political, financial and humanitarian case for a 20:20 compact is strong

Donors thus have enormous scope for reallocating their aid. By earmarking more funds for the social sector and by concentrating more on priority areas, they should be able to lift the proportion going to human priority goals to 20%. Again, this is an average. Some donors have greater scope for restructuring than others.

The compact could thus be based on shared responsibility. Developing countries would allocate 20% of their budgets, and donors 20% of their aid, to human development priorities. This mutual 20:20 commitment would mean that three-fourths of extra funds would come from developing countries and one-fourth from the donors.

The political, financial and humanitarian case for such a compact is strong. It could ensure that within the next ten years every nation, poor and rich, would have reached a basic threshold of human development.

A global social safety net

Today, aid contributions are voluntary, and the aid burden is distributed randomly and inequitably. Because the flows are subject to annual appropriations by national parliaments, they can be very unpredictable. Poverty and deprivation, by contrast, are more persistent and enduring.

Even if a 20:20 compact on human development could, within ten years, meet the most basic human needs, this would still leave much inequity and relative poverty. How can international development cooperation be better linked with poverty and deprivation? One way would be to establish a global social safety net.

The size of a global social safety net could be set in terms of essential consumption—perhaps a minimum of $1 per person per day. Or it could be set in terms of certain public goods—such as health, education and nutrition.

However defined, the net would need to be sustained by adequate funding, with the exact contribution a matter of negotiation. But the principle should be that contributions are obligatory and follow a fixed formula so that annual flows are predictable.

One possibility would be to levy a world income tax of around 0.1% on the richest nations (those with a per capita GNP above $10,000). This would yield around $20 billion a year. The rate could be a uniform 0.1% or vary progressively with income per head.

The recipients would also be a clearly defined group of countries—those with a per capita GNP of less than $2,000. Within this group, the basis for distribution could be twofold. First, allocations should be adjusted to the human development index of each country, with the lowest HDI countries making the fastest progress identified as deserving the greatest help. Second, allocations should be modified according to the recipient's spending on defence—to ensure that these fungible funds promote human development rather than merely permit greater arms expenditure. Allocations could, for example, vary inversely with the country's ratio of military to social spending.

The details of such a scheme could be a matter of international negotiation before and during the Social Summit. But the basic idea is to establish for the first time a firm social safety net for the poorer nations. This global net should be on top of present ODA. If that is not possible, the first 0.1% of GNP should be earmarked from present ODA contributions for the social safety net—with the balance promoting specific global human security objectives.

Balancing emergency and development assistance

Although many long-term development needs are still unmet, there also seem to be a growing number of immediate emergencies that demand international support—partly because natural disasters have been increasing in number and in impact (see box 2.4). The global community, prompted by the communications media, now accepts a bigger responsibility to assist in such man-made disasters as wars and ethnic strife.

This peacekeeping is becoming expensive. The United Nations, in its first 48 years of existence, committed some $4 billion to peacekeeping operations. It spent the same amount in 1993 alone. Meanwhile, development spending has remained stagnant—or even declined.

Since emergency aid is always more urgent and more easily negotiated with otherwise reluctant legislatures, it seems inevitable that it will continue to draw funds away from long-term development.

The crises may seem to arrive suddenly, but they are the outcome of years of failed development—of environmental degradation leading to a collapse of ecosystems, or of decades of autocratic rule leading to the collapse of the state. The response to such deep-seated problems cannot merely be emergency aid. The crises in Angola, Haiti, Mozambique, Somalia, Sudan, Central Asia or former Yugoslavia cannot be resolved by quick, intensive interventions. Military force can accomplish little on its own if there is no prospect of longer-term development.

By the same token, diverting aid from other parts of the developing world to countries in crisis merely stores up problems for the future—increasing the likelihood of more Somalias and more Yugoslavias in the years ahead.

The only solution is to review emergency aid and long-term development aid together. Today's allocations are based on the assumption that emergency aid tops up development aid. In some cases, this is true—as with the assistance to Pakistan to help with the influx of Afghan refugees. But in many other cases, it is not. Emergency assistance to Bosnia, Liberia and Somalia has had to deal with complete national breakdowns—where there is almost nothing to work with, nothing to build on. This is much more expensive and demands a new level of funding.

Emergency aid is beginning to draw funds away from long-term development

To meet current challenges adequately, the UN's emergency fund needs to be raised from its current $50 million to something nearer $5 billion. This would save development funds from raids in the name of emergency.

It is important, therefore, that this be new money rather than funds redirected from development aid. Where should it come from? One obvious source is the defence budgets of the industrial countries—a proposal the Secretary-General has already made in his *Agenda for Peace.* After all, if the United Nations becomes more involved in peacekeeping, it is taking on a role previously played by national armies. But there are also other potential sources apart from the peace dividend, such as a tax on arms trade.

A fundamental reform of technical assistance

The original objective of technical assistance was to close the "gap", particularly the technical capacity gap, between industrial and developing countries—by accelerating the transfer of knowledge, skills and expertise and thus by building national capacity. In a few cases, it has done this. But as the foregoing analysis has shown, in many others, it has had precisely the opposite effect—reining in national capacity rather than unleashing it.

Are there any common factors in the successes? One seems to be that the best projects and programmes have involved well-defined and established technologies that have remained relatively free from changes in developmental theory and fashion. These include civil aviation, meteorology, plant protection, various types of education (particularly vocational training) and the eradication of such diseases as malaria. A second common factor is allowing enough time to test alternative approaches—for research, for trial and error, for learning by doing. A third is fostering the participation of enough qualified national counterparts. And a fourth is creating a positive environment in the receiving country.

Many of these conditions have prevailed only at certain times, in certain places and in certain fields. Some Asian countries—whose technical assistance peaked in the 1950s and 1960s—have benefited from better overall economic conditions and from the greater persistence and patience of donors.

On why so many other programmes have failed, there seems to be quite a long list of reasons (box 4.9). Of course, many of the same criticisms can also be applied to capital assistance.

How can technical assistance be improved—taking advantage of the successes of the past and avoiding the many known pitfalls?

One simple and direct solution would be to give the technical assistance funds directly to developing countries—and let them decide how to spend the money. Offering the resources as budgetary support would enable the receiving governments to employ national experts where available or international ones where not. This would have several advantages: the experts would be more appropriate to the country's real needs, and they would probably cost less since their salaries would be determined by international market forces rather than by living costs in the sending country. The result would be a more efficient, effective and equitable allocation of development funds.

Technical assistance could also be improved through regional development cooperation. This may even open up new funding sources and encourage self-financing. Such an approach is described in the proposal by Abdus Salam for an Islamic Science Foundation (special contribution, facing page).

BOX 4.9

Why failed economists visit

In 1962, the British development economist Dudley Seers wrote an article on "why visiting economists fail" as advisers in developing countries. It is still worth reading. Among his reasons: incompetence in personal relations, getting into a muddle, taking on too much, finding it hard to cope with the ubiquitous xenophobia—and not knowing who not to be seen drinking with. In addition, there were difficulties in finding suitable counterparts, in assembling reliable statistical information and in often having to act as a psychotherapist rather than as an economist.

Seers was too gracious to mention some of the other failures of the visiting experts: being more interested in enjoying the sunshine, buying antiques, being treated as an important person or gathering material for a career-advancing publication than in doing something useful for the country.

Few experts have the characteristics that make a good adviser, and those who do are in great demand in their own countries. A companion piece to Seers's article might therefore be entitled "Why Failed Economists Visit". It could include other reasons for the failure of visiting economists—and the visits of failed economists.

- Technical assistance, unlike turnips, has no independent measure of its value to the recipient. Instead, output is measured by input: salaries or man-months—conveying a deceptive impression of achievement when nothing may have been achieved.
- Developing countries have a limited absorptive capacity, not just for capital but also for technical assistance. Even if foreign experts are good at teaching skills to counterparts (and they usually are not), this is not enough. Unless attitudes and institutions are changed, the assistance "does not take". Without roots, cut flowers wither and die.
- Many UN agencies suffer from a technocratic bias: they believe in technical fixes without much regard for cultural and social factors—assuming, for example, that setting up a seed distribution system or a water supply project requires no knowledge of local patterns of personal relations.
- Technical assistance has not promoted greater self-reliance. Instead, indigenous institutions remain weak. Indeed, in the name of national capacity-building, much national expertise has been displaced.
- Technical assistance can be very costly: in 1989 in Sub-Saharan Africa alone, it cost $3.3 billion—a quarter of the development assistance to the region. Yet Sub-Saharan Africa's human development indicators are the lowest in the world, questionable testimony to the effectiveness of national capacity-building.
- There is salary apartheid for similar expertise—with foreign experts sometimes getting several times as much as national experts.
- There has never been an explicit policy on when countries are ready to graduate from technical assistance. Perversely, the index of success is usually the arrival of ever-greater flows of technical assistance—which should instead be regarded as an index of failure.

New forms of data on development cooperation

One of the most significant obstacles to reforming development cooperation is the lack of appropriately organized information. It is easy enough to discern from existing data sources who is giving aid and who is receiving it—and the broad sectors to which it is allocated. But it is much more difficult to work out how the aid is being used and what objectives it is serving. It is also difficult to see how aid fits into the general picture of resource flows to and from countries. It would thus be very useful to have comprehensive, integrated country balance sheets of resource flows.

Reshaping aid so that it meets particular objectives will also require reshaping the presentation of data. The first step should be for the Development Assistance Committee of the OECD, and UNDP, to establish a system that itemizes bilateral and multilateral assistance according to commonly agreed national and global objectives (technical note 2). The OECD could do this from the point of view of donors, and UNDP could use its network of country offices to provide reports from the point of view of recipients. Unless donors and recipients establish a clear link between aid and the objectives it is supposed to serve (and regularly monitor performance), the yawning gap between rhetoric and reality is likely to persist.

A new framework of global governance

A new design of development cooperation will be incomplete without a new institutional framework of global governance—one that defends the new frontiers of human security with more democratic partnerships between nations.

SPECIAL CONTRIBUTION

Proposal for an Islamic Science Foundation

No Muslim country possesses a high level of scientific and technological competence. While the world economy is getting more and more global, the gap between the industrial countries and the Muslim communities continues to widen, and scientific and technological advances remain confined to the rich countries of the North.

The Islamic countries could make a decisive breakthrough by creating an Islamic Science Foundation. The Foundation would be sponsored by Muslim countries and operate within them. It would be non-political, purely scientific and run by eminent people of science and technology from the Muslim World.

The Foundation would have two principal objectives. First, to build up high-level scientific institutions and personnel—strengthening existing communities of scientists and creating new ones where none currently exist. Second, to build up and strengthen international institutions for advanced scientific research, both pure and applied, relevant to the needs of Muslim countries, and with an emphasis on international standards of quality and attainment.

The Foundation would initially concentrate on five main areas:

- *High-level training*—Scholars would be sponsored abroad to acquire knowledge in areas where gaps exist in the Muslim countries. Some 3,000 would be supported annually with continued support for 1,000 after they return home—about 15% of the Foundation's budget.
- *Enhancing research quality*—Contracts will be awarded to university departments and research centres to strengthen their work in selected scientific fields—about 25% of the budget.
- *Contact with the world scientific community*—To promote the interchange of ideas and criticism on which science thrives, the Foundation will support 3,000 two-way visits of scholars and fellows, as well as the holding of international symposia and conferences—about 10% of the budget.
- *Sponsoring applied research*—To strengthen existing institutions and create new ones devoted to the problems of the Middle East and the Arab World—including health, technology, agriculture, environment and water resources—about 40% of the budget.
- *Popularizing science*—To help make the population of the Islamic countries more scientifically and technologically minded, by making use of the mass media, scientific museums, libraries and exhibitions. It would also help modernize science and technology syllabi, and award prizes for discoveries and inventions.

The Foundation would have its headquarters at the seat of the Islamic Conference and would be open to sponsorship by all its members. Its Board of Trustees would consist of representatives of governments, professors and scientists. It would also have an Executive Council of eminent scientists which would be free from political interference.

The Foundation would be a non-profit tax-free body, which as a non-governmental organization would build up links with the United Nations, UNESCO and the UN University system. It would have an endowment fund of at least $5 billion and a projected annual income of $300 to $350 million. It is envisaged that the sponsoring countries would pledge the endowment fund as a fixed proportion of export earnings and provide it in four annual instalments.

Creating such a Foundation should be an urgent priority for the Muslim World. It would enable Muslim societies to recapture their glorious heritage of scientific pre-eminence and to compete as equals in the world of tomorrow.

Abdus Salam

Abdus Salam, winner of the 1979 Nobel Prize for Physics

The past 50 years of global governance

The edifice of global governance was last rebuilt in the 1940s after the Second World War. With memories of the great depression of the 1930s still fresh, the overarching principle was "never again". Unemployment had been heavy—so the new objective was full employment. Trade and investment rules had broken down—so the new objective was to prevent beggar-thy-neighbour policies and to manage the world economy according to internationally agreed rules. The international monetary system had collapsed—so the new objective was to have stable currencies with agreed procedures for adjustment. Deflation had been prolonged—so the new objective was expansionary economic policies. Commodity prices had crashed—so the new objective was to maintain and stabilize commodity prices. Protectionism had been rising—so the new objective was to move towards liberal and agreed rules for expanding world trade, and to support countries that had balance of payments deficits.

On the political front, the 1930s had seen the withering away of the League of Nations—so the objective was to build a new and stronger organization, the United Nations, to provide the political and social security indispensable for an expanding world economy.

The international institutions that emerged in the 1940s were largely a reaction to the 1930s and partly the fruits of an inspired vision of the future.

The institutions of global governance created in the 1940s (UN, World Bank, IMF, GATT) have played a major role in the past five decades in keeping the world at peace and in accelerating global economic growth and trade liberalization. They certainly succeeded in avoiding any recurrence of the experience of the pre-1940s. No world war broke out. No worldwide depression occurred. But they were far less successful in narrowing world income disparities or in reducing global poverty. The role of the Bretton Woods institutions was undermined considerably after 1970 as global economic decision-making shifted either to smaller groups, such as the G-7, or to the workings of the international capital markets. The United Nations, for its part, started with enormous promise but was never allowed to play its role as the fourth pillar of development (box 4.10).

BOX 4.10

Does the United Nations work in the development field?

So much attention has focused on the weaknesses of the UN system that its successes are generally forgotten. While it is true that the development role of the United Nations has never been fully recognized or strengthened, UN agencies still have a number of notable achievements to their credit. To mention but a few:

WHO helped mobilize worldwide action for the eradication of smallpox. FAO created an early warning and monitoring network for food production. UNESCO has helped countries launch literacy campaigns and expand education. ILO, in the 1970s, launched the World Employment Programme and has since undertaken other pioneering work in the employment field. UNICEF has been very effective at promoting universal immunization and focusing world attention on the needs of children. UNFPA put the issue of balanced population growth on the world's agenda. And UNDP has been a respected partner of many developing countries because of its multidisciplinarity and neutrality.

The smaller specialized agencies have also made significant contributions, if in a much quieter fashion. The International Telecommunication Union, the World Meteorological Organization, the International Civil Aviation Organization and the Universal Postal Union have not only helped regulate important aspects of international cooperation, they have also provided technical assistance to the poorer (or weaker) countries.

The United Nations Statistical Office and other specialized agencies have helped build many of the statistical systems used to track economic and social developments—including the standardized system of national accounts underlying the statistics on GNP, production, consumption, trade and transfers throughout the world.

Moreover, many important policy initiatives, even if subsequently implemented elsewhere, started within the United Nations:

- *The International Development Association*—The World Bank set up its soft-loan facility, IDA, in 1960 as a response to the proposal for a Special United Nations Fund for Economic Development (SUNFED).
- *The Compensatory Finance Facility*—The IMF created this facility in 1963 to finance export shortfalls in response to a proposal in 1962 by the UN Commission on International Commodity Trade.
- *Special Drawing Rights*—The IMF created SDRs following an UNCTAD report (the Hart-Kaldor-Tinbergen Report) that proposed the creation of a new form of international liquidity.
- *The Generalized System of Preferences*—This followed continuing pressure from the UN, especially UNCTAD, for developing countries to receive special consideration when the rules of a global trading system were being formulated.
- *Changes in policy dialogue*—Publications such as UNICEF's *Adjustment with a Human Face* and UNDP's *Human Development Reports* have had considerable influence on donors—including the Bretton Woods institutions.

Despite these successes, the inadequacies of the UN system have grown increasingly apparent.

A series of international conferences in the past three decades identified many of the priority needs—for children, women, population, food, nutrition, health, education, employment, human settlements, science and technology, environment and energy. The Alma Ata Conference on primary health care for all in 1978, the Jomtien Conference on basic education for all in 1990, the Children's Summit in 1990, the Earth Summit in 1992 and the Women's Conferences in 1975, 1980 and 1985 have been important milestones in identifying key human priorities. But followup has been weak, and the UN system has often failed to generate the focus, organization or resources needed to support accelerated international action. This needs to change in the future.

A major problem for the United Nations has been inadequacy of financial resources. To put it quite bluntly, many donors have always preferred the Bretton Woods system of one-dollar, one-vote over the one-country, one-vote system at the UN. So, they gave the UN far fewer resources than the Bretton Woods organizations, or the multilateral development banks or the bilateral agencies. This lack of resources reduced the UN's effectiveness—and in a vicious circle this became a further reason to deny it resources.

The need for strengthened institutions of global governance is much greater today than ever before. Markets have become globalized. Issues of prosperity, as well as of poverty, are linking the concerns of all people. Nation-states are weakening as decision-making becomes either local or global. In such a milieu, the long-term perspective for global governance needs to be re-examined.

New institutions for the 21st century

The imperatives of global human security and development in the 21st century will require a wave of creative innovations similar to that in the 1940s. At least three institutional changes are needed urgently:

- The design of a strengthened United Nations role in sustainable human development.
- The creation of an Economic Security Council to reflect a much broader concept of security.
- The restructuring and strengthening of the existing institutions for global economic management.

The only feasible strategy is to enlarge the scope of existing institutions—step by step—to cope with the challenges of the 21st century.

A United Nations human development umbrella

The new compulsions of human security demand a strong role from the United Nations in promoting sustainable human development. Some of the elements for such an effort are already in place. Others can be developed in an agreed step-by-step approach. The final objective should be to enable the United Nations to serve the international community as its strongest human development pillar.

The following evolution may be necessary for this purpose:

- *A sustainable human development paradigm*—The concerned agencies of the UN need to identify common missions and complementary approaches to helping countries realize their sustainable human development goals. Stimulus will come from the Secretary-General's *Agenda for Development* and from other efforts under way to better define a common sense of purpose and unifying themes.
- *A coordinated effort by development funds*—The development funds of the UN (UNDP, UNICEF, UNFPA, IFAD, WFP) provide substantial resources to developing countries—about $5 billion a year. The pooled resources of these UN funds are nearly as large as those of IDA (the soft-loan window of the World Bank). Moreover, these funds are providing grants, not credits, so that there is a substantial net transfer of resources to developing countries. These development funds are now discussing how best to strengthen their overall development effort and coordinate their assistance strategies, recognizing the need for a more integrated, effective and efficient UN development system. Much closer cooperation among the leadership of these institutions, both at headquarters and at the country level, as well as with the leadership of the Economic and Social Council, will be necessary in the days ahead.
- *Additional resources and responsibilities*—If additional resources are generated to support human development strategies—whether through the 20:20 compact or a global human security fund, as discussed earlier—a strengthened UN development system would be in an excellent position to manage and monitor these additional resources and to assume the new responsibilities for social development that could emerge from the Social Summit.

Some analysts have gone so far as to suggest the establishment of an integrated Human Development Agency. It would be

The United Nations must serve the international community as its strongest human development pillar far better, however, to take advantage of the relative strengths of each UN development fund—drawing on the large constituencies and complementary development mandates each has created over time—than to aim at an outright merger. More critical than any superficial administrative merger are a substantive merger of the development funds' policy frameworks and some restructuring and management reforms—as well as the overall umbrella of sustainable human development. But this consideration does place a major responsibility on all the existing UN development funds to get together on a common platform and a well-considered structure.

An Economic Security Council can provide the highest-level decision-making forum for global human security

Economic Security Council

A further step in strengthening the UN role in sustainable human development would be the creation of an Economic Security Council—a decision-making forum at the highest level to review the threats to global human security and agree on required actions.

The council must be kept small and manageable. Its membership could consist of 11 permanent members from the main industrial and more populous developing countries. Another 11 members could be added on a rotating basis from various geographical and political constituencies.

An intermediate alternative would be to extend the mandate of the present Security Council so that it could consider not just military threats but also threats to peace from economic and social crises. For this purpose, it may be necessary to establish a separate entity within the council—one with an enlarged membership and a new role in socio-economic security.

Another possibility would be to use the Economic and Social Council—establishing within it a small and manageable executive board that could meet in permanent session and make decisions to be ratified later by the entire body.

The voting system in an Economic Security Council should not include a veto. But to reassure all constituencies that their legitimate interests would be protected, the voting system should be to have all decisions ratified not just by a majority of all members but also by majorities of the industrial and the developing countries.

As well as coordinating the activities of the UN agencies, the Economic Security Council would act as a watchdog over the policy direction of all international and regional financial institutions. To implement its decisions effectively, the council should have access to the global human security fund proposed earlier. The council would need to be backed by a professional secretariat to prepare policy options for its consideration.

World Central Bank

A World Central Bank is essential for the 21st century—for sound macroeconomic management, for global financial stability and for assisting the economic expansion of the poorer nations. It would perform five functions:

- Help stabilize global economic activity.
- Act as a lender of last resort to financial institutions.
- Calm the financial markets when they become jittery or disorderly.
- Regulate financial institutions, particularly the deposit banks.
- Create and regulate new international liquidity.

The IMF was supposed to perform all these functions, but the industrial countries have been reluctant to give it the responsibility for them, weakening its role considerably over the past two decades.

It will take some time—and probably some international financial crisis—before a full-scale World Central Bank can be created. In the meantime, four steps could convert the IMF into an embryonic central bank.

1. A RENEWED ISSUE OF SPECIAL DRAWING RIGHTS. A new issue of SDRs by the IMF—in the range of 30 to 50 billion SDRs—could help fuel world recovery at a time when inflationary pressures are low, primary commodity prices are at rock bottom and most of the world is in the grip of deflationary policies.

This issue of SDRs would also help meet

the reserve requirements of poor countries. Today, 25 developing countries hold non-gold international resources equal to less than eight weeks of imports. An SDR allocation would enable them to increase their reserves without further borrowing or without adopting deflationary policies that would retard economic growth and impose unnecessary human costs.

There could also be some innovations in the distribution of SDRs. If they were initially allocated on the basis of IMF quotas, the poor countries would get less than they need for their reserve requirements, while the industrial countries would get more than they need. The industrial countries could thus pass on some of their allocation to developing countries through overdraft facilities.

The private sector should also be able to make use of SDRs. Commercial banks, for example, could deposit national currencies with their central banks and receive SDRs for use in international transactions.

2. AN EXPANDED COMPENSATORY AND CONTINGENCY FINANCIAL FACILITY. The CCFF needs to be changed—in three ways. First, there should be no quota restriction. At present, a country's access to the CCFF is limited to a percentage of its quota, so the country may not be able to get full compensation for a shortfall in exports. Second, the loan period needs to be extended so that countries do not have to repay before the contingency is over. Third, there should be no conditions attached to borrowing. If a country is suffering from external factors outside its control, it seems strange that it should be subjected to the additional burden of IMF conditionality.

3. GLOBAL MACROECONOMIC MANAGEMENT. An enhanced IMF should be central in global macroeconomic management—reviewing the policies of all countries, whether or not they are active borrowers. If major countries have unsustainable policies—such as high budget deficits or inappropriate interest rates—the IMF should request the Bank for International Settlements (BIS) to link the level of reserves that banks are required to hold against loans to these countries to the IMF's evaluation. This would affect the industrial countries' ability to raise funds from private banks and give the IMF an important lever on their policies.

The IMF already has considerable leverage over developing countries through the conditions of its lending—but the form of conditionality should change. Rather than rely exclusively on short-run demand management and on deflationary policies in poor countries (where there is so little to deflate), it should place more emphasis on supply expansion to promote economic growth, employment and human development.

A World Central Bank is essential for the 21st century

4. SUPERVISION OF INTERNATIONAL BANKING. In collaboration with the BIS, the IMF should acquire some regular control over international banking activities. Flows of capital sweep with hurricane force across international frontiers, sometimes creating havoc in international markets. Just as domestic capital markets are regulated, so there is a need for a minimum of regulation in international capital markets.

These four steps would not turn the IMF into a full-fledged World Central Bank, but they would help it to move in that direction. Given the needs of global governance for the 21st century, the Social Summit can provide a valuable service by inviting a serious debate on this issue.

International Investment Trust

As discussed earlier, private capital markets have become very active in recycling funds to emerging markets in developing countries. But most of these funds are going to a handful of creditworthy nations, particularly in East Asia and Latin America.

The World Bank is already playing a very useful role in helping developing countries obtain greater access to these market funds—particularly for countries that may not be able to get these funds on the basis of their own limited creditworthiness. The World Bank's intervention in the market helps the developing countries by raising funds on less expensive terms, by lengthening maturities, by lending to social sectors that private markets might not touch otherwise (education, health, nutrition, family planning) and by combining the provision of funds with policy advice on macroeconomic management. But the total scale of the Bank's recycling is rather modest: in net terms, the resource transfers to developing countries are negative, at –$1 to –$2 billion a year.

Some creative new thinking is needed to recycle international surpluses to developing countries

In the face of declining resource transfers, some creative new thinking is needed to recycle international surpluses to developing countries. One possibility would be for the World Bank to take on the role of an International Investment Trust—selling bonds to nations with a surplus and lending the proceeds to developing countries.

Such bonds, to compete with those issued by governments, would have to be attractive. They could, for example, be guaranteed against currency fluctuations and perhaps indexed against inflation. Although the bonds might have a lower rate of return, they could be safer than government bonds, which carry no such guarantees.

Developing countries could borrow from the trust on terms appropriate to their level of development. The newly industrializing countries could pay commercial rates, while low-income countries would pay less—a subsidy that richer members of the international community would have to cover. If some of the proposals regarding international fees or taxes prove to be acceptable to the international community, a pool of resources will become available for such a subsidized recycling of market funds.

These innovations would also require more automatic replenishing of the World Bank's capital, and its capital-gearing ratio would have to increase to enable it to make loans equivalent to a higher proportion of its capital.

Since the evolution of an International Investment Trust would probably be a long process, it might be worthwhile in the meantime to consider establishing a new loan window at the World Bank. Today, developing countries taking World Bank loans fall into two categories: those developed enough to afford the stiff terms demanded by the IBRD, and those poor enough to qualify for concessionary funds from IDA. But many countries, such as those in South Asia, are poised uncertainly between the two extremes. The World Bank has tried to cope with the limitations of its lending instruments by blending IBRD and IDA resources. But since IDA now represents only about 30% of total World Bank lending, this restricts such juggling.

A further limitation on both the IBRD and the IDA is the amount of funds available. The United States is the largest contributor to both—and so has the most votes. But it is not only reluctant to increase its own contribution—it is also unwilling to let other countries give more, since this would reduce US voting power. If not for this constraint, Japan, for example, might be able to contribute much more.

A solution to both problems would be to create a new loan window—an Intermediate Assistance Facility, with its own board of governors and a separate voting structure. It would be able to receive funds directly from donors and to lend to countries, such as India and Pakistan, that are ready to graduate from IDA terms but not yet sufficiently creditworthy to meet the hard terms of the IBRD. Borrowers could pay, say, two-thirds of the going interest rate over 25 years.

This facility would allow the World Bank to concentrate its IDA resources mainly on the long-term development of Africa—in a fashion similar to its focus on Asia for the first 25 years of the IDA's existence. The World Bank would then be able to concentrate IBRD funds on the most creditworthy of the newly industrializing countries, and thus protect the credit rating of IBRD bonds in the international capital markets.

World Trade Organization

One of the most important outcomes of the Uruguay Round of trade negotiations has been to transform GATT from a provisional agreement into a full institution—to be headed by a ministerial conference. This new World Trade Organization (WTO) will negotiate rules for international trade—to level the playing field—and deal with legal aspects of dispute regulation.

A more systematic approach to the management of world trade is certainly welcome. But there still are many inequities to be addressed. Trade needs to be further liberalized in areas of primary interest to developing countries, such as labour services. And several fundamental issues have yet to be resolved, notably the need to promote environmentally sound trade without resorting to protectionism.

This new WTO should also have other responsibilities. It is, for example, one of the institutions that could help negotiate and implement the new types of development cooperation suggested earlier, such as compensation for damages and payment for services rendered.

And for the future, one could think of expanding a WTO into a WPTO—a world production and trade organization—to cover investment and technology transfers, too. A strong WTO could be of great benefit to developing countries. But a level playing field is of little use if one team is overwhelmingly stronger than the other. Developing countries will thus have to invest much more in their own national capacities if they are to compete internationally.

World Anti-Monopoly Authority

Transnational corporations (TNCs) control more than 70% of world trade and dominate the production, distribution and sale of many goods from developing countries, especially in the cereal and tobacco markets. An estimated 25% of world trade is conducted as intrafirm trade within TNCs.

These corporations thus have great power, which, if harnessed for sustainable human development, could be of great benefit. There is a growing consensus that governments and TNCs should work closely together to promote national and international economic welfare.

This concentration of power can also be damaging. To some extent, transnationals have escaped regulation by national authorities, and the speed and ease with which they can restructure their assets, relocate production, transfer their assets, transfer technology and indulge in transfer pricing have become a matter of international concern. TNCs have also engaged in oligopolistic practices and shown insensitivity to environmental concerns (more than 50% of greenhouse gases are thought to be generated by their operations).

There is thus a strong case for some international supervision of TNCs. A useful starting point would be to complete the UN Code of Conduct for Transnationals, which after 20 years' work has now been negotiated. This could be followed by the creation within the UN of a World Anti-Monopoly Authority—to monitor observance of the new code and to ensure that TNCs do not resort to monopolistic and restrictive practices, particularly in their dealings with developing countries.

The shape our societies take does not depend exclusively on governments

New institutions of a global civil society

The shape our societies take does not depend exclusively on governments. Individuals, families, community groups, international foundations, transnational corporations, the communications media—these and many others help mould civil society.

There also are thousands of non-governmental organizations operating nationally and internationally—monitoring human rights, organizing humanitarian aid and promoting the interests of such groups as women, the disabled or indigenous people. And new organizations emerge each year, often sprouting up spontaneously in response to felt needs and forming new alliances for change. They can powerfully influence government policy, as many women's organizations and environmental groups have demonstrated.

One of the more significant new international NGOs is the Earth Council, established in 1992 after the Earth Summit in Brazil, where nearly 10,000 NGOs played a very important part. The Earth Council will act as a global ombudsman on the issues of environment and development. It intends to issue an annual earth report to remind the global community of significant successes and failures in the field of sustainable development and to generate pressure for change in global policies.

One significant gap in NGO activity at the national and international level has been in the area of corruption, which is spreading like a cancer all over the world—in government bureaucracies, among political leaders, in military procurement, in transnational corporations, in international banking. *Human Development Report 1992* proposed setting up Honesty International, similar to Amnesty International, to research and publicize cases of corruption. A new NGO, Transparency International, has since been set up on these lines, though it is too soon to judge how effective it is likely to be.

This chapter has included just a few of the institutions that the world is likely to need in the 21st century. Some people may consider them overly ambitious, but others may consider them timid. Jan Tinbergen, the first Nobel Prize winner in economics, believes that we need nothing less than a world government (special contribution, this page). This may appear to be totally utopian today. But he points out: "The idealists of today often turn out to be the realists of tomorrow."

A pragmatic approach would be to take some practical steps now and to initiate further reviews of some of the longer-term

SPECIAL CONTRIBUTION

Global governance for the 21st century

Mankind's problems can no longer be solved by national governments. What is needed is a World Government.

This can best be achieved by strengthening the United Nations system. In some cases, this would mean changing the role of UN agencies from advice-giving to implementation. Thus, the FAO would become the World Ministry of Agriculture, UNIDO would become the World Ministry of Industry, and the ILO the World Ministry of Social Affairs.

In other cases, completely new institutions would be needed. These could include, for example, a permanent World Police which would have the power to subpoena nations to appear before the International Court of Justice, or before other specially created courts. If nations do not abide by the Court's judgement, it should be possible to apply sanctions, both non-military and military.

Other institutions could include an Ocean Authority (based on the new Law of the Seas), and an analogous Outer Space Authority, to deal with matters such as outer space, aviation and information satellites.

But some of the most important new institutions would be financial—a World Treasury and a World Central Bank. The World Treasury would serve as a world ministry of finance. Its main task would be to collect the resources needed by the other world ministries through one or more systems of global automatic taxation. If there were any delay in contributions from member governments, it would have to make funds available where they are most urgently needed. In addition, there should be a World Central Bank based on a reformed IMF to deal, among other things, with monetary, banking and stock exchange policies.

Just as each nation has a system of income redistribution, so there should be a corresponding "world financial policy" to be implemented by the World Bank and the World Central Bank. Redistribution is the core political issue of the 20th century. Here it is useful to make a comparison with well-governed nations. The proportion of GDP distributed through social security benefits varies greatly from one country to another. It is typically lower in developing countries: 0.3% in Rwanda, 2.1% in Bangladesh, 2.3% in Bolivia. In industrial countries, it is generally higher but does vary considerably: 6.0% in Japan, 12.6% in the United States, 33.7% in Sweden. Two main factors explain the difference: the level of development and the socio-political policy of the country. The low level in developing countries reflects their underdeveloped condition and the fact that many are living in a feudal state: the rich are accustomed to ruling the people, and also feel poor in relation to the rich in the high-income countries. But this is no justification for the present callous neglect: there is a strong case for much more redistribution within developing countries.

But there should also be redistribution at the international level through development cooperation. How much should the industrial nations make available to the developing countries? In 1970, the UN General Assembly decided that 0.7% was needed. By 1991, the actual average for the OECD countries was only 0.33%. But the UN target figure is itself too low. In the 1970s and 1980s, the gap between the developing and industrial countries widened. To have prevented this would have required aid equivalent to 1.3% of GDP. As the world economy becomes increasingly integrated, so the redistribution of world income should become similar to that within well-governed nations.

Some of these proposals are, no doubt, far-fetched and beyond the horizon of today's political possibilities. But the idealists of today often turn out to be the realists of tomorrow.

J. Tinbergen

Jan Tinbergen, winner of the 1969 Nobel Prize for Economics measures. Thus, to help create a new framework for international development cooperation, the World Summit for Social Development might want to consider the following:

- Recommending the design of a 20:20 global human development compact.
- Recommending, furthermore, the design of global human security compacts to address the major challenges currently facing humankind.
- Endorsing the proposal for the creation of an Economic Security Council within the United Nations.
- Urging the international community—beyond these measures—to undertake a comprehensive review of the existing framework of international development cooperation, and in this connection, to undertake studies on the practicability of such measures as establishing a global social safety net, introducing a world income tax and supporting the Tobin tax (on foreign exchange movements) as a potential source of financing for a more effective United Nations.