

**The Framework for International Development Cooperation
2005-2010**

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**Background Paper
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Corporate Strategy and Program Framework 2005-2010**

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Acronyms

CIDA	Canadian International Development Agency
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
DFID	Department for International Development (UK)
EU	European Union
FDI	Foreign Direct Investment
GNI	Gross National Income
GPG	Global Public Goods
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDA	International Development Association
IDRC	International Development Research Centre (Canada)
IDS	Institute for Development Studies (Sussex University, UK)
IMF	International Monetary Fund
IPG	International Public Good
LDCs	Least Developed Countries
MCA	Millennium Challenge Account
MDGs	Millennium Development Goals
MOPAN	Multilateral Organizations Performance Assessment Network
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
RPG	Regional Public Good
UN	United Nations
UNDP	United Nations Development Programme
WTO	World Trade Organization

*“An optimistic disposition is not the sole qualification of a prophet.”
Sir Winston Churchill*

Executive Summary

Developing countries will probably continue to receive greater, and generally more constructive, attention in the international political and economic systems over this decade than they have in recent decades. This momentum will build on far-reaching lessons from past development efforts, and will reflect new political impetus from heightened concerns about global security.

Unfortunately, however, there is no basis for expecting any sharp increase over this period in integrated, “coherent” attention to all the “nonaid” factors that can do so much to help or hinder the development of poor countries. Gradual and uneven improvement in these conditions is more likely. More serious effort will be invested in ways of generating greater overall resources for development, including domestic resources, trade revenues, and private capital inflows, and there are reasons to hope that solid policy environments and perhaps some new capacities and mechanisms will substantially (but not spectacularly) boost these resources for a good number of countries.

Thus once again development assistance will be carrying a disproportionate share of the development cooperation load and, especially, of development expectations. It appears likely that development assistance budget increases now being implemented will be sustained by most donors at least until 2006-2007, after which the trend will be determined mainly by two sets of factors: actual, and perceived, development results; and economic and budgetary conditions among donor countries.

The current drive for increased aid effectiveness is serious, far-reaching, and widely shared among donors and partner-countries, although it is not as well-explained as it needs to be, especially in terms of defining reasonable measures of “good performance” and realistic expectations of results. But if conscientiously applied, this reform agenda is likely to upgrade substantially the value of aid in its particular areas of comparative advantage. At the same time, the reform agenda will really only be fully applied to a part of total aid expenditure — hopefully a majority — while many other aid allocations will be driven and shaped by new geopolitical imperatives, particularly the war on terrorism. Continuing strains will also result from some donors attempting to shoehorn token funding for all manner of global public goods out of development assistance budgets.

There is a good prospect in coming years that international thinking will have been advanced on ways of strengthening the provision of global public goods reflecting the demands of interdependence and globalization. At the same time, there is little prospect of international governance leaping ahead over this period to respond adequately to these challenges across the board. More narrowly, it is to be hoped that the work underway will at least have clarified the particular needs of developing countries in relation to different

types of international public goods and which of these needs are appropriate for core development assistance funding, or for additional earmarked funding from other sources.

There are several implications for the International Development Research Centre (IDRC) from these probable trends in development cooperation. The overall contention here is that most of these trends constitute a strong implicit endorsement, and in fact a substantial appropriation, of the development assistance philosophy, focus, and results of IDRC's work since its inception. While gratifying, this could also be threatening, as far bigger players with much greater resources adopt a similar philosophy and focus, and possibly sideline the pioneers. If it aspires to retain and renew its "pathfinder" roles, IDRC is faced with a number of new strategic choices.

In terms of possible lessons — or an "IDRC analog"— from the aid effectiveness program now being widely applied in the international community, the Centre appears to have relatively little to learn, and probably a good deal to teach, on several fronts. From its inception, and apparently in consistent practice since, IDRC has sought, in its work in particular domains, to apply the basic principles of local ownership, building capacity to ensure sustainability, stronger partnerships, and civil society engagement. It appears to embrace an integrated approach to take account of political, economic, social, and institutional dimensions of development, as well as scientific problems, and a results-based approach with built-in monitoring and evaluation of programs. These attributes have apparently been applied and adapted to good effect in successive program cycles and generations of IDRC-supported projects, with unusual additional strengths being drawn from the Centre's proven capacity to broker and support South-South and regional cooperation in its fields of work.

IDRC is faced with new, and perhaps welcome, challenges of finding new divisions of labour or partnerships with mainstream donor agencies that are increasingly following its lead in the content and style of their work. A wide range of possibilities is within the Centre's reach. It could strengthen its proven roles in brokering "South-South" cooperation and further vital work at regional and subregional levels. It might use its margin of independence and expertise to do more to strengthen Southern capacities to critique cooperation performance, and perhaps "push the envelope" in lagging, sensitive areas like policy coherence for development. It may instead seize the challenge of reaching ahead to the remaining development frontiers after 2015, to confront the problems, and research capacity needs, of those countries, regions, and population groups that will still lag farthest behind realization of the Millennium Development Goals (MDGs).

As a final note, this study would also argue that a crucial task for the Centre, as for all other actors in the development cooperation effort, will be to contribute all it can, from its special vantage point and base of experience, to strategically deepening public and political understanding of the potentials, the empowering achievements, and the formidable constraints in development and development cooperation.

Purpose and Approach

This paper is intended as a background think-piece for the preparation of the next Corporate Strategy and Program Framework for the International Development Research Centre (IDRC). After providing a broad quantitative and qualitative assessment of the current state of development cooperation (and development assistance more specifically) it will look at several basic questions to help in projecting how it may evolve over the coming half-decade. In considering each of the following questions, there will be a focus on the Canadian context, but it will be located within wider G7 and Organisation for Economic Co-operation and Development (OECD) trends, and will pay special attention to those in the United States, which will directly or indirectly determine the global pace over this period.

1. What are the chances in this time frame that concern for problems in developing countries will gain the necessary critical mass of political/economic salience to put the need for effective development cooperation closer to the centre of public and political concern, especially in the most powerful countries?
2. How far is the international community likely to get in mobilizing or harnessing international relationships beyond “aid” to be more supportive of development in poor countries, bearing in mind that many of these key relationships are only partly shaped by public policy?
3. What results may be expected from the current international program to enhance aid effectiveness — in terms of completing and sustaining the proposed reforms, demonstrating substantial improvements in the lives and prospects of poor people, and engendering public and political support for sustained or increased development assistance and other development cooperation?
4. What will be the likely impacts of interest and proposals for action around about global public goods on the strength and direction of development cooperation?
5. Projecting the developing countries’ own efforts and challenges, and the apparent prospects for development cooperation, how much progress is likely to be achieved over this period, and what is the profile of development needs likely to look like at its end?
6. Finally, what will be some of the key implications of these likely outcomes for the directions to be set, over this same period, for the work of the IDRC, and bodies with related missions elsewhere?

Development Cooperation: From Crisis to Opportunity?

International development cooperation, as a deliberate endeavour of significant scale, is a little more than 50 years old. In relation to its objectives, and the needs and opportunities to which it can respond, action in development cooperation is still underdeveloped — patchy in coverage and puny in scope — although important lessons have been learnt. The weakness in action over the decades is mainly explained by the fact that international cooperation in general still remains so primitive — disconnected from the demands and potentials of much closer global interdependencies — and that the well-being of most of the world’s people has not yet translated into political imperatives.

Moreover, since its inception, international development cooperation has been saddled with a dangerous combination of unrealistic expectations, confusing goals, and inadequate instruments. Disproportionate attention has been focused on the external side of cooperation, neglecting the nine-tenths of the development iceberg that almost always lies within the society in question.

Even within the range of external relationships that can improve or impede the prospects for development success, the factors that are most powerful — such as access to markets, capital, and technology, and supportive security, economic, politico/social, and environmental conditions for development — have received little serious attention or action. The lion's share of attention has been diverted to the relatively small, dedicated funding instruments — Official Development Assistance (ODA) or aid programs. But even at their best, aid programs can only be catalysts and complements to other forms of cooperation, not substitutes. Beyond aid, trade preference schemes have been the main purposeful components of development cooperation to date, although they have been of dubious value in themselves, and a further diversion of attention and energy from the real business at hand.

Why has this distorted policy framework persisted throughout most of the history of development cooperation? Above all it is explained by the lack of weight given to more equitable development in poor countries in the international political economy and that of its most powerful states. In spite of the exponential growth of awareness through global communications, and accumulating evidence of global interdependence on many fronts, the response has been only a limited humanitarian impulse sufficient to support modest palliative measures, rather than to arm the cause of development to compete for any serious sustained attention on the mainstream public policy agenda.¹ Many analyses, several decades ago, began with the recognition of the relatively greater importance of “nonaid” aspects of development cooperation, only to see these issues consistently ignored, shouldered aside by more politically powerful interests, and/or diverted into partial or wrong-headed responses. Even the slender reed of aid programs has been frequently hijacked from the humanitarian and developmental purposes for which publics consistently support it, to the cause of other foreign policy and commercial interests of donor countries.

Box 1. The impact of values and interests.

A distinctive trait of international development cooperation as an arena of public policy is that its bedrock motivation from a very early stage has lain in the realm of values, overlaid by more changeable perceptions of interests. At the base is a compassionate and ethical concern by the citizens of the more fortunate countries for greater human justice

¹ Thus, for example, Lester B. Pearson, as Chair of the Pearson Commission in the late 1960s, recalled that it had always been far easier for him as prime minister to allocate millions of additional tax dollars to aid programs than to lower trade barriers that would bring far greater benefits for poor countries (and at the same time for the Canadian economy as a whole) but would be opposed by powerful protectionist interests in Canadian industry and labour.

and opportunity for the hundreds of millions around the world who face extreme poverty and suffering. Although this human concern is stretched and strained by distances, differences, and doubts, every analysis of public opinion in all OECD countries has shown it to remain remarkably strong over the decades. Building on this foundation of concern among the majority of a population, rationales of enlightened self-interest are usually needed for democratic governments to accept development cooperation as more than a charitable commitment by individuals and generate the much greater responses that are needed to bring appreciable improvements.² The discussion that follows is mainly about the changing configurations of enlightened self-interest likely to affect the prospects for development cooperation over coming years.

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Remarkably, in the face of such obstacles, development cooperation can claim some substantial contributions to the impressive development gains in many countries over the decades.³ Less surprisingly, there have been failures, disappointment, and growing scepticism, drip-fed by negative news, especially about corruption, conflict, and exploitation, and about aid programs diverted or mismanaged.

By the 1990s, rising and spreading disillusionment — coinciding with a rising tide of anti-interventionist sentiment — had begun to undermine public and political will for development cooperation in much of the industrialized world, and aid budgets began to slump, in absolute terms and in relation to the economic capacity of most donor countries. The residual arguments for engagement from the Cold War were gone and, ominously, international development was clearly in no position to benefit from a “peace dividend.”

The looming crisis, however, also set in motion a far-reaching international campaign to renew development cooperation and forge a new global partnership compact, building through the OECD/Development Assistance Committee (DAC) proposals in *Shaping the 21st Century* (1996) to the UN’s Millennium Development Goals (2000) and in 2002 to the Monterrey Consensus on Financing for Development, the Johannesburg Review Summit on Sustainable Development, and the New Partnership for Africa’s Development (NEPAD). The resulting combined action program for development cooperation is arguably more serious today than ever before.

² It is worth noting that elected politicians are usually more prepared to acknowledge directly the importance of the compassionate impulse than are many officials and interest groups, who seem somewhat bemused and embarrassed by the direct statement of such values. This “second-guessing” of ultimate political responsibilities has often been a material constraint on action.

³ There is, of course, a huge and disputatious body of literature, from many different perspectives, on whether and how aid works. A brief literature survey and a review of three generations of empirical analysis is found in Hansen and Tarp 2000. At a policy level, it is worth noting — especially for this study — that in the mid-1990s when the OECD DAC made a searching reassessment of the achievements of development cooperation up to that time, a large share of the achievements that could most clearly be claimed for aid were in the support of research, the generation of knowledge and its wide application – e.g. in health, agriculture, and population. See OECD/DAC 1996, pp.6-8.

The Prospects for 2005-2010

Greater political weight?

While not pretending to project the overall directions of the global economy or political system over the next decade, it is important to specify some operating assumptions about the international environment that will shape the prospects for development cooperation in this period.

The decade of the 1990s saw the messy sorting out of new international patterns to take the place of the political and economic polarities between “East” and “West” that had organized so much of the global system during the Cold War decades. It was accompanied by widespread, though far from universal, exuberance in the ascendant, globalized capitalist economy and its promises of continuing “win-win” progress. These processes were still incomplete — in many places still germinal — when a small group of terrorists in September 2001 struck at the heart of international power, and succeeded in bringing to a head some critical tensions and choices that will heavily shape at least the next decade. A sustained, multifront, and widely-supported war on international terrorism is now virtually certain to remain an important preoccupation for most countries over this period. At the same time, we assume that several interrelated sets of tensions will persist for much, if not all of this time, as summarized in Table 1.

Table 1. Some key tensions and choices in the international order, 2005-2010.

Highly targeted offensives against terrorism, based on interdicting and punishing clearly criminal threats and “hot pursuit” of patent accomplices (e.g., in Afghanistan)	Vs.	Such targeted approaches plus much more expansive coercive action to preempt potential terrorist support (e.g., in the existence of “rogue regimes” or suspected weapons of mass destruction, i.e., wider application of the “Bush Doctrine” as in Iraq)
Continuing influences for greater globalization, through the freer movement of goods, money, services, people, and ideas	Vs.	Powerful inhibitors of further globalization in the form of insecurity, instability, and mistrust
Deepening global values and interests (e.g., a rallying to the MDGs)	Vs.	Crystallizing new polarities (on the order of Cold War hostility or “a clash of civilizations”)
Impetus for stronger, consensual systems of international order and cooperation to manage intensified global relationships	Vs.	Preoccupation with divisive forces and threats, and the need to confront them with traditional instruments of power and, ultimately, military power (a tension colourfully highlighted in Robert Kagan’s depiction of “Kantian” Europeans and

		“Hobbesian” Americans)
Attempts to muster stronger public policy responses to deep-rooted problems such as endemic poverty or environmental deterioration	Vs.	Much more exclusive trust in the “invisible hand” of economic and political markets to generate the right solutions
Some other tensions, including: maintenance within the USA of assertive “forward defence” of perceived American interests and values worldwide	Vs.	Possible shifting back to give more weight to the venerable American isolationist impulse, especially if engagement is judged to have overreached

The real world will usually find itself moving somewhere on a spectrum between these diametrical “choices,” and there will be close linkages among them. Many of them will be especially shaped by the varying approaches that will be advocated and supported by the United States as the dominant global power, and to directions that are constantly being worked out within that vibrant polity, as well as between itself and others. The operating assumption in this paper is that none of these major issues will have been decisively resolved, or stable conditions reached, by the end of the current decade,⁴ and that development cooperation will have to evolve amidst the continuing uncertainties and pressures that they will create.

But we can safely assert both that 11 September and subsequent events have made new security concerns a much higher priority for the international community and its most powerful states, and that some of this increased attention has also served so far to bring developing country issues somewhat higher on the mainstream public and political agendas. The durability and constructiveness of this new-found interest in developing countries, however, are far from assured. In the “optimistic” projection, for the remainder of the current decade, political and security concerns — followed by health, migration, and environmental challenges — have the greatest potential to generate more substantial action to help developing countries. Humanitarian and human rights concerns, and the potential shared benefits from greater prosperity in developing countries will have their followings, but they will be less influential. Since our optimistic projection of how increased concerns with security will play out in relations with developing countries is one that anticipates continuing intense debate and conflict, including violent conflicts, it should be said that the “pessimistic” projection would be on the order of a full-fledged attempt to impose a global imperium, leading to massive confrontations and a subsequent fortress mentality.

⁴ A conclusion that is not so obvious or banal as it might appear, to judge from the misplaced confidence of some past predictions.

Security and other factors at work

More than two years after 11 September, it can be demonstrated that this inchoate and generalized security concern about developing countries has converged with a number of other trends underway to generate a substantial, but not yet decisive, boost to political recognition in the industrialized countries of the need for effective development cooperation.

For most politicians and their publics, the increased salience of the problems of developing countries does not appear to depend on any sense of direct threat from most of these countries. It is more generalized, in the sense that there are festering problems “out there” beyond the boundaries of the industrialized world, from which the prosperous can no longer expect to remain as immune as they previously felt themselves. The comments of the [former] Canadian Prime Minister to this effect, aired on the first anniversary of 9/11, were representative of a similar realization in many countries, including in wide sections of opinion in the United States and some statements and initiatives of the US administration. However, while few question that “hard” security responses are called for to defend against such direct, “hard” threats, the complementary value of “soft” power responses, including developmental ones, is still less widely recognized.⁵

In the United States specifically, there is certainly a raised consciousness of the shocking and dangerous disparities between the West and its most powerful country, and the majority of the world’s population in developing countries. Evidence of official concern is found in successive State of the Union addresses, the commitment to a Millennium Challenge Account (MCA) that would effectively double the United States’ development aid over the next five years, the articulation of an ambitious (if doctrinaire) vision of global development within the Bush administration’s controversial National Security Strategy, and the sizeable HIV/AIDS initiative and high-profile African tour by President Bush in 2003. These indications of a renewed US commitment to development cooperation must be seen as significant, given the many years of relative neglect and/or denigration, but the change should not be overstated. American scepticism and dogmatism about development cooperation and the resistance to wider action still run deep. Even with major increases in aid restoring the US ranking as the largest single donor, it will remain by far the smallest relative to means, and tepid American leadership will ensure that the aggregate effort still falls far short of the clear needs.

As a further issue for all the donors, once the greater salience for development motivated by security concerns moves beyond the initial boost of interest into specific action programs, it will continue to prove a double-edged sword. There are real dangers of once again losing sight of the distinctive rationales for international development assistance, and targeting it to countries and projects that are seen to have quite direct and immediate relevance to donor countries’ security (e.g., massively disproportionate aid commitments

⁵ Nye 2003, p.75.

to Afghanistan and Iraq, or aid to strengthen airport security systems). In this scenario, direct security needs and foreign policy goals of donor countries themselves (e.g., getting back “on-side” with Washington) would push aside the longer-term tasks of enhancing security through basic development and poverty reduction, and the painfully learnt lessons about allocating and managing aid more effectively.

In the wider conception of “human security” that began to take hold in many parts of the international community during the 1990s, concerns around dangers to health, environmental degradation, and some aspects of large-scale migration flows can all be viewed as pressing global security concerns (as evidenced by numerous opinion surveys) that also raise the salience of problems of underdevelopment for the international community and the citizens of its most powerful countries. Even in the fight against infectious diseases, however — where humanitarian concern and enlightened self-interest converge so clearly — international responses are still partial and halting. Moreover, somewhat like the terrorist threat, the disease and migration concerns can engender spasms of aggressive/defensive reaction as well as constructive ones, and the politico-economic hurdles to achieving progress on international environmental concerns are painfully apparent.

Beyond these shifting motivational balances, other notable influences converging to raise at least the profile of development cooperation in the current decade are:

- widening consensus around several key precepts affecting development: the crucial importance of domestic capacity, scope for markets, open governance, and viable policies to the performance and future prospects of developing countries;
- a deepening conviction among developing countries of their need to integrate successfully into the international market economy, quickly challenged by a burgeoning and vocal, if highly disparate, antiglobalization movement, heavily concentrated in the industrialized countries; and
- a stronger presence of developing countries, their interests and their citizens in such diverse domains as the international trade regime of the World Trade Organization (WTO) (especially in the Doha Round), multilateral environmental agreements, destabilizing financial crises, migration to industrialized countries, international epidemics, etc.

More integrated, “coherent” support?

Logically, all of the factors that are now more strongly in play should be conducive to the industrialized countries and the international community breaking out of “aid myopia” and devoting more serious attention and action to improving the other international conditions that, while not replacing aid, have a much greater overall impact on development in poor countries. As one illustration of the need for this wider view, the World Bank’s current estimate is that the annual welfare gains from eliminating barriers

to merchandise trade would range from US\$250 billion to US\$620 billion, and that up to half these gains would accrue to developing countries, possibly lifting 300 million people out of poverty by 2015.

Ironically, while both sceptics of international development cooperation and its enthusiasts have long recognized in principle the importance of nonaid conditions in the international environment in supporting or impeding developing countries' internal efforts, relatively little has happened to advance serious discussion or action.⁶ One reason is that the external bias — abetted perhaps by a certain political correctness — tended to detach such measures from the primary importance of internal institutions, policies, and capacities. Secondly, there has often been an unbridgeable gap between “idealist” views, advocating fantastical, “dirigiste” designs for an egalitarian international economic order and, at the other extreme, “realists” who have tended to give little weight to the needs and concerns of developing countries and to be extremely wary of trying to take them into account in the mainstream systems based on *realpolitik*⁷ and the decisions of market actors.

Because of ideological convergence and pragmatism, and more evident interdependence on many fronts, the cause of “policy coherence” for development has become much stronger in recent years, beginning at the level of official rhetoric.⁸ In a succession of G7 and G8 summits, and other key international gatherings since the mid-1990s, leaders have shown a growing preoccupation with the needs for development progress in poorer parts of the world, based on concerns for peace and security, stability of the international financial and trade systems, continuing and extending prosperity, crossborder concerns of environment, disease, and crime, as well as humanitarian issues and the promotion of human rights and democratic freedoms. These leaders have explicitly endorsed the new strategic approaches to development cooperation, and mobilized government-wide and multilateral responses to debt problems of highly indebted poor countries.

⁶ As one example, the Canadian government's “Strategy for International Development Cooperation 1975-80” began with a commitment to “A Comprehensive and Organic Approach To Development Cooperation” in which it undertook “to harmonize various external and domestic policies which have an impact on developing countries, and to use a variety of policy instruments in the trade, international monetary, and other fields in order to achieve its international development objectives.” In a 1980 “report card” on government performance, the North-South Institute gave a mark of “F” on this commitment (North-South Institute 1980, p.7.) In the United States, this era saw an impressive annual report to the Congress on “Development Issues” by the US Development Coordination Committee, and a proposal for a powerful International Development Cooperation Agency, chairing a government-wide coordination group. This “Humphrey proposal” was eventually sidelined by powerful opposition, especially from Treasury.

⁷ In long retrospect, the decade of international debate around “the new international economic order” from the mid-1970s on — when the lever of “oil power” served for a time to bring the “realists” to the table — provides classic illustrations of the constructive opportunities lost in this dialogue of the deaf.

⁸ Though overshadowed by the more simple appeal of the International (later Millennium) Development Goals, the imperative of greater policy coherence was a blunt-spoken foundation of the strategic proposals in the 1996 *Shaping the 21st Century*, endorsed by the OECD countries that would have to make it happen. DAC ministers stated: “We should aim for nothing less than to assure that the entire range of relevant industrialised country policies are consistent with and do not undermine development objectives.”

At the same time, examples of inconsistent or developmentally insensitive policies remain common, while models of concerted prodevelopment policies are still rare. Although there is now growing demand for more development-friendly coherence in policy from the very top levels of governments, in most industrialized countries, ministries, or agencies other than those responsible for development cooperation are not likely to take continuing initiatives to press for more “joined-up government” (as the British call it) in these areas. Moreover, it is a steep climb to move from policy coordination (getting systems to communicate and work together) to policy consistency (avoiding contradictions and conflicts) to policy coherence (in which policies become mutually reinforcing toward a common, in this case developmental, objective).

Paradoxically, the US system — while more sceptical than most of the value of aid — is also less open to accepting the validity of explicit policy coherence for development as a logical corollary of integrated, market-based assumptions. It is significant that on the Comprehensive Development Index of the US-based Center for Global Development, US performance on overall development friendliness, as in official development assistance, falls at the bottom of the list together with that of Japan. In American strategic thinking, like that of other industrialized countries, development considerations are relegated to a secondary position behind more immediate concerns with more powerful trade, finance, and geopolitical players. By the same token, possible prodevelopment measures are left unprotected in the political battles among vested interests and their champions. The political fanfare, prolonged debate, and horse-trading, and then modest, inconsistent results of the African Cooperation and Opportunities Act of 2000 provide a stark illustration of the challenge. This record would allow cynics to suggest that, even now, some more forthcoming US measures on the development assistance front will serve, as they have for others, as a presentational substitute for more fundamental and difficult changes, as well as a relatively low-cost “sweetener” for a more hard-edged, security-driven foreign policy overall. Once again, the limited leadership to be expected from the USA will provide ample wiggle room for the other major players — principally the European Union (EU) and Japan — to drag their heels as well on these difficult politico-economic changes.

The WTO trade negotiations provide a warning. Eighteen months after Doha, where the impact of 11 September and the earlier deadlocks and protests at Seattle were still fresh, there is much cause for concern that the “Development” Round has seriously bogged down, especially on the issues that matter most to developing countries. Thus the trade stakes of developing countries may continue to be swamped by relatively narrow interests within the industrialized countries, and/or competing interests between these countries. Since the area of trade is perhaps the one where the win-win opportunities of more development-friendly policies are most amply supported by theory and experience, and could also respond most tangibly to generalized grievances against the rich and hypocritical West and against globalization, the fact that progress is so slow is far from promising for other domains.

In spite of all the obstacles, at least two changes will serve to increase the pressure for greater consistency and follow-through on different measures of development

cooperation over coming years, although progress is still likely to be gradual. One new factor is that, for the first time, rising concern has led to a formal commitment to action on a wide range of development fronts in the “8th Goal” of the Millennium Development Goals, of a “new partnership between developed and developing countries” expressed in the following terms:

“We... commit ourselves to mobilizing domestic resources, attracting international flows, promoting international trade as an engine for development, increasing international financial and technical cooperation for development, sustainable debt financing and external debt relief, and enhancing the coherence and consistency of the international monetary, financial and trading systems.”

Significantly, but perhaps not surprisingly, when international attention has turned to working out ways of maintaining shared responsibility or “mutual accountability” on these commitments, some governments such as the American, have begun to balk, while the EU is inclined to claim that its Cotonou Agreement already embodies these principles.

The second new influence is the strengthening of independent policy research attention to policy coherence, going beyond the successful, but limited, Jubilee debt relief campaign of the 1990s and some specific initiatives in other areas. A welcome innovation in April 2003 was the launching of a high-profile, Comprehensive Development Index by the US-based Center for Global Development and Foreign Policy magazine, ranking 21 rich nations on whether their aid, trade, immigration, investment, peacekeeping, and environmental policies help or hurt poor countries. While this public coherence debate will continue to feature a good deal of discussion about the appropriate measures and weightings of the different elements to include in such judgements — and the sponsors are commendably forthright in presenting this version as “crude and imperfect” and inviting improvement and refinement — it is unquestionably healthy, together with work by some international organizations and other nongovernmental groups, in stimulating wider information, interest, and policy consideration of broader support for development than aid programs alone.

Resources for Development in Perspective

To break out of the aid myopia of the past, all concerned with development need to keep the relative importance of different sources of finance for developing countries in clear perspective. The High Level Panel Report (the Zedillo Report) mandated by the UN Secretary-General for the Monterrey Conference on Financing for Development in 2002, helpfully expanded awareness of this pyramidal ranking, building up from a wide base of domestic resources, to trade receipts, to private capital flows (especially foreign direct investment) and then to development assistance. The Zedillo Report also synthesized some generalized estimates of the dimensions or relative importance of these sources. As

a brief survey, some of the key sections and related points from other sources are directly summarized below.⁹

Domestic resource mobilization. The primary responsibility for achieving growth and equitable development lies within the developing countries themselves.... The domestic economy is virtually always the dominant *source* of savings for investment, and the domestic policy environment is a decisive determinant of the *desire* to invest. The actions of domestic policymakers largely determine the state of governance, macroeconomic, and microeconomic policies, public finances, the condition of the financial system, and other basic elements of a country's economic environment.

Trade. Both the competitive pressures needed to produce successfully for the export market and access to the imports necessary to build a modern economy are essential for any sort of rapid growth, equitable or otherwise, environment-friendly or environment-destroying. ... poverty in a poor country cannot be overcome without sustained rapid growth.... at least since the 1960s, every country that has pulled its people out of poverty has made a significant opening to trade a central feature of its economic strategy. In the huge gains [calculated in the hundreds of billions of dollars] that would accrue from removing remaining barriers to trade, poor households would gain the most, in terms of the proportionate boost to their living standards, in both the rich and poor countries.

Private capital flows. The bulk of savings available for a country's investment will always come from domestic resources, whether that country is small or large, rich or poor. But foreign capital can provide a valuable supplement to finance investment and growth. While "the extent to which foreign direct investment (FDI) bypasses smaller and poorer countries is often exaggerated... it is still true that the majority of African countries attract relatively little FDI, and much of what does come is to the mineral sector."

The Institute for International Finance forecasts that in 2003, total net private capital inflows [even] *to emerging market economies* will rise somewhat from 2002 levels — the lowest in a decade — to reach US\$139 billion. This will still be only about 40 percent of the record level that these inflows reached in 1996. Foreign direct investment, the largest component, will fall slightly, but will be more than offset by rising bond finance.¹⁰

"Since the mid-1980s the Least Developed Countries (LDCs), under the tutelage of the international financial institutions, have undertaken major programmes of economic reform with particular emphasis on opening their trade and investment regimes to benefit from FDI. Many investment regimes in LDCs are now more liberal than those in OECD countries. But, except in a few isolated instances, the response from foreign investors has not been commensurate with the reform efforts LDCs have made."¹¹

⁹ UN 2002, pp. 36 ff., 40, 45, 54.

¹⁰ IIF 2003, p.1 (emphasis added).

¹¹ Sweden (MOFA) 2003:1, p.7.

International public finance. Even if great strides are made in trade liberalization, domestic policy reform, and capital inflows into developing countries, international development cooperation (sic) will retain four vital roles in which it has essentially no substitute: helping to initiate development; coping with humanitarian crises; providing or preserving the supply of global public goods; confronting and accelerating recovery from financial crises.

Partial and preliminary figures suggest that orders of magnitude of the (international aid) cost of achieving the 2015 Development Goals would probably be on the order of an extra US\$50 billion a year. Achieving a reasonable minimum standard of humanitarian aid might cost around US\$8 billion or US\$9 billion in a typical year, an increase of around US\$3 billion or US\$4 billion from recent spending levels. And seriously addressing the need for global public goods will require a[n assistance] budget of the order of US\$20 billion a year, compared with current spending of around US\$5 billion a year. Development and humanitarian assistance need to be separated from finance for the supply of global public goods, and adequate funding needs to be provided for all three.

The Zedillo Panel report went on to survey the record of ODA performance and the potential for “new and innovative sources of finance” to finance global public goods, Examples included reviving the International Monetary Fund (IMF) Special Drawing Rights, or introducing international taxes on currency or other international transactions, on the use of various international commons, and — the option the Panel looked upon most favourably — an international carbon emissions tax. It also surveyed relevant systemic issues in the international economic machinery.

Workers’ remittances: a major missing link. One issue that has not been given great weight in the total picture of development finance is that of remittances to developing countries by their emigrant nationals. Whatever the difficulties in precisely estimating the total amounts involved, and attempting to assess their developmental impacts, it remains true, as the World Bank’s 2003 *Global Development Finance* report points out, that the steadily growing importance of workers’ remittances is “an under-recognized trend in the external finances of developing countries — especially some of the smallest and poorest Such flows now rank second in importance only to FDI in the overall external financing of developing countries. At US\$80 billion in 2002, remittances ... (had) showed a remarkably steady growth through the 1990s.... Demographic trends suggest that remittance flows from high income countries will continue to grow over the medium term.”¹²

The relative potentials of these different sources (as estimated by the Panel and others) provide stark reminders of the critical importance of maintaining environments that promote domestic investment and entrepreneurship, vigorous trade, and stable capital inflows, while targeting the sparse resource of development assistance to those catalytic purposes that cannot otherwise be funded. Most donor agencies have now invested considerable effort and finance to stimulate private investment, and many variations on approaches such as public-private partnerships are being attempted in numerous settings.

¹² World Bank 2003, p.3.

At the same time, the best projections available — under any realistic scenario — suggest that, for most developing countries, each of the main resource pillars for development will require sustained policy commitment and capacity-building work in order to produce gradual, positive results. They must also constantly compete against a wide range of opportunities elsewhere. For example, even if further viable risk-reduction measures can be put in place to overcome some of the obstacles, it would be irresponsible to count on major rapid increases of private capital flows to most of the least developed countries in the medium-term.¹³ At the same time, it is unquestionably positive that as recently as June 2003, a high-profile, 28-member Commission on Capital Flows to Africa has come up with a number of appealing new proposals for concrete measures which offer prospects of encouraging investment in the continent.

The end of aid in the 1990s

Over the course of the 1990s, it became common in many circles to predict the withering of aid programs for developing countries, in both absolute terms and relative to other sources of finance.¹⁴ This prediction was based on the fact that, after increasing in nominal terms in nearly every year since the late 1960s, ODA allocations peaked in 1992 at US\$62.7 billion, then declined to US\$47.9 in 1997 and basically stagnated for the remainder of the decade, in real as well as nominal terms.¹⁵ Meanwhile, after recovering from the debt crisis, private flows to developing countries as a group began to rise again, and over the same period ballooned from US\$80 billion in 1992 to US\$241 billion in 1996, after hitting US\$273 billion the previous year.

Regrettably — since the end of aid is the proclaimed objective of all who toil with it — aid was not on the way out in the 1990s, and certainly not to be replaced by private flows. In retrospect, two very different things were happening simultaneously. ODA levels to developing countries were indeed dropping — even allowing for the graduation of some recipients from ODA eligibility and the new, and at least partly competing, demands for non-ODA aid from transition countries. At the same time, through the 1990s, ODA continued to provide some 88.5 percent of total net official and private disbursements to sub-Saharan African countries, and fairly steady shares of total flows to many other developing countries as well.

As was well recognized, most of the rapidly increasing private flows were principally going to a small number of developing countries, mainly but not exclusively large and middle-income countries. Moreover, as subsequent events drove home, the rapid increases to some developing countries were not to prove sustainable in the face of crises

¹³ A serious survey of the possibilities for increasing FDI flows to least-developed countries is provided by Mistry et al. in Sweden, Ministry of Foreign Affairs 2003.

¹⁴ A fairly representative example, from a Canadian source, would be the Asia Pacific Foundation (1999). Such references became so commonplace that it is almost unfair to point to a few, but it is significant that even a thoughtful forward look published by IDRC in 1999 leaned heavily in this direction. See Sagasti and Alcalde 1999, pp. 7-9.

¹⁵ A number of the themes in the following discussion, and digestion of much of the data up to 2000 is indebted to White 2002.

to come. Thus, there was very little substitution happening between private and ODA flows to particular countries: aid-dependent economies remained *more heavily dependent* than in previous decades, and those countries with rising private flows had generally been much less dependent on aid in any case.

Regressive incidence of aid cuts

On this evidence, the end of aid in the 1990s, or today, would simply be inconceivable without the imminent threat of financial collapse to a good many heavily aid-dependent countries. More damaging was the fact that, after rising throughout the 1980s, sub-Saharan Africa's share of aid fell back during the 1990s and its real aid per capita fell by more than 40 percent. Nor was the pain restricted to Africa — low-income countries as a group (especially the least-developed countries) saw their share of bilateral ODA slip from 71 percent in 1990 to 62 percent in 2000, while low-middle income countries saw their share increased from 21 to 34 percent. Similar shifts occurred in multilateral aid, although from a more progressive starting point in 1990.

Several other major features are significant in the pattern of declining aid flows during the bleak decade of the 1990s.

Diversion

To the extent that diversion of aid did occur, it appears to have been pulled toward some of the countries moving up from the poorest categories, but also to new recipients in Europe and Central Asia, high-profile trouble spots in Europe and elsewhere and — after the recategorization of higher income countries by the DAC — in the continuing (but now non-ODA) official aid flows to some key countries, most significantly Israel.

Multilateral shares

One significant longer-term trend that continued through the declines of the 1990s was the shift toward multilateral ODA from bilateral. Much of the continued shift during this decade is attributable to the growth of European Commission programs, although earlier strengthening of World Bank and even UN programs was basically sustained. Howard White argues that this pattern shows that the multilateral component appears to be a fixed cost in the aid program, whose share rises as volume falls.

Effort-sharing among donors

Within the diminishing collective aid contribution of the OECD donors over the 1990s (with former East Bloc and the Organization of Petroleum Exporting Countries (OPEC) donors having shrunk into virtual insignificance), important shifts in effort by individual donors were taking place. The United States, from its share of 54 percent of total aid in the latter 1960s, had fallen steadily to a 17 percent share by 1999-2000. Meanwhile, Japan's share, from a base of just 5 percent in the latter 1960s, had risen steadily to 26 percent by 1999-2000. Among the other main G7 countries, Germany held its share

within the diminishing total, France lost a third, while the UK had begun a recovery toward its traditional level. Italy, after a boom level in 1989-90, crashed by more than half by 1999-2000 and Canada, by more than a third. The aggregate share of the like-minded donors (the Nordic countries and Netherlands) held up and improved slightly in spite of drops by Sweden and Finland, and Spain saw a significant increase.

In relation to their own economic means — by the DAC's measure of ODA as a percentage of Gross National Income (GNI), the largest drop in effort among the G7 over the 1990s was experienced by France (albeit from a high base) followed by Canada and Italy. The aggregate DAC effort dropped by 0.11 percent over the decade and the average country effort (or country-by-country average) by 0.07 percent of GNI.

Turnaround in the new century?

The period from 1995 to 2003 has seen strengthening and widening support for the agenda of reform in development cooperation (and particularly development assistance) among most of the industrialized countries. Initial unevenness of response, explained by different factors in different donor countries and multilateral agencies, was gradually overcome by the recognition that a concerted program of reform was itself of the essence, and that the effort underway was steadily moving toward substantial changes, and gaining legitimacy with developing countries and international opinion.

The quantity of aid

After the sickly decade of the 1990s, by 2002 advocates of aid were beginning to say, like Mark Twain, that rumours of their death had been greatly exaggerated. In April 2003, members of the OECD's DAC were able to announce that final 2002 figures had shown almost a 5 percent increase in their total aid allocations from 2001. The total amounted to US\$57 billion, equivalent to 0.23 percent of their combined resources, measured as gross national income. This “marked the beginning of a recovery” the DAC claimed “from the all-time lows of 0.22% in each of the last three years.”¹⁶

This claimed turnaround does seem to stand up reasonably well to examination. As with the pattern of decline in the 1990s, one powerful indicator of a trend was that more than half of the 22-member countries reported ODA increases in real terms — nine of them by over 10 percent — and that most members signalled a trend with multiyear planned increases. The most spectacular increases were those of the most erratic G7 donors, Italy and Canada. Both recorded one-year increases of 31 percent from their very depressed base levels. Canada also backed this one-year gain by a high-profile pledge to double its aid by 2010.

In spite of a history of broken promises about aid spending, it is such medium-term pledges by a wide range of donors — and their political underpinnings analyzed elsewhere in this report — that now allow for a realistic expectation that increasing ODA will be sustained — at least up to 2006. Much historical experience suggests that for

¹⁶ OECD/DAC 2003c, p. 1.

most governments, promises and projections for periods longer than about four years can become extremely unreliable, in the face of changing political, economic, and budgetary conditions.

Within this plausible time frame, however, an OECD simulation estimates that by fulfilling the promises they made in the context of the Monterey Conference, DAC donors would, by 2006, raise ODA in real terms by 31 percent (about US\$16 billion) and the ODA/GNI ratio for the DAC as a whole to 0.26 percent, with an average country effort of 0.47 percent. The aggregate DAC effort would still be, it notes, well below the ratio of 0.33 percent consistently achieved until 1992, and still, in the World Bank's view "incommensurate with the commitment to reach the Millennium Development Goals by 2015."¹⁷

Reversal of other trends of the 1990s?

Effort-sharing

As noted, many donors are already contributing to the incipient recovery in aid allocations, including the United States as the largest donor, which increased its aid in 2002 by nearly 12 percent in real terms, and has made very high profile, multiyear commitments to further aid increases, particularly through the Millennium Challenge Account, and HIV/AIDS-related initiatives. By 2006 these would bring the US effort to 0.15 percent of GNI. The 15 EU members, meanwhile, collectively increased their ODA by nearly 3 percent in real terms in 2002, reaching 0.34 percent of their combined GNI. Prior to Monterrey they had already pledged to raise their aid further to reach 0.39 percent of GNI by 2006, although the OECD projects that they could actually reach as high as 0.43 percent.

Among the major donors, Japan probably offers the least hope for increases in this decade — its 2002 aid fell in real dollar terms by about 2 percent to US\$9.8 billion. With budget cuts in 2002 and 2003, the best realistic expectation for Japanese aid out to 2006 is that it will be able to just hold its ground at about US\$8.5 billion annually. Other donors (such as non-OECD countries and new OECD members) are almost certain to remain a minor financial factor throughout the decade, although some South-South technical cooperation will probably continue to expand on a needs basis, without great fanfare.

Distribution: regressive or progressive, how political?

Will we see a continuation of the trend of the 1990s toward reducing aid for least developed and low-income countries, with increased shares going to low mid-income and high profile "troubled" countries? There are conflicting currents and signals to date in response to this question. The most recent statistics, like those for overall aid, suggest a significant reversal, with the share of total bilateral aid to low-income countries rising from 62 percent to 65 percent from 2000 to 2002, and the share of low middle-income countries declining proportionately. Several forces are at work:

¹⁷ World Bank 2003, p.3.

- The central poverty-reduction rationale of development assistance has been tangibly reinforced;
- Most donors (with the exception of the USA in its Millennium Challenge approach) have avoided any simplistic application of “performance-based allocations” of aid, which would have mechanistically steered aid to a very small number of “good performers;” but,
- Geopolitical allocations of aid are being poured into high-profile countries such as Pakistan, Afghanistan, and Iraq — almost regardless of their levels of poverty or development performance — already raise basic questions about the credibility of the new, focused rationale for development assistance and thus the ability to sustain public support, especially since these countries are unlikely to become clear “success stories” in any short or medium term time frame;
- There are several good reasons for not curtailing certain kinds of assistance to low-income countries as they gain stronger development momentum and move out of the poorest categories. Moreover, working on poverty-reduction to the new standards of effectiveness with the poorer countries is, by definition, more difficult, slowing disbursements and (particularly for donors like Canada and Italy which implement sudden major increases) creating perverse incentives to spend less carefully.

While it is not yet clear how these tensions will be resolved over the coming years, some of the implications are obviously critical for the longer-term future of the aid effort.

Further multilateral aid growth, or decline?

Much multilateral cooperation itself, and many of the institutions designed to serve it, are now clearly contested by the dominant group in the current US administration. This will call forth two different responses over coming years — to defend and support these mechanisms against unreasonable attack and weakening, and/or to try to expedite some of the different reforms that have long been proposed for the different institutions.

On the merits, meanwhile, a pilot test by the UK’s Department for International Development (DFID) on the relative developmental effectiveness of several multilateral channels, alongside its own, yielded the following ranking of effectiveness among the agencies included: IDA (International Development Association); DFID; Asian Development Fund; European Development Fund; African Development Fund; and the European Commission budget. In the light of this kind of comparative assessment of effectiveness, DFID at least was prepared to conclude that the UK had been “under-investing” in some multilateral aid channels in order to maximize the total developmental effectiveness of its aid. Hopefully, this and other efforts to arrive at evidence-based allocations to multilateral programs will increasingly replace the anecdotal criteria that have so often prevailed to date. A promising sign may be the formation of a new Multilateral Organisations Performance Assessment Network (MOPAN) by eight bilateral donors (Canada, Denmark, Germany, the Netherlands, Norway, Sweden, Switzerland, and the UK).

Evidently, the kinds of work done by development institutions and the quality of their management will influence countries' willingness to channel aid through them. If, as has been suggested, multilateral commitments were somewhat protected as more "fixed costs" through budget declines, will they receive lesser shares during times of increase? A contrary phenomenon seen in past periods of growth was for bilateral donors to rely on the "surge" capacities of multilateral agencies to help spend growing budgets. On balance, the contention here is that the aggregate multilateral share of aid will not tend to increase greatly over the decade. This is because most donors want to maintain and even strengthen their engagement in new partnership relationships with developing countries, and were already asking much tougher questions about the respective performances and accountabilities of different multilateral institutions — particularly the rapidly growing EC programs — and were contemplating more focused multilateral contributions rather than across-the-board support.¹⁸

Concentration or diffusion

A longstanding concern with many aid programs, especially bilateral ones, is that they have been spread thinly among many recipient countries. Not only has this reduced donors' capacity to know their partner countries well enough to give effective help, it has added to administrative costs, and more importantly to the proliferation of donor relationships, projects, and requirements which hard-pressed recipients must handle. By and large, it is political and commercial pressures that have produced and perpetuated the excessive diffusion of programmes, in spite of repeated acknowledgements that it was a problem. On this front, too, there are finally some hopeful signs of improvement.

Greater concentration is encouraged by a number of the trends in recent years toward less project and more program aid (initially given impetus by structural adjustment operations) and by reform efforts that look to stronger country knowledge, coordination among donors, sustained relationships and more intensive policy dialogue. Several donors have in recent years committed themselves to greater concentration, including notably Denmark, the Netherlands and Canada (the latter two of which have had the most dispersed programs, together with Germany and Switzerland).¹⁹ Denmark clearly acted on this stated intent, but it is not yet clear how successful the Netherlands has been in making the difficult choices required, and Canada has only recently made the decision and begun to take implementing steps. Success in this concentration effort — linked to better country knowledge, more responsiveness to country plans and leadership, sustained

¹⁸ The CIDA Multilateral Strategy of January 2003 is only the most recent indication of this trend, and by no means the most forceful. The longstanding British reservations about the effectiveness of EC aid programs have come to be widely shared among other EU members. While it is improbable that they will be cut in absolute terms, it would also appear unlikely that EU members would agree to have Brussels steadily take an even larger share of their total aid — sometimes as a trade-off for other budgetary issues — at least until massive improvement in EC aid has been demonstrated. On a broader front, Denmark, a donor that punches well above its weight, adopted an assertive strategy of "active multilateralism" in the 1990s, the Nordics as a group sponsored critical evaluation work, DFID after 1997 began adopting and implementing Institutional strategies for achieving its strategic aims through multilateral means, and the US has voted with its wallet and even its membership.

¹⁹ White 2002 p. 14

relationships, and stronger donor coordination — are among the most important requirements for aid improvements.

Aid quality: the drive for effectiveness

Since the mid-1990s, there has been an unprecedented international effort to draw out and apply lessons from a half-century of experience in development cooperation. As a result, a new framework for international development cooperation has taken shape, steadily gained support, and begun to be widely tested in practice. In a Canadian context, a 2002 policy statement issued by the Canadian International Development Agency (CIDA) outlines the new model:

The comprehensive development model that has emerged is based on a set of broadly endorsed objectives, coupled with the recognition that there is no single path to development. This model underscores the need for a balanced approach, which addresses the political, economic, social and institutional dimensions of development. It stresses the importance of getting governance right, the proper sequencing of reforms, the need for building capacity to ensure sustainability, and engaging civil society.²⁰

Other hallmarks of the new framework include key principles for effective development: “Local ownership; improved donor coordination; stronger partnerships; a results-based approach with improved monitoring and evaluation of development programs; and greater coherence in those ‘non-aid’ policies of industrialized countries that can have profound effects on the developing world.”²¹

This widening consensus on effective development cooperation aims to reinforce and accelerate the transition from directly providing essential services through individual projects, to helping build the capacities of local organizations, and ultimately to promoting and reinforcing entire policies and systems that can bring sustained benefits to society as a whole. One implicit, and critically important but often unstated, implication of all the elements in this new approach is a sustained commitment for the long haul by donors with their partner countries, recognizing that the development process will be arduous and uneven.

The objective of reducing extreme poverty has been given central recognition as the rallying cause for development, and the *raison d’être* of development assistance. Together with the other, related Millennium Development Goals, poverty reduction targets are there to provide a constant touchstone and reminder to all parties, even while lively differences persist in how best to achieve this goal, within a broad consensus that would have been unthinkable even a decade earlier.²²

²⁰ Canada, CIDA 2002.

²¹ Principles agreed upon in the OECD/ DAC in 1996 and widely endorsed since, as in the CIDA Policy Statement cited above.

²² The broad consensus was best captured in the World Bank’s World Development Report 2000/1: *Attacking Poverty*, and it has been followed by extensive work at many levels on fleshing out, testing and applying the broad strategy. Poverty Reduction Strategies in countries (see above) have provided the links to put them into operation, supported by new or improved mechanisms for donor backing at the program,

Fortuitously, the requirement for highly indebted poor countries to produce Poverty Reduction Strategies, as their international gauge for how aid relief would be used, was able to be adapted as the developing-country performance standard in the new aid relationship across the board. Other tools, such as Medium-Term Expenditure Frameworks, Sector-Wide Approaches, and Poverty Reduction Strategy credits could then be created or adapted to gear aid to these objectives and the new governing principles, with a commitment to “Results-Based Management” ideally underpinning the performance of all these new arrangements.²³

Another supporting beam of this new aid framework — resting on the pillars of “local ownership” and capacity-building — is a fresh appreciation of the critical role of knowledge in growth and development, and much greater attention to this powerful factor in the conception and implementation of development assistance. The 1998-99 World Development Report brought together the broad assessment of these relationships and their implications, and the World Bank and many other donor institutions have since been engaged to varying degrees in trying to embed stronger reflections of the importance of knowledge in both the goals and functioning of their own programs, to become “knowledge-based organizations,” and give greater priority to intellectual capacity-building in partner countries. This has led a number of donor agencies to give much greater priority to training, the strategic hiring and deployment of expert staff, and the generation and encouragement of more research related to their sharpened program goals, as well as direct engagement with researchers in developing countries. Some have also begun to test more rigorously some longstanding support to their past development-related research in universities and other institutions.

These principles and approaches, taken together, have already provided the basis for new dialogues and working agreements between developing countries and their multilateral and bilateral partners, prominently embodied in support for NEPAD at the African level, and the Monterrey Consensus for all countries. They have also set in motion a raft of efforts at reforming past practices on both sides,²⁴ and are backed up by fairly explicit (if not yet balanced) expectations of mutual accountability for performance under this new “compact.”

sectoral, or budget levels, moving beyond projects. It is important to note that while all donors have now adopted such goals and reflected them in their programs and practices to different degrees, some have done this much more seriously than others. To date, DFID in the UK has clearly been the leader and model for others among bilateral donors, while on the multilateral side the World Bank has applied its considerable analytical and agenda-setting resources, and sponsored extensive piloting work.

²³ Maxwell (2003) neatly ties these elements together, combined with cautions about “hubris” with this ambitious package, and about a number of substantive risks, apart from the ones enumerated here.

²⁴ Including unprecedented work by different donors to coordinate their policies and operations more seriously, and to acknowledge and attack their own practices that have resulted in additional burdens on developing countries. See, for example, the work of the OECD/ DAC Task Force on Donor Practices, and some results finally beginning to be achieved on the “untying” of aid from national procurement restrictions. On the developing countries’ side, a similar degree of new candor has emerged, in both collective positions and strengthening systems for accountability, transparency and participation, particularly around Poverty Reduction Strategies.

The broad terms of the compact are most authoritatively captured in several key multilateral declarations, most clearly in the Monterrey Consensus.²⁵ Given this setting, they are inevitably surrounded by a forest of caveats, special issues, and some very general statements of intent, but the basic terms and expectations are more clearly understood by both developing and developed countries than ever before. With the objective of achieving the Millennium Development Goals, developing country governments have committed themselves to mobilizing domestic resources, implementing sound policies and adhering to good governance, while donors in turn are committed to significant increases in official development assistance to support the implementation of nationally led poverty reduction strategies, and to make progress on a good number of development-friendly measures in relation to trade, investment, technology, debt, and policy coherence in itself.

Selectivity and performance-based allocations

To complete the list of key elements in the new aid effectiveness framework, it is important to turn to the issue of country selectivity and performance-based allocations. Indeed, many commentators would begin with this issue and treat it as the core of the new paradigm, but the contention here is that country selectivity is a much less important, more subtle, and less influential aspect than has generally been assumed. The World Bank study on *Assessing Aid* (and Dollar and Burnside's later paper on *Aid, Policies and Growth*) — with their basic proposition that “aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little effect in the presence of poor policies” — came only after the effectiveness campaign was well underway. From the outset, their more simplistic recommendations about selecting “good performers” to receive aid have proved to have limited practical application to most programs. This has not stopped a continuing series of largely academic debates about the validity of the quantitative approaches, specification and data in these studies and a flurry of other quarrels, the results of which again spill on occasion into policy and public discussion.²⁶

The selectivity mantra is central to White House statements about development cooperation, and is specifically reflected in the design of the new US Millennium Challenge Account. It has been echoed in a chorus of editorial comments from the international financial press. The invariable implication drawn is that an assessment of good policies and/or performance can and should be used to allocate aid to the good performers and withhold it from the bad, and that this is somehow a novel notion.

The contention here is that most donors have been moving to apply more exacting standards for the allocation of their discretionary aid to developing countries from early in the 1990s, responding to rising concerns about poor development results, waste and corruption, scarce aid resources, bad governance, and human rights abuses. The more

²⁵ Taken together, these would include the UN's Millennium Summit Declaration, the Monterrey Consensus of March 2002, the Johannesburg Final Declaration, and key statements around NEPAD.

²⁶ A recent emanation (and useful summation) of this debate is found in Easterly et al. 2003.

significant questions about connecting effectiveness concerns and the allocation of aid are:

- What proportion of aid allocation decisions are in reality exempt from development effectiveness criteria, because they are in fact driven by superseding foreign policy considerations?
- Since policy and performance on many fronts by definition tend to be weak in many developing countries, and especially where poverty is most pronounced, how far could development agencies ever go in demanding absolute standards of good policy performance and/or degrees of improvement?
- How clear or sure can we be in the first place in setting out what elements, and feasible yardsticks, can be applied (and by whose judgement) to good performance in any event?
- Will it be possible to show aid effectiveness results commensurate with the expectations being raised by the public emphasis being given to this approach?

In fact, the simplistic application of quantitative performance measures to steer country aid allocations was never really a prospect for most donors — few of their partners could yet be classed as top performers by these measures, but it would be unthinkable in most cases for them to withdraw from, or truncate, these relationships. Thus they consciously turned their attention to the additional thorny problems of “working in difficult partnerships” and it remains a key part of their agenda. Even for those donors that led with such techniques (such as IDA) they are now being used, and constantly refined, as only one input to allocation decisions, and the World Bank has its own special agenda on working with “Low-income Countries under Stress.”

By March 2003, international experts agreed that the main aspects of effectiveness in poverty-reducing allocations across developing countries include “poverty incidence and depth, governance and policies, vulnerability and shocks, as well as pre- and post-conflict situations and how to help with social and institutional development in less well-governed countries.”²⁷ Even the multilateral agencies like IDA (with a heavy quantitative subculture and some degree of insulation from political realities) are finding that realism, and respecting the principles of long-term partnership, require more nuanced judgements of performance, and changes in the types of aid used, rather than necessarily the amounts allocated. Thus, for example, better performers, with strong Poverty Reduction Strategies and programs, are more likely to be able to attract more fungible aid like budget support. Allocations other than by country are also critical, such as allocations between bilateral, multilateral, and other channels, and the shares of aid that are and should be directed to global public goods. Other factors need equal attention, including donor practices, the need for country leadership, management of the aid process, and capacity-strengthening issues well beyond aid, what in OECD tends to be called policy coherence.”²⁸

Moreover, the whole process of applying these crucial judgements to country performance — until recently, for example, still done basically in secret by IDA — needs

²⁷ OECD 2003b, p. 14.

²⁸ OECD 2003b, pp. 6, 14.

to be made more compatible with the terms of partnership that are supposed to rely on local ownership and leadership and to reflect mutual accountability for both partners' performance of their respective responsibilities. Here, the experience of an independent monitoring group in Tanzania, launched as early as 1997 and developed successfully since that time, still stands as a model worthy of much wider emulation, but still too little applied.²⁹

The changes of aid philosophy now being applied are potentially revolutionary, in that they imply donors acknowledging that their past micromanagement of aid was ineffective as well as inefficient, and stepping back to let developing countries take primary responsibility, subject to a much broader set of macroconditionalities. Given their accountability to their publics, and the inevitability of things going badly (and spectacularly) wrong in at least some countries, donors have taken considerable risks in moving up to such macroconditionalities. This is particularly so, since they are only striving in parallel to help developing countries strengthen their own systems for managing transparently and accountably, systems which in many cases are still highly vulnerable.³⁰

At the same time, this laudable new model of aid is only being applied — and probably can only be — to parts of total aid programs, and not to some of the most visible parts, which are more shaped by emergency or geopolitical considerations. At a minimum, if this qualitative revolution is to be sustainable long enough to show the hoped-for results in building confidence, donors need to invest much more in deepening public understanding of the new objectives of development assistance, how far they can be applied and what are realistic expectations for results, and the risks involved. The Zedillo Panel Report conveyed its own view of what will be needed in the following terms: “a Campaign for the Millennium Goals might track the progress made towards achieving the goals, highlight any shortfalls, and identify remedial actions. Such a campaign would need to combine the enthusiasm that the debt campaigners brought to bear in their successful campaign with the professional expertise of the key international agencies and the financial support of private foundations.”³¹

The impact of global public goods

Over several years, the notion of Global Public Goods (GPGs) has become part of the development cooperation discourse. Although there is still much confusion as to its precise meaning and its implications, it clearly has a persistent appeal in some academic and policy circles, and is having some significant impacts on policy and action.

²⁹ Among other places, this experience is briefly documented by Gerry Helleiner, its principal coordinator, in Helleiner 2002. Having witnessed the invigorating impact of this new input in the Consultative Group meetings of the Government of Tanzania with donors in Paris, the author can testify directly how much it would help put substance and respect into other such dialogues.

³⁰ The types of work involved — and some of the new dangers of “overloading” developing countries in helping strengthen developing countries' systems is evident in work such as Roberts 2003.

³¹ UN 2002, p.55.

Box 2. Global Public Goods — Basic Definitions

A **Public Good** is a commodity, measure, fact or service

- which can be consumed by one person without diminishing the amount available for consumption by another person (nonrivalry);
- which is available at zero or negligible marginal cost to a large or unlimited number of consumers (nonexclusiveness); and
- which does not bring about disutility to any consumer now or in the future (sustainability).

The degree of nonexclusiveness determines the Public Good's degree of purity.

An **International Public Good** (IPG) is a Public Good which provides benefits crossing national borders of the producing country.

A **Regional Public Good** (RPG) is an International Public Good which displays spillover benefits to countries in the neighbourhood of the producing country, in a region which is smaller than the rest of the world.

A **Global Public Good** (GPG) is an International Public Good which, while not necessarily to the same extent, benefits consumers all over the world.

Source: Reisen and Weithöner 2003.

A 1999 volume published by United Nations Development Programme (UNDP) on *Global Public Goods: International Cooperation in the 21st Century* launched a continuing discussion about how the concept of public goods, adapted from economic thinking, might be applied to diagnosing and prescribing for some of the intractable problems plaguing an increasingly integrated global system. The basic propositions were that “today’s turmoil reveals a serious under-provision of global public goods,” that the concept of global public goods is useful in describing and analyzing global challenges, and that feasible policy options and strategies should be sought to ensure a more reliable supply of global public goods.³² The 1999 study presented specialist analyses of how these goods are and might be better provided in the areas of peace and security, equity and justice, environment and cultural heritage, health, knowledge and information, international trade systems and financial stability, and identified “gaps” in the current capacity to respond.

As one of its main themes, the 1999 book also proposed a total rethinking of international development cooperation, concluding, “Clearly, traditional aid mechanisms are far too confining to accommodate the new and varied financing requirements of a global public goods strategy. Traditional aid is one of its elements, but the strategy will not succeed

³² Kaul et al. 1999, p. xxiii.

without a wider framework of international development cooperation offering additional financing sources and methods.”

By the time of their second study in 2003, the UNDP team tried to clarify one what many had read to be a downgrading or dismissal of existing development assistance programs. Thus the main recommendation on financing was now “to disentangle aid and financing for global public goods and to establish a distinct international component for each: the distribution branch and the allocation branch of public finance (sic). The growing importance of global public goods should be seen as an added argument for aid, not a reason to forget about it. To the extent that aid enables developing countries to enhance the provision of national public goods, it diminishes the risk of negative cross-border spillovers and thus the need for international cooperation to control global public bads.”³³

Some of the most promising follow-up on GPGs has been driven by the Swedish Ministry of Foreign Affairs, which, together with its French counterpart, launched an international commission, and then (in April 2003) an International Task Force on Global Public Goods, expected to complete its work in 2005. A substantial output of this activity was the sponsorship and publication of an independent study in November 2001 on Financing and Providing Global Public Goods: Expectations and Prospects, prepared by a team based at the Institute of Development Studies (IDS) at Sussex University. This analysis has the refreshing merit of beginning to bridge the extraordinarily ambitious theoretical vision of the approach’s most zealous proponents, and some of the practical ways ahead to use its best points as a realistic basis for action:

The central concern of this report... is of a practical nature and centers on whether the concept of global public goods can advance *thought and action on common concerns that affect a large portion of humanity*.... This study presents an attempt to construct an appropriate conceptual framework.... [which] among other things, makes clear that it is not possible to escape values, preferences, interests, asymmetrical knowledge and power relations in defining global public goods and arranging for their provision. It also makes clear that, without policy processes that take all these factors into consideration, declarations that something is a global public good are essentially empty rhetoric.”

The study went on to stress that:

The transition from acknowledging a good, service or outcome as desirable to declaring that it is a ‘global public good’ is anything but straightforward or automatic. It is heavily influenced by public awareness and political decisions, and requires collective action at the level of the international community (which includes not only national governments, but also private corporations and civil society organizations).³⁴

³³ Kaul et al. 2003 p.330. Emphasis added.

³⁴ Sweden 2001:2, pp.3-4 (emphasis in original); p.7.

The IDS study's conceptual framework aims to help clarify some of the "confusion and ambiguities that have become evident in discussions linking global public goods and development cooperation." It begins to provide some handles on this unwieldy topic by distinguishing between "*core components* of delivery systems for global public goods, which should be taken care of by the international community, and the *complementary activities* that are the primary responsibility of national and local entities...."³⁵ It goes on to trace some of the linkages of understanding, decision, and institutional arrangements that need to be forged between the domain of the global, the domain of the local (i.e., national and local activities to provide GPGs, via the "domain of the networks" the institutional arrangements for their provision. The forging of these links — not to speak of the institutional and financial infrastructure — are clearly seen as formidable, long term challenges facing opinion-leaders and decision-makers. The IDS analysis, while itself still leaning to the end of aid assumption, also helpfully downplayed some of the early claims that this approach might reverse downward ODA trends and/or itself generate much greater additionality in financing for development.

The IDS approach, and the terms of reference and membership for the new Swedish-French sponsored international task force which it recommended, offer the promise of a sustained — but not doctrinaire or single-focus — effort to apply the best of GPG thinking to real-world problems, conditions and political realities. It is clearly envisaged that the task force will work for a pragmatic definition, a short list of key international public goods and priorities that are relevant to reaching the Millennium Development Goals — especially on poverty reduction — concrete proposals, and lessons on management, division of labour, and financing.³⁶

While the analytical debates have been going on, the basic global public goods concept has already influenced some of the thinking and discourse of governments and international agencies, and provided a rationale, if sometimes ex post, for some of their actions.³⁷ It has helped analytically inclined people to give a weight, rationale and some structure to a wide range of increasingly important transnational and global concerns that go beyond the capacity of existing jurisdictions and systems to handle. In some instances it has also provided part of the intellectual underpinnings for new private/public mobilization campaigns around perceived crises, such as HIV/AIDS, or the Global Fund for Major Infectious Diseases.

³⁵ Sweden 2001:2, p.7. The World Bank also adopted a similar distinction in *Global Development Finance* 2001.

³⁶ The task force will be led by former Mexican President Ernesto Zedillo and Tidjane Thiam, former Minister of Planning in Cote D'Ivoire. The international secretariat for the work will be led by Sven Sandstrom, former Managing Director of the World Bank. Swedish Foreign Ministry Press Release, 9 April 2003. See also International Task Force on Global Public Goods. Terms of Reference: Non-Paper. Proposal for discussion 3 July 2002."At www.utrikes.regeringen.se/inenglish/policy/devcoop/financing.htm

³⁷ For example, the IDA Deputies Group in the World Bank, and the G7 have pressed the Multilateral Development Banks to focus on "fighting infectious diseases, promoting environmental improvement, facilitating trade and promoting financial stability" as their main priorities in the field of global public goods. A rapid search of the websites of bilateral development cooperation agencies and some of their foreign ministries suggests that most have acknowledged the concept and interest in global public goods and some have used it as an important point of reference for sectoral policies.

Among governments, Sweden has gone furthest in building the GPG notion into an inclusive strategic framework for foreign policy as a whole. Within the UK Government a study for DFID has also taken the Millennium Development Goals as a basis for identifying *key development GPGs* as:

- Knowledge generation and dissemination;
- Communicable disease eradication;
- The global commons; and
- A free and open trade system.

Using the same definitions, Reisen and Weithöner suggest adding

- Protection from crime and narcotics; and
- Global peace.

With goods as vast as these, even the explicit linking of some GPGs to agreed development goals does not by itself narrow them sufficiently to offer a basis for deciding whether and where they should be funded from development assistance budgets. Reisen and Weithöner's definitions draw distinctions on the basis of the spatial dimension of benefits, which offers a productive starting point for trying to identify existing spending and generate potential future criteria. In the area of research, and perhaps others, the following recent observation gives food for thought about the tendency to focus on public goods at a global level: "... while the supply of global public goods (in the form of research in agriculture and economics) is reasonably adequate, the public goods deficits at the national level, involving the production of country-specific knowledge, may be increasing."³⁸

Meanwhile, apart from some re-labeling or double-labeling of activities to capture any benefits of contributing to GPGs, both the trend toward more global problem based funds, and the original push of global public goods as a new rationale for development financing have highlighted some new problems that must now be managed. Rough estimates — the only kind that are possible with current categories and reporting — suggest that probably some 30 percent of ODA is now spent on global public goods (10% as a direct component and 20% allocated to complementary activities) as distinct from assistance directly targeted on development problems, and particularly poverty reduction.³⁹

Diversion from renewed aid to funding of global public goods is a special concern as the aid reform programme and results strategy takes hold. Even while it can be demonstrated that there may be very high dividends in poverty reduction from certain investments in international public goods (such as agricultural research and global trade expansion) Kaul et al. (2003) admits that funding for global public goods is already "increasingly

³⁸ Kapur 2003, p.13

³⁹ See Sweden 2001, p. xx, Kaul et al. p. 340 ff. and especially the new analysis in Reisen and Weithöner 2003, which estimates spending of about 15% each on global and regional public goods over the most recent five reported years.

crowding out development assistance.”⁴⁰ While the available evidence does not show any marked new steps in this direction, decision-makers are increasingly torn between these sets of objectives when allocating the inadequate resources available overall. On this basis, even development-related global public goods receive only token contributions, but they are large enough, and dependent enough on the same motivational base, to constrain additional funding for the agreed strategic priorities for development assistance. As one example, the US government’s recent decision to allocate major new resources to HIV/AIDS funding may be a case in point, and even among specialists there is an important divergence between some who have come to see HIV/AIDS primarily as a development problem, requiring treatment at the roots by an integrated improvement in development conditions, and others who still believe that it can and should be treated directly as a continuing health emergency.

A great deal rides on the work of the new Swedish-French sponsored task force, in finding the most constructive and realistic ways to make the global public goods idea a fully useful addition to policy and practice in international cooperation. In retrospect, it is unfortunate that the idea first emerged in the specific context of development cooperation, and even as an alternative to existing development assistance, when in fact its scope is far broader and more visionary, extending to international cooperation among all countries and international actors, on a wide range of problems of shared concern. As such, the idea is almost too visionary to cope with, especially when its underlying assumptions remain so contested, especially in the most powerful country in the international system. Thus the focused, step-by-step approach of the new task force should be beneficial.

Meanwhile, action is proceeding and intensifying at the international, regional and national levels to work together on common concerns, without necessarily labeling them as GPGs. The enlightened self-interest reasons for acting together on HIV/AIDS, the trade regime, financial crisis management, and a growing number of other concerns is compelling without the unclear label. In operational terms this usually means as well that action is carried forward mainly by the international organizations specialized in the field in question and their counterpart line ministries and private sector constituencies within countries. This is a continuation of entirely healthy trends of internationalization and globalization that have been intensifying for several decades.

Moreover, on grounds of both principle and pragmatism, the maximum shares of regime-building costs and subsidies required by developing countries to do their part in these regimes should be generated by these same specialized international systems, which command the relevant expertise and access to adequate sources of revenue. The sole proviso is that developing countries may need separate, independent development assistance for capacity-building to ensure that they can secure developmentally beneficial terms in relevant undertakings. This would argue for a degree of firewalling between the functions of funding for GPGs and development assistance within industrialized country systems. There would be many implications, and some dangers, to such an approach but the alternatives could be even more dangerous.

⁴⁰ Kaul et al. 2003, p.331.

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