REVERSING THE DECLINE OF ODA: HOW EFFECTIVE IS THE CURRENT POLICY AGENDA?

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EXECUTIVE SUMMARY

The world community has been confused by the contrast between, on the one hand, a number of problems that have been identified by a series of United Nations conferences at the summit or ministerial levels in the 1990s and, on the other hand, the declining trend of the official development assistance (ODA) which has been the traditional means to support the international community to solve these problems. It is important for the global community to reflect on the reasons and the basis of ODA and to analyse them historically. Then, it should become apparent that the basis of the ODA has changed fundamentally. It is for the international community to attempt to bring ODA and other financial instruments to bear upon the problems and issues identified globally in the light of the new reality.

The essence of the new reality is that the basic forces that organise the world community have changed from the Cold War to two "tracks" of globalisation. The market based globalisation is quick to provide impact on the world community and is, thus, the fast track, whereas, the political economy globalisation is taking a longer time to form an alliance and to make itself felt in the international society and is, thus the slow track. For the time being, the fast track globalisation is providing the basic structure to the world community, including the developing world, which has been divided into three categories, and at the same time, it is pushing the global community to recognise the importance of global public goods.

The task of the international community in promoting sustainable development is to develop a proper strategy in this context. It is important to address the questions of declining ODA as an integral part of this strategy. The essence of the strategy should be to approach the subject in phases. The basic objective of the first phase is to arrest the declining trend of ODA. It is important to articulate a package of policy instruments, each of which should be a realistic one. However, put together, they should impact critically on the world community where the atmosphere of international co-operation is expected to be strengthened. The first phase should start now and continue for several years.

The second phase should be to address the ODA question in a more dramatic manner, including the introduction of international taxation on a selective basis. While the start of the second phase may come around 2010, the world community should start conceptualising its work now. Negotiations for this phase might have to begin immediately after Rio plus 10.

I. INTRODUCTION

While aid fatigue began to be mentioned in the late 1950s, aid activities have been an important feature in world affairs in the past several decades. The recent decline in ODA, while not a significant one, provides the world community with a stronger challenge than previous episodes of ODA declines such as the late 1960s. Relating mainly to the end of the Cold War and to the predominance of the market-based globalisation forces, both of which requiring considerable readjustments in political and economic arrangements in practically all countries, including donor countries, reversing the recent declining trend of ODA should be attempted mainly from a politico-economic perspective. Putting ODA on the new reality of the political-economy of the world community should be the priority concern.

The conceptual work has to be firmly based on the reality which is characterised by rapid changes domestically as well as world-wide. Individual countries are witnessing increasing nationalism against the background of powerful forces of market-based globalisation. It is not useful to introduce super-national approaches such as international taxes in whatever form in this situation. These may be easily ignored, or worse still, may invite backlash. It is imperative for the conceptualisation of a new approach to aid for sustainable development to start with the fact that all the donors now consider aid as an integral part of their foreign policy.

One useful approach in this situation is to conceptualise the process of reversing the declining trend of ODA in phases. The major objective of the first phase is to apply the brake to the declining trend, and to begin to reverse it. The second phase is to begin to take somewhat more bold measures. The degree of boldness may depend on the politico-economic environment at the end of the first phase. By taking a phased approach, the world community may be able to avail itself of more realistic and powerful options than to try and reverse the declining trend of ODA through a shock therapy.

II. RISE AND FALL OF POLITICAL MANDATES FOR DEVELOPMENT FINANCE

External development finance has a relatively short history, originating in the late 1940s. It has responded mainly to the political requirements of the leading powers of the time, rather than the needs of the people. International relations and the reasons of the states have been the major motivating forces, whereas economics and ethics have contributed to the fine-tuning of its operations. Similarly, in the current situation, consideration of ways to strengthen external finance for sustainable development should centre around the present world politico-economic reality. In order to effectively approach this question, it is useful to briefly review the history of political mandates for external development finance and to observe their rise and fall in the world community.

A. The Aftermath of World War II

The triumvirate of the International Monetary Fund, the International Bank for Reconstruction and Development, and the still-born International Trade Organisation were basically conceptualised to avoid the recurrence of the Great Depression of 1929. The heavy war-time debt of Great Britain was, however, the immediate concern as Lord Keynes for the United Kingdom and Dr. White, the Treasury Secretary of the United States, negotiated on them. These were a set of activities that took place along the lines of concerns of treasury departments.

Another set of activities took place along the lines of foreign ministries. Significant changes in the drafts of the United Nations Charter from Dunbarton Oaks (1944) to San Francisco (1945) were the reflection of the shift of views of major Allied Powers with regard to the causes of wars. The Dunbarton Oaks draft dealt mainly with the peaceful resolution of conflicts and the enforcement of peace, generally matters that would be dealt with by the Security Council. The major development in the Charter drafting since then was to strengthen social and economic clauses that came to be incorporated in the San Francisco draft. This change was due mainly to the perception which was gradually shared by the negotiators with the progress of debates that a major root-cause of wars was poverty. International efforts to alleviate poverty had come to be considered as important means to strengthen peace. These two sets of institutions having been established, on the part of the leading power, the United States, reconstruction of Europe (the Marshall Plan), followed by efforts to reach out to the newly born poor countries in the form of Point Four (technical assistance in the inaugural address of President Truman in 1949), was presented as civilizational missions. The objectives of the Bretton Woods institutions, of the United Nations and the concerns of the United States began to get the international community involved in the efforts to alternative poverty in the under-developed world in the late 1940s. The enormity of the challenges was not well understood by the leaders of these institutions.

B. Decolonisation

The operations of the World Bank in the former British colonies began to fill in the vacuum created by the withdrawal of the United Kingdom. With over 75 per cent of British investment in its former colonies from 1870 to 1938 being related to construction of ports and railroads, and to energy, the initial operations of the World Bank were largely concentrated in these areas. The term, economic infrastructure, was given to them which were justified as proper areas for external public finance.

While the United Kingdom initially refused to aid newly independent former colonies financially, it created the Colombo plan mainly for transfer of technology in 1950. One major reason for British refusal to aid former colonies was that it had invested sufficiently in them before independence. However, it became clear that most of the newly independent countries were not well equipped to be full fledged nation-states in the world community. Being financially in a difficult situation, the United Kingdom resorted to technical co-operation to fill in this gap.

The independence of French colonies were achieved later, culminating in the independence of 17 African countries in 1960. However, practically all of these countries required continued aid from France for their proper function as sovereign states. France became a major donor country in the 1960s.

C. The Cold War

It was the Cold War which motivated the United States and the Soviet Union critically in developing aid programs to underdeveloped countries in the 1950s and the 1960s. The increase of the Soviet aid was substantial in the 1950s, extending mainly to the neighbouring countries to strengthen communist parties in these countries. The aid programs of the United States competed with these efforts of the Soviet Union, and expanded significantly through the 1950s. The level of aid activities of the Soviet Union was almost one third of that of the United States in the mid-1950s.

D. North-South Relations

The aid activities of the industrialised countries were motivated mainly by these three factors, namely the end of World War II, de-colonisation and the Cold War, in addition to altruistic motives. Developing countries attempted to maximise gains from them by resorting to a number of policy measures, such as playing the West against the East in the Cold War. These interactions were strengthened in the form of North-South relations in the course of the 1960s, mainly by the creation of UNCTAD in 1964. The reality of the North-South relations were West vs. South plus East.

The pressures of North-South negotiations on the Western donors, however, were not felt strongly in the 1960s. In fact, ODA from DAC countries began to decline from 1967, a trend which prompted the then President of the World Bank (George Woods) to form the Pearson Commission. This decline was mainly due to the disappearance of the factor related to the end of World War II and to the weakening of the immediate political requirements of de-colonisation. Since then, the major factor that constituted the political basis for ODA became the Cold War. With the start of détente at the beginning of the 1970s, the Soviet Union had to develop new approaches to fight against the West. From the viewpoint of the Soviet Union, it was difficult to compete with the West in such areas as science and technology, and finance. However, in the area of commodities where the Soviet Union was the largest producer in some of them, including oil, it thought that competition was possible. It was the Cold War that had to be relied on from the viewpoint of developing countries. Against this background, starting with the first oil shock of 1973, developing countries wielded commodity powers in the 1970s and applied pressures on Western countries through the North-South negotiations. The maximum impact of the North-South dialogue on the West was indeed felt in the 1970s. Instead of yielding on a New International Economic Order (NIEO), the West put emphasis on the Basic Human Needs (BHN) approach in its aid activities. The more demand for NIEO through North-South negotiations, the more BHN: this was the formula of the1970s.

E. Structural Adjustment

The NIEO and the BHN approaches had a common feature which was to avoid policy adjustment at the macro level in developing countries. The dislocation of a large number of developing economies due mainly to two oil shocks brought about debt crises in these countries in the 1980s. By this time, political motivations of the donors began to be weakened. While the use of aid as a leverage for liberalisation of individual developing countries was a new discovery on the part of donors, it was also felt by donors that the amount of development finance for this purpose did not have to be increased. The main immediate objectives of aid were to alleviate debt burdens and to promote structural adjustment, factors that were the negative impacts from development efforts of the previous decades. Forward-looking aid activities to promote economic development became a distinctly secondary consideration. Those developing countries that were developing rapidly, such as Southeast Asia from the mid-1980s, should be, the donor community suggested, left to themselves (expect Japan which continued its aid to most of these countries), meaning that they should be graduated from the aid recipient status.

F. The End of the Cold War and a Search for a New Basis for Development Co-operation

Development co-operation lost its major political mandate with the disappearance of the Cold War in 1989. Administrative inertia and leverage for liberalisation kept aid programs going. Aid agencies began to look for their new political basis mainly at the DAC of the OECD in 1990 in the form of elaboration of the tasks of development co-operation for the 1990s that had been agreed in 1989. However, the overall volume of ODA started to decline in 1991. The search for a new basis for development co-operation pushed such concepts as ownership, participatory development and partnership, which had been discussed for some time in the academic circles, to the forefront on the political agenda. Combining these elements and selected targets from the various exercises in the United Nations context together, the New Strategy of DAC for the 21st century was adopted in 1996. However, these efforts failed to arrest the broad trend of decline of ODA, while there were certainly variations among donors, some of which in fact have been increasing ODA.

G. Globalisation and Development Co-operation

The aid community began to find the new basis of ODA in the course of 1996-1997. It is globalisation. The major force that restructures the world community was beginning to be identified as the complex and powerful forces of market-based globalisation in the mid-1990. The G-7 Summit placed it at the centre of the agenda items at its meeting in Lyon in 1996. Globalisation has since then acquired political legitimacy. Other events such as United Nations conferences in the 1990s have come to be viewed as an integral part of the globalisation process.

The Asian economic crisis that began in July 1997 was perceived to be a negative result of market-based globalisation. Japan’s response to it was to provide $80 billion to the seriously affected Asian countries, while a large part of it was in the form and conditions of Other Official Flows.

The decline in ODA from Japan, which took place for the first time from 1996 to 1997, was arrested in 1998. While its future prospects are uncertain, the downward trend of Japan’s ODA will not continue. It appears that the downward trend of ODA in major donor countries has largely been arrested. It is due to the gradually felt perception on the part of the donor countries that ODA might be a useful instrument to manage the now dominant forces of market-based globalisation that is prevailing over the world community.

III. GLOBALIZATION AND THE SEARCH FOR A NEW POLITICAL MANDATE FOR DEVELOPMENT FINANCE

It is now increasingly clear that globalisation forces are replacing the Cold War as the predominant factor that dictates the basic structure of the world community. The relationship between any major powers cannot be described as adversarial any more, not because they have suddenly become friendly with each other, but because they cannot afford to have a major enemy at a time when they have to compete with each other vigorously. This competition has been brought about by the market forces that have been strengthened by financial market liberalisation, development of financial instruments, trade liberalisation and the information technology (IT) revolution. These forces go naturally beyond the relationship among major powers and now cover the entire world community. Just like at the time of the bipolar world, when development co-operation was based mainly on the logic of the Cold War, it could find its new political mandate in relation to globalisation in the coming period. Therefore, it is essential that the basic functions of globalisation in the developing world are well understood and that a search for a new basis for development co-operation should be pursued in relation to these functions.

A. Two Tracks of Globalisation

It is important to notice that the complex forces of globalisation are gradually building two sets of alliances and structures. One has basically started as a process that promotes market forces in the world community. It is promoted mainly by world enterprises, the United States Government and such international organisations as the IMF, WTO and the OECD. Other OECD countries selectively support this movement individually or through these organisations. This process can be described as market-based globalisation, or a fast track globalisation due to the rapidity of its impacts world-wide.

Another process of globalisation is now gradually emerging and addresses itself mainly to the major problems that have been brought about or aggravated by the market based globalisation. These problems include poverty, environmental destruction and weakening of indigenous cultures. This globalisation is promoted by civil society such as non-governmental organizations (NGOs), many United Nations agencies, the World Bank, bilateral aid agencies and many governments of the developing world. The main objective being to strengthen the public interventions either through governments, international organisations or civil society, this process of globalisation could be called political economy globalisation, or slow track globalisation due to the time-consuming character of the alliance building among these major actors and of the impacts being felt in the developing countries.

The participation of NGOs became increasingly important in some United Nations conferences during the 1970s and the 1980s, the Rio Summit on Development and Environment was particularly instrumental in bringing NGOs into the mainstream at the global level as well as at a national level in a number of countries. One major outcome of the Rio Summit was the establishment of the Earth Council in 1993, networking some 20,000 NGOs globally at the initial period, and now expanding the membership more widely. One after another, successive United Nations conferences have had similar impacts on closer collaborations among United Nations agencies, developing country governments and NGOs. The World Bank, under the leadership of Mr. Wolfensohn, has gradually been integrated into this broad movement and now considers NGOs and United Nations agencies as its important partners.

In the meantime, the bilateral donors adopted at DAC the New Strategy of development co-operation in 1996, incorporating some of the work done by these United Nations agencies, in particular UNICEF. This strategy has also been endorsed by the G7 Summit, and bilateral donors put priority on social development and poorer developing countries themselves, in close co-operation with NGOs, United Nations agencies and the World Bank. The alliance of these actors is gradually becoming apparent and the slow track globalisation is beginning to make itself felt in the global efforts for sustainable development. It is, therefore, essential to recognise the fact that two processes of globalisation are at work, rather than one. The interactions between the two processes have already produced a range of new political regimes in Europe in the name of “a third way”. The interactions between the two processes of globalisation have just begun in the world community and this drama will become the dominant feature in the sustainable development discussions involving all the stakeholders.

B. Three Categories of Developing Countries

In the meantime, the impact of the fast track is indeed much faster than the other. The basic structure of the world community is largely influenced by market-based globalisation which is wielding decisive influences on developing countries. The term, globalisation, is often used to mean this version of globalisation, namely, market-based globalisation only. Market globalism, in fact, has complex impacts on individual economies, and yet consists basically of two orientations that are opposite to each other. There are, on the one hand, powerful impacts on developing economies in the form of integration into the world economy mainly through the private sector transactions, for example, trade, investment and finance all of which are enhanced by the information revolution. The integrating forces that have been at work for the past two centuries, have been strengthened considerably and the pace of integration has quickened for the past ten years.

On the other hand, market-based globalisation has proved to be influential in marginalizing various segments of people and a number of countries in near totality. Domestic savings of poorer countries can be invested in industrialised economies for higher and surer returns through various channels. Graduates of colleges and universities can be employed by Northern institutions after considerable investment by poorer country governments in them. The traditional issue of brain drain is reaching a higher level as a problem. The downturn secular trend of commodity prices may be accelerated by higher efficiency of production that is being brought about by heightened competition globally. Thus, the marginalizing impacts of market-based globalisation on poorer developing countries and poorer segments of people, mainly in developing countries, are already tangible in such forms as reverse flow of finance, brain exodus and commodity price declines.

At the same time, the marginalizing impacts can take a different form, which is to leave a number of poorer countries behind. Enhanced dynamism that has been promoted by market globalism concentrates private sector activities, such as trade, investment and finance, on efficient economies and in effect exclude inefficient and poor economies. Marginalization through neglect is in fact a powerful factor that is at work in the current world economy.

Therefore, marginalization impacts of market globalism, either through its concrete functions or by neglect, are important factors that influence the structure of the developing world.

The net impacts of the integrating forces and of marginalization that are associated with market globalism are to divide the developing world basically into three categories of countries: While some ambiguity is bound to exist, these consist of rapidly integrating economies, increasingly marginalized countries, and those countries where both forces of integration into the world economy and of marginalization from it are at work significantly at the same time.

1. Integrating economies

Private flows into developing economies virtually dried out in the early 1980s, and resumed in the mid-1980s led by Japan's direct investment in Southeast Asian countries. By 1996, private flows was six times the volume of ODA (DAC, 1999, A1-2). These were concentrated in higher income developing countries (DAC, 1999, 48). The increase in the ratio of trade in global production continued in the 1990s, with the conclusion of the Uruguay Round in 1993 strengthening the liberalisation process in trade world-wide.

Currency exchange and short-term financial transactions became dominant features in the international financial markets which began to involve higher-income developing countries in the 1990s. In January 1998, the daily transactions of the global currency exchange were $1.2 trillion on average, equivalent to 20 per cent of world annual exports (Takahashi, 1998, 5). Therefore, currency exchange has become a market of its own. Short-term debt flows (defined as debt with original maturity of one year or less) to developing countries jumped from $19.5 in 1990 to $61.1 in 1995, while these were mostly to East Asian and Latin American countries (World Bank, 1999, 31-32).

Many of the Southeast Asian, and Latin American economies, as well as such transition economies as Russia and Central European countries were heavily influenced by all of these factors. The economic transactions on all of these fronts were dramatically quickened by the information technology revolution, in particular the international financial markets. The net impacts of these dramatically increased transactions in the private sector were to integrate these countries into the liberal global economic system. In the course of the first half of the 1990s, the positive aspects of this integration became a dominant feature, and optimism about market globalism was widely shared.

Integration of these economies mainly through transactions in the private sector can bring about two opposite consequences. On the one hand, rapid economic growth due to increased investment, incorporation of higher technology and enhanced competitively can be its major outcomes. While these were particularly predominant features in Southeast Asian economies in the first half of the 1990s, they could also be observed in some Latin American countries and Central European countries. The graduation of the aid recipient status for these countries was seriously discussed at DAC, resulting in the two tier structure of aid recipients. The high growth, however, was only one side of the coin.

The other side of integration into the world economy through enhanced transactions in the private sector was the collapse of these economies. Knowledge and information, which have universalistic qualities, are the important instruments of the management of market globalisation. When faced with uncertainty with regard to the details of the socio-economic and political situations of these countries, the investors in these economies can quickly withdraw their investments in order to protect themselves at a small signal of adverse development in an economic, social or political sphere. Once some investors begin withdrawing their investment, others, who are equally uncertain about the economic, social or political developments in these countries, may most probably do the same. The chain reactions will easily undermine even the fundamentals of these economies, and may eventually lead them to collapse. The herd syndrome of short-term capital investment is as difficult to avoid as over-shooting in currency exchange rates. This was exactly what happened in East Asia from July to November 1997.

2. Marginalization of poorer countries

Marginalizing forces are powerfully at work in many African countries, some Central Asian countries and a few other Asian and Latin American economies. While there are a few positive market globalisation phenomena that can be observed — between 6.2 to 7.4 per cent of FDI in developing countries was to low income countries during the period 1992 to 1998 (World Bank, 1999, 51) — these countries can be marginalized from the global economy in their entirety. Marginalization brings about a low, or even negative growth. This consequence has a highly dangerous implication when considered in the context of rapid urbanisation which is proceeding at 5 per cent in Africa. The urban population is up-rooted from rural areas where different ethnic groups and tribes have a long tradition of living with each other without major conflicts. In cities, ethnic and tribal groups tend to live in separate neighbouring communities for purposes of socio-economic security. When economic downturns due to marginalization occur, these groups increase competition to obtain their share from a smaller economic "pie", leading occasionally to violent conflicts. The conflicts in the city can spread to their villages and eventually engulf a large part of the country. Where tribal or ethnic communities transcend national borders, this situation can be spread into a regional conflict.

At the time of colonialism, these were the countries that were exploited most by colonial masters. During the Cold War, proxy wars were fought by some of them on behalf of the United States or the Soviet Union. With the onset of market globalism, these are again the countries that can be drawn into armed conflicts due to the marginalization impacts of this process.

3. Integration and marginalization at work simultaneously

In most major developing countries, integration forces into the world economy and marginalization impacts from market globalism are at work simultaneously. The modern sector of these countries can be attractive for investors from abroad, with a consequent expansion in external trade. The growth of this sector can be significantly higher than the rest of the economy. These countries include China, India, Pakistan, and Egypt, while Brazil is a borderline case between this category and the integrating group. Indonesia has slipped down from the integration category into this group. The sheer size of these countries makes it extremely difficult for the modern sector to raise the income levels of the entire economy through trickle down effects. The net impacts of market globalism on the rest of the country are to marginalize it even more than they have been before.

Consequently, the increasing gap between the rich and the poor becomes the major issue in these countries. With wider access to the mass-media, this increasing gap becomes a highly charged political issue. In democracies such as in India, the increasing income gap combined with the traditional social structure, such as caste systems, throws the elections into a boiling pot with consequent instability in the political leadership. In developmental authoritarianism such as China, for example, this gap brings about the sense of uncertainty and complaints of people in twisted forms in the society, including a new sect movement such as Falungong. Social instability becomes a predominant feature in these economies.

The social basis of political leaders is inevitably weakened. The traditional approach of political leaders to this situation is to strengthen nationalism resorting to various measures. In the cases of India and Pakistan, nuclear explosions and ballistic missiles tests brought about tensions with each other, orienting the attention of the peoples to neighbouring countries in 1998. Mismanagement of this process can result in political confusions, including a military coup d'état, such as in Pakistan in 1999. In the case of China, the huge celebration of the 50th anniversary of the establish of the People's Republic of China with considerable elements of military display enhanced nationalism. It is clear that one of the most important factors that will determine the quality of the world society in the first decades of the 21st century is the social stability of this category of developing countries.

C. Global Public Goods

Another major implication of the shift in major motivating forces that provide the basic structure to the world community from the Cold War to globalisation is the emergence of global public goods on a high order on the world political agenda. During the Cold War, it was extremely difficult to conceptualise global public goods without any political implication. For example, knowledge, which is now considered widely to be a global public good, may have easily been interpreted as a political weapon favouring either the West or the East. However, the broad positive reactions to *Global Public Goods* (Kaul, Grunberg and Stern, 1999) suggest that the very basis of the international community has shifted to the broader and more tolerant perspective that is brought about by globalisation forces. This book examines a number of areas such as the environment, cultural heritage and peace as potential areas where the concept of global public goods could be applied. All of the ten areas that were explored in this book have been given affirmative answers by the authors. Indeed, there could be more areas where the concept of global public goods could usefully be applied for further international efforts.

The concept of global public goods as related to globalisation provides a potentially fertile ground for future efforts. The elaboration of this concept should go beyond the question of subject areas that should be included, and should deal in particular with institutional issues. Starting with the classic examination of inter-governmental organisational issues, new and important factors such as second track activities, global networks on a number of specific issues and informal personal linkages, as well as the corresponding domestic structures of government, civil society and others need to be looked into. It should be essential to compare *Our Global Neighbourhoods* of 1995 with *Global Public Goods* and elaborate upon institutional questions based on the concept of global public goods.

D. Policy Measures

In considering measures to be taken towards the three categories of developing countries and global public goods, the most important starting point is to strengthen the slow track globalisation. Centring around the processes and the outcomes of the major United Nations Conferences of the 1990s, the co-operation among civil society, United Nations agencies, the World Bank, bilateral aid agencies and governments of developing countries should be enhanced. The major components of the ideas and objectives for this purpose are set out in the declarations and action plans that were adopted by these conferences. While some of them were incorporated into the DAC Strategy for the 21st century which was adopted in 1996, the key factors are much broader than them. Taking them into consideration, it is important to relate them to three categories of developing countries and to the concept of global public goods.

1. Policy measures towards three categories of developing countries

(a) Integration countries

Policy measures towards these countries have to be considered in two separate phases, a rapid growth phase and the collapse of the economies. Development co-operation in these different phases requires different approaches.

Rapid growth phase. Major problems that are brought about by rapid growth as a consequence of integration into the world economy include environmental destruction, an expanding informal sector in the urban areas and weakened rural areas. While the government is aware of these problems, the collective mind-set of the leadership tends to be a single-minded pursuit of economic growth at the expense of these problems. It has also been discovered in the course of the recent Asian economic crisis that institution building in the country as a whole should be pursued in the rapid growth phase.

Collapse of the economies. In the face of the collapse of the economies, two sets of measures need to be pursued immediately. Firstly, a large amount of infusion of liquidity is an essential requirement. It may not have to be ODA, but needs to be official finance due to the overwhelming requirement of stability. In the case of the recent economic crisis in East Asia, Japan provided $80 billion in official finance (over half of emergency finance from all over the world) with $5 billion in ODA and $75 billion in Other Official Flows such as export credits. This huge sum of official finance from Japan has contributed critically to the renewed confidence of the international financial community in these countries, except for Indonesia which has until recently been beset with political problems. At the current level of confidence in international institutions on the part of major countries, it is virtually impossible to entrust a significantly larger amount of funds to them.

An alternative approach is to strengthen national institutions that are capable of delivering a large sum of liquidity. The establishment of the Japan Bank for International Co-operation (JBIC), which was created as a result of the merger between the Export-Import Bank of Japan and the Overseas Economic Co-operation Fund of Japan, is such an example. With an annual turnover of over $40 billion dollars, combining ODA and Other Official Flows that have separate accounts, this new bank is expected to play a crisis management role in close co-operation with other institutions such as the IMF and the World Bank (Takahashi, 1999). Secondly, the environment protection activities and social sectors such as health and nutrition, primary education and food security need to be supported upon the collapse of the economy. It takes considerable investments and efforts for a long time to build up systems for these sectors. And yet they are usually very vulnerable. It is essential for the donor community to support the efforts of the government, in particular, officials in provincial authorities in their struggle to maintain these systems that can easily become victims of the collapse of the economy.

While infusion of a large sum of liquidity and the support of environmental and social sectors require immediate action, it has also been recognised that institution building in such areas as financial, monetary systems and the legal frameworks generally is also an important task.

(b) Marginalized countries

The first task is to re-conceptualise development strategies of many of these countries. The major ecological constraint being lack of water for over 50 countries, the re-conceptualisation has to be centred around this factor for these countries. Productivity in agriculture or in manufactures has to be measured against the unit of water used. Public investment as well as measured privatisation of public utilities has to have a clear priority on water whose multiple dimensions, namely, volume, quality and distribution, need to be addressed. It should be useful to organise a high level panel of experts to pursue this re-conceptualising exercise at the world level with participation of experts from these countries.

Secondly, the targeted approach to poverty has to be a high priority. While it is always useful to combine it with a broad-based growth strategy, it may not be always possible to achieve a sufficient growth of, for example, five to six percentage points. Even in conditions with growth of one to two percentage points, poverty alleviation should have a high priority in these countries. The combination of rural development, including micro-financing, commodity based value added activities, and labour intensive industries need to be pursued as best suited to each country. However, in order to avoid any stigmatisation from protective measures of well-defined groups, generic policy measures should be adopted as much as possible.

Thirdly, conflict prevention is an important consideration in many of these countries. The downturn of the economies due to marginalization from the world economy, often combined with rich natural resources, can trigger armed conflicts. These tend to take the form of tribal or ethnic conflicts which, however, are usually related to power struggles to control important natural resources. Armed conflicts being the worst enemies of the welfare of the people, of the natural environment, and of development in general, it is of crucial importance to incorporate conflict prevention measures in aid for sustainable development for these countries. Inter-communal confidence building measures, fostering a culture of non-violence and stable control over natural resources are all important components of a conflict prevention package.

(c) Integration-marginalization countries

From the viewpoint of the stability of the world community at large, the prospects of the major developing countries where integration forces and marginalization impacts of globalisation are at work simultaneously, are the critically important factor. These countries have the potential to destabilise the international community as a whole. At the same time, they can be leaders in forging a globalisation creative coalition of humanity towards sustainable development. The first major effort that is needed is to enhance measures to bridge the gap between the rich and the poor in these countries. The most important policy measure is to strengthen small- and medium-sized enterprises, in particular in labour intensive industries. One such industry, the textiles industry has strong implications for the industrialised countries. For these priority activities, it is essential to include environmentally friendly measures and technologies.

The second policy area that requires particular attention is poverty alleviation. In most of these countries, poverty is closely associated with their social structures, whether in the form of castes or minority groups. Some targeted approaches towards these social groups are already in place. However, it is important to strengthen the policy measures that are friendly to the environment at the time when marginalizing forces are at work. Aid to sustainable development to supplement the efforts of the government both at the national and regional levels should play a critical role.

Thirdly, confidence-building measures between neighbouring countries should have a high priority. Joint projects across borders, such as joint management of international rivers, and even river basins are good examples. Joint protection of pristine tropical forests, such as those that are spread between Vietnam and Laos, is another. Aid to sustainable development for such projects should be a useful component.

2. Strengthening global public goods

A major new challenge for the slow track globalisation is to strengthen global public goods. This task is similar to the requirement of establishing good governance in individual countries. Global public goods provide a good basis upon which sustainable development efforts may be able to bring about favourable results globally. A large part of the efforts to strengthen global public goods, in fact, means institution-building in areas that are recognised to be global public goods. The forms of institution-building include traditional forms such as intergovernmental organisations as well as networks and informal arrangements. It all depends on the specific issue to be dealt with.

For these global efforts, the important task of aid to sustainable development is to strengthen the capacities of developing countries to participate in these efforts on a fair basis. This task has three dimensions, which are all related to the common factor, knowledge, that has become an even more important asset in the globalizing world than ever before. First, since global public goods are related to knowledge intensive activity areas such as the environment, culture and peace, it is essential for developing countries to strengthen the capacities of research institutions in these areas. The World Bank's recent efforts to create and strengthen the Global Development Network for the specific purpose of capacity building in research activities in developing countries are worth supporting from this viewpoint.

There are a number of other similar activities such as the Research and Capacity Building Network for African Development which was launched in September 1999 as a follow-up to the Second Tokyo Conference on African Development. This research network is unique because it links Japanese and other Asian researchers with African research institutions for African development purposes; it will strengthen existing research networks such as the African Economic Research Consortium and CODESRIA and emerging research networks centred in Zimbabwe and the University of London. It has its own steering committee consisting of African and Asian, including Japanese, researchers; the global panel of experts and the secretariat is located in the International Development Research Institute of the Foundation for Advanced Studies on International Development in Tokyo, Japan.

The second dimension is the negotiation to establish and strengthen global public goods. It is essential for developing countries to build capacities to negotiate effectively so as to reflect their concerns in the formation of global public goods. While existing institutions such as those located in Geneva should continue their works, it would be useful to strengthen training institutions for each of the major issue areas. One area which is weak is environmental negotiation training.

The third dimension is management. Traditionally, cities such as Washington D.C., New York, Geneva, Paris or Vienna are centres for managing international agencies; the brain drain, which is associated with relocating managers to these cities, has been a major concern. However, global public goods are being managed increasingly through electronic networks and new managers may not have to move away from where they are. They could pursue local tasks and global management at the same time. However, for this to be realised, training of a certain number of competent people in the management of global public goods is an important requirement. This is an area of activity where major universities and training facilities in global corporations may usefully cooperate with each other to fill the gap. Development co-operation financing may help with bridging this gap.

IV. EMERGING STRUCTURE OF FINANCING SUSTAINABLE DEVELOPMENT

Thus, globalisation forces are bringing about a significantly different world from the time when the Cold War prevailed. The reality of development finance has also been changing rapidly. It is important to examine the emerging structure of sustainable development finance against the background of the new global reality where globalisation forces shape the global socio-economic structure. It is not useful to continue to look at sustainable development finance activities through the old, and increasingly irrelevant, prism of the Cold War. While there are a number of new elements of sustainable development finance that can be discerned, the following six points are significant:

(a) the shift from the dominance of ODA to private sector centred financial flows;

(b) the declining trend of ODA;

(c) the disappearing non-Development Assistance Committee (DAC) ODA;

(d) the potential emergence of new donors;

(e) the increasing importance of Other Official Flows (OOF); and

(f) new actors and mechanics.

A. From ODA Dominance to Private Sector Centred Financial Flows

The concept of development aid itself is a relatively new idea in the history of the world community, dating back only to the late 1940s. ODA as defined by the DAC of the OECD has only a three decade history. In the course of the 1950s and the 1960s, when official aid was rapidly institutionalised, the international financial system did not have an adequate capital basis to finance the increasing needs of the newly independent countries through voluntary and private transactions. Therefore, official aid through the tax money in those countries that could afford to extend it and that had political motivations had to play a major role. The Cold War forced competition between the United States and the Soviet Union which extended aid mainly to neighbouring and strategic countries such as China in the 1950s. Through the 1980s, while there were a few times when private flows played significant roles in development finance, such as in the late 1970s for the recycling of oil money and in the latter half of 1980s when surplus savings of Japan were invested in Southeast Asian countries, the dominant feature of development finance was the importance of ODA.

However, capital market liberalisation in an increasing number of countries in the 1980s and the 1990s has brought about a totally different structure in development finance. In 1997, financial flows to developing countries with per capita GNP of $3036 and above (in 1995, Atlas basis), in the form of ODA and OOF disbursement was $10 billion, in comparison to over $120 billion in private flows (OECD, 1998, 48). While there can naturally be fluctuations, the broad historical trend is the increasing importance of private flows to developing countries, in particular to higher income developing countries.

B. Declining Trend of ODA

The volume of ODA has constantly been an important issue in the international community, in particular in the DAC circle. The donor community began to be organised initially in relation to the question of aid volume. In the late 1950s, the major Western donor, the United States, suffered from significant balance of payment deficits, and sought the co-operation of partners of the Western Alliance to share the burden of development aid. The Development Assistance Group (DAG) of the Organisation of European Economic Co-operation (OEEC, originally a recipient body of the Marshall Plan), which soon became the Development Assistance Committee of OECD in 1961, was created to pursue burden sharing of development aid. While there are ups and downs in intensity, aid volume has always been a priority on its agenda. Through various means, including the peer review mechanism, DAC has attempted to increase ODA for these last four decades.

The actual performance of ODA disbursement has largely been characterised by stability. While aid fatigue began to be mentioned already in the 1960s, the secular trend of DAC countries as a whole maintained an upward one through the 1970s (with the exception of the period between 1967-1971, the first episode of a downward trend). The 1980s and the early years of the 1990s were characterised by the maintenance of roughly the same levels of ODA from DAC countries.

The declining trend of ODA from these countries began in 1995, although some of them (such as the United States and Germany) began this trend immediately after the end of the Cold War. Once ODA is established on a proper political basis (such as the Cold War or globalisation), it appears that the factors which are most closely associated with the trends of ODA performance are the inter-linked elements of Gini coefficients and the intentions of political leaders. Increasing gaps between the rich and the poor make it difficult for the government of the donor country to persuade taxpayers to maintain the ODA program. Increasing emphasis on market operations in OECD countries, which has brought about increasing rich-poor gaps in some of these countries, has contributed to a decline in ODA. This applies to such major donors as the United States and Germany, and later to Japan. In those donor countries where the levels of Gini coefficients were maintained in the 1990s, ODA performance has not declined.

It is encouraging to note that there are indications that the Gini coefficients may be improving in an increasing number of DAC countries. In Europe, through the broad wave of the third way governments, social policies are being strengthened. The rich-poor gap in the United States has reversed the trend in the mid 1990s, and is now beginning to be narrowed. In these countries, it can be expected that ODA performance is likely to improve in the coming period.

However, in some other major donor countries such as Germany and Japan, the Gini co-efficient performance may not improve in the near future. Therefore, it may be difficult for these countries to increase ODA in any significant measure.

While it is admittedly too simplistic to rely solely on Gini co-efficient performance to examine ODA trends, it reflects such parameters as government intentions and fiscal realities. Therefore, it can be a useful indicator which may precede ODA performance. Traditionally, there have been other important factors that have some influence on ODA volume performance. These include balance of payments performance and strategic considerations. In the case of new donors, export opportunities have also played a role in the initial stages, for example, Japan in the 1950s and the 1960s. Therefore, it is important to include all of these factors in addition to the Gini co-efficient to examine ODA performance of individual donor countries. However, the broad indication of ODA levels that is given by the Gini co-efficient can perhaps play a more reliable role at a time when strategic considerations have become less important than during the Cold War, and DAC members have gone far beyond new donor situations.

Overall, taking into account the encouraging signs of improved Gini coefficients in a number of European countries and the United States, and disquieting indications in such countries as Japan and Germany, the indications are that the net DAC flows of ODA will be maintained in broad terms at the present levels. In other words, the declining trend will stop in the near future, but any significant improvement cannot be expected.

C. Disappearing Non-DAC Aid

1. “Eastern” aid

The aid programmes of the Soviet Union and other countries of the “East” grew rapidly in the early 1950s, reaching close to 30 per cent of the level of the United States. These aid programmes also expanded rapidly in the late 1960s when DAC performance declined, in particular from 1967 to 1970. From the late 1960s to the early 1970s, the “Eastern” aid expanded three times, to reach about $3 billion in 1972 (OECD, 1973,153). These two periods coincided with the Korean War and the Vietnam War, where a large part of aid was provided to North Korea and China in the early 1950s, and to North Vietnam from the late 1960s to the early 1970s. Since then, the level of “Eastern” aid has stabilised and their ratio to DAC aid was around 3 per cent through the 1980s. In the 1990s, it disappeared almost completely.

2. OPEC aid

Aid programs of the OPEC countries expanded rapidly in the 1970s, led by Kuwait and Saudi Arabia. They peaked in 1980 at about 10 per cent of DAC performance, the year of the second oil shock (OECD, 1986, 78). With the broad declining trend of aid from OPEC since then, with one country after another disappearing from the donor community, aid programmes of Saudi Arabia and Kuwait are still continuing, however at a substantially lower levels than before. Their combined aid in 1997 was just above one per cent of that of DAC countries (OECD, 1999, 86).

The aid performance of OPEC countries has been largely in parallel with the level of real oil prices. Therefore, there is a measure of uncertainty about the prospects of these aid programmes. However, it may be difficult to expect any significant increase in their aid delivery in the coming period.

D. Emergence of New Donors

While “Eastern” aid disappeared and OPEC aid diminished in the 1990s, some new donors have emerged. While still in its early stages and at low levels, aid programmes of the Republic of Korea, Taiwan, Province of China, Turkey, Singapore, Thailand, Malaysia, Indonesia and India have emerged on the development co-operation scene (OECD, 1999, 86). Most of these countries belong to the integration category in the developing world, and are bound to go through the swings between rapid growth and the collapse of their economies. Therefore, their aid programmes are also likely to follow a similar pattern. The rest belong to the category characterised by the widening gap between the rich and the poor, and it is not likely that their aid programmes will expand in any significant way. The Gini co-efficient should be relevant in these countries also.

Therefore, while we may expect some increase in total aid volume due to the emergence of new donors, we cannot foresee a situation where they can replace the “Eastern” and OPEC aid programmes in terms of volume for some time to come. However, in the longer run, some of these new donors, as well as hopefully some others, may become important donors.

E. Other Official Flows as a Crisis Management Instrument

Our major lesson from the East Asian economic crisis that started in July 1997 is that external official finance plays an important role in stabilising the financial situation of the crisis economy and that a large sum is required for this purpose. While ODA is an important component in this operation, OOF such as export credits and export insurance play a critical role. In addition to IMF credits and IBRD loans, both of which are OOFs, the large amount of officia l finance from donor government sources have been proven to play critically important roles in the management of East Asian Economic crisis.

Given the limited confidence of major economies in the international community, it is not likely that any signific ant increase of funds could be entrusted to the international institutions. It is then important for these major countries to develop bilateral mechanisms that can play these roles in the event of an economic crisis that will most likely be repeated in the integration category of developing countries. While the Japan Bank for International Co-operation (JBIC), which started its operation on October 1, 1999, was born out of the marriage of convenience between the Export-Import Bank of Japan and the Overseas Economic Co-operation Fund, the need for this type of national institution as a crisis management instrument is obvious. While its current obsession is to safeguard the purity of the ODA components (OECF), it is essential that a new concept should be given to this bank. The categorisation of different financial instruments such as ODA, OOF and Private Flows that was made 30 years ago may need to be reviewed in the light of the totally new politico-economic environment which is largely dictated by the two tracks of globalisation.

F. New Actors and Mechanisms

The world community has been testing a number of mechanisms for international development purposes and a number of new actors have emerged. Some of these developments seem to be of value in the coming period.

1. Support of South-South co-operation

While Economic Co-operation among Developing Countries (ECDC) has a history of some three decades, it has not been particularly effective in promoting sustainable development directly. Its major function has been to strengthen solidarity among developing countries for North-South negotiation/dialogue purposes. However, some donors have begun to support South-South co-operation in recent years. While there are no statistics for these activities, some of these activities have been institutionalised. In particular, the Asia-Pacific Economic Co-operation (APEC) has been gradually strengthening economic and technical co-operation among developing countries with the support of industrialised members in the name of "Partners for Progress". Another example of institutionalisation is the support of Asia-Africa co-operation by Japan as follow-up activities of the Tokyo Conference for African Development (1993 and 1998). The highly relevant experiences of developing countries for their peers who are being supported by traditional donors, are proving to be a useful addition to the instruments of international development.

2. Micro-finance

Micro-finance has become a popular subject in development finance in the past 10 years, while it has been practiced in various forms for the past several decades. Its positive impacts, further potential, as well as its limits, have been examined extensively. It has been pointed out that since its operations have such small impacts nation-wide, its influence on macro-economic performance is negligible. One direction where a breakthrough is being sought is to link micro-finance operations with formal financial institutions which are linked with the global financial market; this is an option which requires careful protection of micro-finance institutions and its beneficiaries.

With these limits and cautions in mind, however, micro-finance has been useful in mobilising domestic savings and international development funds for the purposes of empowering the poor, in particular, the rural poor. It is important to maintain the current broad practice where domestic savings and, thus, domestic finances play the central role, to which external finance is added. Ownership of the local community is an essential requirement for success in micro-finance operations. International NGOs can play even more important roles in mobilising external resources to support these operations. There may be more scope for ODA to contribute to these operations. There is a possibility that there may be an increase in external resources from business, NGOs and ODA might be realised, but the amount involved will not be significant.

3. Non-governmental Organizations

The important roles that civil society organisations, in particular NGOs, play in sustainable development have been confirmed for over a quarter of a century. In the context of the Basic Human Needs Approach, which the donor community adopted as its common perception in the mid-1970s, the critical roles the NGOs had been playing were recognised as an essential component of international development. After having played central roles in major United Nations conferences during the 1990s, their financial contributions had been expected to increase.

However, from 1990 to 1997 the financial contributions of NGOs to sustainable development purposes from 1990 to 1997 have been largely at the same levels, ranging between 4.6 - 6.0 per cent of total flows (OECD, 1999, A2). In fact, this ratio has been decreasing slightly since 1995. It appears that while ODA performance is closely linked with Gini coefficients and the political will of the leadership of the country, NGO performance is more closely associated with GDP growth. While this observation requires close examination, the broad historical trend suggests a critical linkage between the two. If this linkage is maintained in the future, financial contributions from NGOs will increase, but at a moderate pace.

The emerging structure of sustainable development finance consists of the following components. By far, the largest component is the private finance which is mainly targeted at higher income developing countries. ODA is decreasing slightly, but is practically the predominant element in external finance for poorer developing countries. “Eastern” ODA has disappeared and OPEC aid is decreasing rapidly. There are some new and potential donors on the horizon, mostly in East Asia. However, their financial contributions will be rather limited in the coming five to ten years’ time.

One major factor which has proven to be critically important is OOF, at a time of financial crisis in higher income developing countries. A stable, and large finance being the essential requirement in such a situation, OOF is the most important instrument from among those that are available.

Some new mechanisms and approaches including support of South-South co-operation by donors, micro-finance and civil society have positive impacts. However, their contributions are likely to be limited in terms of the volume of additional finance that can be mobilised.

V. PHASE ONE: GRADUAL STRENGTHENING OF SUSTAINABLE DEVELOPMENT FINANCE

It is now clear that the political mandate for international development finance is related to the management of both fast and slow globalisation processes. The world community faces four important tasks:

(a) to adjust fast track globalisation to the needs of developing countries;

(b) to strengthen the slow track alliance;

(c) to develop differentiated strategies towards three categories of developing countries; and

(d) to articulate ways to build up global public goods.

International financial contributions to sustainable development have to be strengthened along these lines. Over time, interactions between the two tracks of globalisation will bring about a new basis for global co-operation. The important task of the first phase is to shift the gear of the world community gradually so that these four objectives can be pursued in a positive and realistic manner. For this purpose the following six considerations should be useful.

A. Involvement of Private Finance and OOF in Sustainable Development Consultations

The predominant financial contributions to higher income developing countries are being made from the private sector and it is important to device mechanisms where foreign direct investors, banks and other actors in the private sector are brought into a consultation process on sustainable development. Manufacturers and retailers have been sensitised to various requirements for environmental concerns, but they have not been exposed to the discussions and consultations on broader dimensions of sustainable development, such as governance and social development. The financial sector has not been sensitised to any of these requirements sufficiently and it is essential for the world community to develop a system where private financial actors are involved in the consultations on sustainable development.

Agents of Other Official Flows such as Export-Import Banks, trade insurance agencies, Central Banks and others are not any better informed than private financing actors with regard to their level of sensitivity to sustainable development. Given that their involvement in economic crisis management in higher income developing countries is of critical importance, and that the consideration of sustainable development in devising a recovery package is a crucial requirement, these institutions need to be sensitised to key dimensions of sustainable development. They, therefore, should also be involved in the consultation process on sustainable development.

While involvement in consultations does not guarantee an immediate positive shift in behaviour, it is difficult to expect their contributions to sustainable development to change in any significant manner without their involvement in these consultations. One approach to the private sector and OOF may be to organise informal meetings back to back with the existing sessions of the United Nations Commission on Sustainable Development and World Bank’s Aid Group Meetings. Starting with the World Business Council on Sustainable Development, other major business groups and OOF agencies may be invited to these meetings. At a time when restructuring is taking place in private financial institutions and OOF agencies, it should be more effective than in the past to incorporate new considerations in their activities. One should not underestimate the importance of involvement in the consultation process at a time of setting new priorities.

B. Decentralisation and ODA

It is essential for the declining ODA levels to be placed in a new domestic context in both donor and recipient partners. This new context is decentralisation, giving increasing power to local authorities. It is important to pursue this for two reasons: One is to look for ways to enhance relevance of development co-operation to tax payers and beneficiaries; the other is to bring the environment, governance and social development closer to where they are dealt with.

The question of relevance is the starting point of ownership. It applies to donors, as well as to recipients, whose dimension tends to be the major concern in recent policy discussions. However, it is clear that the ownership of tax payers is also an important dimension in order to reverse the declining trend of ODA. In order to enhance the sense of ownership of tax payers in donor countries, the most important approach should be to bring local authorities into development co-operation activities more closely, in particular at a time when decentralisation is on a high priority in the political agenda of many donor countries. Tax payers tend to be more open-minded and more sympathetic to development co-operation than anticipated, an attitude which is often revealed in opinion polls in donor countries and their sensitivities should be brought to bear upon the issue of ODA.

In recipient countries, there are also some indications of decentralisation. While decentralisation cannot be a panacea for all the ills of the central government, it is bringing about a new situation where local authorities are becoming potentially important partners in development co-operation. The participation of local authorities in development co-operation, in areas where actions take place, should enhance ownership of the beneficiaries. The capacity building of local authorities is an urgent task for aid to sustainable development.

The second reason is related to the fact that a number of important factors for sustainable development such as water, sewage and education are largely administered by local authorities. On the part of donors, it is mainly the local authorities that can provide know-how in these areas. And on the part of recipient countries, local authorities are the ones that need to be empowered in these areas. Therefore, on both sides of the development co-operation partnership, the involvement of local authorities should be an important component for effective actions.

Thus, the decentralisation of donors and recipients requires the increasing participation of local authorities. It will strengthen the basis and operations of sustainable development co-operation, contributing inevitably to the enhancement of financing for sustainable development. A typical example is the environmental co-operation between Daireng of China and Kitakyushu of Japan which initiated the operation which is now supported by the governments of both countries. There is significant benefit from this approach.

C. Importance of Less Co-ordination

For almost three decades it has been fashionable to advocate the importance of aid co-ordination. Recent practice places emphasis on sectoral co-ordination in recipient capitals. The avoidance of duplication, mutual enhancement and efficient use of scarce resources have always been the objectives of aid co-ordination. In addition, alleviating the burden of too many donors on a recipient country has often been mentioned. There can be many more reasons why aid co-ordination should be desirable. However, aid co-ordination in reality has rarely been effective, and it has been time-consuming and labour-intensive and sometimes highly expensive.

It is time to consider an approach where aid co-ordination in recipient capitals is limited to a few sectors that will really enhance the efficiency and effectiveness of aid. The concentration of co-ordination efforts in these highly selective areas may enhance the utility of these efforts, while less co-ordination of donors in other areas may often contribute to ownership by recipient countries.

D. Closer Consultations with New Donors

In the initial period, donors tend to be motivated either by politico-strategic considerations and/or commercial gains. In the process of mutual interactions, such as peer reviews by DAC, donors have become mature, looking for ways to maximise contributions to the broad-based development of recipient countries, and at the same time fostering the concerns and interests of tax payers in donor countries themselves. This is a constant learning process.

It is essential for the donor community to invite emerging donors such as Malaysia and Thailand, for example, which have reduced aid activities, hopefully temporarily, for the past two years due to their own economic problems, to the consultation process. It should be important for DAC to invite them to some of their meetings. These new donors are fully aware of the sensitivities of recipient countries, and DAC members may learn a lot from them as well. The mutual learning is the essence of this process, and new donors may reach the levels of maturity much more quickly than otherwise.

E. Support of South-South Co-operation

Another concrete way to enhance the activities of new donors is to support South-South co-operation. While OPEC donors provided financial support to Southern colleagues for, among other things, solidarity purposes, the new donors have started to extend technical co-operation in such areas as tropical agriculture and foreign direct investment. These activities often can be strengthened by financial support by Northern donors. One recent example is the establishment of a centre for information and training in Kuala Lumpur, Malaysia, for the purpose of business activities in Africa, with the support of Japan and France. These new donors can have a comparative advantage over traditional donors in technical co-operation on a number of grounds: appropriate technology, climate and geography, language, culture, region, cost or their own recent experience. The financial support of Northern donors for South-South co-operation will make these invaluable assets available more effectively than pure TCDC. Current efforts to learn from these new activities through such gatherings as the Okinawa Forum on support of South-South Co-operation which took place in May 1999 will contribute to the refinement of this formula.

F. Strengthening Global Public Goods

While debates on global public goods have failed to advance substantive discussions in the mid-1990s due to objections of some major countries, the recent publication of *Global Public Goods* (Kaul, Grunberg and Stern, 1999) has helped to promote this idea significantly. In some European Capitals and in Japan, this policy idea is seriously treated. While aid is being broadly recognised as an integral part of foreign policy by practically all donor countries, the strengthening of global public goods is beginning to be perceived by some of them as an essential requirement of foreign policy.

In addition to well recognised areas such as environmental protection and the treatment of communicative diseases, new areas are being identified as global public goods, including knowledge and information. One recent example is the Global Development Network of the World Bank whose major objective is to strengthen the research capabilities of developing countries. FASID-IDRI started a research network of East Asian countries in 1998, and began an annual publication of Trends and Issues in East Asia in 1999. It recently started an Afro-Asian network for research and training for African development in September 1999. Some other institutions have begun these activities on a project basis, including "Spreading Gains from Globalisation" in Sussex University, which started in September 1999, and the University of Tokyo's project on globalisation and structural adjustment which commenced its work in November 1999. The gathering of OECD countries' research institutions on development may also begin to consider ways to contribute to capacity building of research institutes in developing countries in the near future.

These concrete activities have been helped considerably by the *World Development Report* (1998) which focused on the roles of knowledge for development, and *Global Public Goods* (1999), in particular its chapter on knowledge as global public goods by J. Stiglitz. It is important to establish and strengthen research capacities at the country level on a number of key areas for development such as governance, social policy, environment protection and growth. These institutions need not be large ones, and need to have only a few competent people, establish close networks with other institutions within the country and abroad that specialise in similar issues in order to contribute significantly to the sustainable development of the country. There is a strong disposition on the part of donors to support these efforts of developing countries. The accumulation of knowledge for development through these activities will soon be considerable. Through a number of networks, this knowledge will be widely shared, thus constituting a global public good. The past fifty years of experience with development efforts in the world community will be a major asset for the purpose of sustainable development.

By redoubling efforts on all these six fronts, it will be possible for the world community to reverse the downward trend of sustainable development finance. Any one area of these actions can be realistically implemented without causing prohibitive political difficulty. It should be important to begin efforts to provide the world community with new vigour and energy on this basis. While all of these efforts may not increase development finance significantly, the totality of them will begin to change the political atmosphere where a new culture of international co-operation will become an important feature in the world community. By putting together these efforts with new gains by developing countries through such means as workers remittance and exports that are made available by market based globalisation, the politico-economic environment for sustainable environment will improve significantly.

VI. PHASE TWO: RE-CONCEPTUALIZING COOPERATION FOR SUSTAINABLE DEVELOPMENT

By pursuing these six lines of activities, development co-operation may be able to establish itself as an important pillar for the management of globalisation. It is expected that slow track globalisation will be strengthened considerably and that the interactions between the fast and slow tracks will begin to find themselves to be mutually complementary to a considerable extent. If we succeed in taking Phase One now, the initial years of the 21st century will be characterised by a search for a following major phase to strengthen co-operation for sustainable development. Barring a disaster scenario of which there could be many, the Second Phase will require a significantly different approach from the one with which we are accustomed. The major components of the Second Phase will consist of the following:

(a) the pursuit of policy coherence;

(b) the global involvement of the private sector;

(c) the increased roles of civil society;

(d) the central role of global public goods; and

(e) the charging of fees for the use of common goods.

A. Pursuit of Policy Coherence

The incoherence of policies of donor governments has been an important issue since the publication in 1969 of *Partnership for Development*, also called the *Pearson Report*. Although it has been discussed at various fora of the OECD since then, with some emphasis on it in recent years, there has not been any significant progress.

However, with increased interactions between the fast and slow globalisation processes, the incoherence of policies of donor countries will begin to affect their own economies negatively. For example, efforts to overcome an economic crisis in some higher income developing countries may entail the provision of a large amount of OOF at a time when tight fiscal and monetary polic ies may be pursued by the donor countries to contain, for example, inflationary forces. If the economies in crisis are not able to increase exports to these major markets, they may find it be difficult to overcome the crisis. At higher levels of integration of economies, this situation will force increasing numbers of people to migrate to the donor countries, forcing donor governments to expand the budget to deal with various social issues that are brought about by the new migrant workers, either legal or illegal, thus increasing aggregate demand. The macroeconomic policies of donor governments will be, therefore, forced to cancel each other out in such an interdependent world. This sort of event, which unfortunately may not be a fantasy, will force donor governments, for their own sake, to consider the question of policy coherence towards developing countries more seriously than before. Development co-operation, which used to be largely a question of aid from the viewpoint of industrialised countries, with some consideration of trade, will come to be recognised as a broader issue, taking macroeconomic and sectoral policies into account, as well as aid, trade and investment policies. The need of an effective mechanism where research and consultation will be combined will be strongly felt by the international community.

B. Global Involvement of the Private Sector

While foreign direct investment in the marginalized category of developing countries is negligible in the present situation, it may well be an important factor in most of these countries with the progress of the First Phase. In addition to trade, investment linkages with the global market will expose these countries to opportunities as well as risks of the market economy. The major functions of ODA will have to be shifted towards support of the market mechanism, including the strengthening of safety-nets. By then, the experience of other developing countries with powerful forces of market globalism will be considerable and they will be in a position to provide know-how to deal with them from the viewpoint of developing countries.

Crisis management mechanisms will have to be strengthened considerably. It is expected that the confidence of major economies in the international community will be strengthened to some extent. However, the level of confidence may not be raised to such a height where global mechanisms such as the IMF will be significantly enhanced. Needless to say, a global central bank will continue to be a dream. Most probably, regional IMFs will be established. Co-ordination between the IMF, a regional mechanism and national instruments will become a difficult issue, although the multiplicity of these instruments will give a better choice of policies for developing countries.

Another important development is that actions in co-operation for sustainable development will need to be quick so that they support transactions of the private sector effectively all over the world. The bureaucratic structures that have been built up in the aid agencies in the past decades will need a major change. The broad trends of de-bureaucratisation will be two fold. Firstly, program officers, as opposed to administrators, will have to become a dominant feature in aid agencies. They will handle virtually everything by themselves within a given mandate. The second trend will be to entrust an increasing part of the aid operations to bodies and groups that are outside the aid agencies. They will combine research functions and NGO activities in some specific fields. By combining professional competence with the advantage of small sizes, they will be well suited to act quickly.

C. Increased Role of Civil Society

It is expected that civil society will play significantly more important roles globally in the Second Phase. Increased portions of ODA will be channelled through NGOs, but private contributions may continue to grow largely along the lines of GDP growth. Therefore, the balance between government contributions and fund raising from the private sources will be an important issue.

The increasing involvement of NGOs in co-operation for sustainable development should make it easier for political leaders to put emphasis on these activities. The strengthening of civil society, and their increased involvement in the activities mean increased potential for votes for ODA activities and NGOs themselves will increasingly become a basis for strengthening and expanding ODA.

However, the increasing roles of NGOs for ODA will inevitably strengthen the national characters of NGOs, leading, in some cases, to NGO nationalism. The one major advantage of NGOs is the ease with which they cross national borders and cultures, but NGO nationalism may undermine this. Within the NGO community, it is likely that NGO nationalism will become one major issue that will require thorough soul searching with regard to their identity.

Another factor that will become important is the relationship, in the developing economy, between NGOs and business firms that are based in the same donor country. The relationship between the aid agency and business firms have traditionally been a delicate issue in a recipient country, and the rules of the game have been established over time. NGOs that are increasingly supported by ODA and business firms, particularly in poorer countries, may have to develop a transparent relationship that is acceptable by the recipient country itself. It might become necessary for the international community to arrive at a set of principles that govern the relationship between them.

D. Central Roles of the Global Public Goods

It is estimated that about half of ODA expenditures is on various components of global public goods. However, these expenditures are not yet conceptualised as such. By the end of the First Phase, with a clearer notion of global public goods, it is expected that these will account for almost two thirds of ODA expenditures. The Second Phase may well be able to assume that the major objective of ODA will be to strengthen global public goods. It may become feasible to strengthen existing relevant facilities such as the Global Environment Facility and to establish new ones on a selective basis, such as a global facility for knowledge management for sustainable development. The objectives of the global knowledge facility may be to strengthen country based knowledge institutions and to act as a central stock-taking mechanism of knowledge and information that are gained by these institutions, and as an effective knowledge dissemination agency. It may be useful to link the institutional knowledge of global organisations such as the World Bank and UNDP as well as regional ones, such as the Asian Development Bank and the Asian Pacific Economic Cooperation, with this new facility for broader use by each developing country, and by the world community as a whole.

An increasing number of components of environmental issues will be perceived to constitute global public goods/bads. Water, which has highly regional characteristics based on hydrological observations, may become a central component of environmental public goods to be protected. It may indeed become a high priority commodity globally. Biodiversity may by then require its own global facility due to the saliency of this issue. Each of these issues may be supported by their stake-holders who, in turn, may have built up constituencies due to widely shared perception of their importance. The multiplicity of these funds and facilities may become an issue; whether to reintegrate them into GEF or not.

E. Charging Fees on Use of Global Common Goods

It has become a common practice nationally to charge fees for the use of some common goods such as water. Globally, sea-bed extraction was an important negotiation issue in the 1970s. With regard to air, the Kyoto Protocol on Climate Change of 1997 made a major advancement on this question. It is not beyond realistic expectation that in the Second Phase, charging fees for the use of global common goods will begin on a selective basis. The Tobin tax may also begin to have some reality. These fees might become the basis of the multiplicity of global facilities which might also be so devised as to function as collecting agents of these fees.

Since the collection of fees will be made based on the use of common goods, the more use and consumption of these common goods means the payment of more fees. In effect, industrialised countries will pay these fees much more than others, although it is essential that the same rules should be applied globally.

In the initial stage of de facto global taxation, a number of unexpected problems may arise. At the same time, it should be important to analyse these experiences and to learn from the lessons in order to improve these mechanisms and practices on a global basis. Therefore, at this early stage of global taxation, it should be important to establish global research institutions to pursue these activities. Experts from around the world should jointly review these experiences rather than to let existing national research institutions and universities to pursue these tasks alone because the national level research may well supplement the efforts at the global level.

Given these five components, the Second Phase, which may come even before the year 2010, will require re-conceptualisation of co-operation for sustainable development. The major task of policy intellectuals is to begin re-conceptualisation work now so that the world community as a whole can start preparations for the Second Phase soon after the year 2002.

VII. CONCLUDING OBSERVATIONS

It is essential, when considering financing for sustainable development, to avoid wishful thinking, on the one hand, and exercising too much technicality at this stage of policy debates, on the other. These approaches will not contribute to effective discussion and policy considerations. The most important requirements for presentation of a basis for policy discussions are three fold:

(a) to recognise that the political basis for development co-operation has shifted from the classic factors of management of the aftermath of World War II, of de-colonisation and of the Cold War to the management of globalisation;

(b) to observe that the private sector is becoming a predominant factor in higher income developing countries, whereas ODA, which is declining, continues to be an important feature for poorer developing countries; and

(c) to consider policy options in phases based on the reality of the politico-economy in the world community with a first phase consisting of some advance on key instruments so that a declining trend of ODA can be stopped and that positive factors can be built up, and with a second phase, when a clearer advance is being attempted with the re-conceptualisation of co-operation for sustainable development.

Concrete proposals and ideas have been made in section V for six areas during the First Phase which needs to be acted upon as quickly as possible. These are the measures that could be pursued without radical departures from what are being practiced now. For the Second Phase, policy proposals have been given for five areas. Some of these may sound rather too idealistic now. However, with the advance of the First Phase, they will become well within the range of realistic possibilities. Some may wish more idealistic options, which, however, may not be useful for policy debate at this juncture. All of these policy proposals put together will require a rather fundamental re-conceptualisation, however, of co-operation for sustainable development. Intellectual efforts to pursue it should start now.

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