REPORT OF THE HIGH-LEVEL PANEL ON FINANCING FOR DEVELOPMENT

EXECUTIVE SUMMARY

The world has seen faster human and economic development during the past half century than during any previous comparable period in history. Almost everywhere, literacy rates are up, infant mortality is down, and people are living longer lives. But some very real challenges remain. Over a fifth of the world's population still lives in abject poverty (under $1 a day), and about one-half lives below the barely more generous standard of $2 a day. One-quarter of the population of developing countries are still illiterate. The 2.5 billion people who live in the world's low-income countries still have an infant mortality rate of over 100 for every 1,000 live births, compared with just 6 per 1,000 among the 900 million people in the high-income countries. Illiteracy still averages 40 per cent in low-income countries. Population growth, although slowing, remains high.

Sadly, increasing polarization between the haves and have-nots has become a feature of our world. Reversing this shameful trend is the preeminent moral and humanitarian challenge of our age. For people in the rich world, elementary self-interest is also at stake. In the global village, someone else's poverty very soon becomes one's own problem: of lack of markets for one's products, illegal immigration, pollution, contagious disease, insecurity, fanaticism, terrorism.

There are several hopeful signs that the international community has begun to acknowledge this reality. In September 2000, the meeting of the U.N. General Assembly concluded on an historic note, with the adoption of the Millennium Declaration. This Declaration collectively committed their governments to work to free the world of extreme poverty. Towards that end, it endorsed the following International Development Goals for 2015: to cut in half the proportion of people living in extreme poverty, of those who are hungry, and of those who lack access to safe drinking water; to achieve universal primary education and gender equality in education; to accomplish a three-fourths decline in maternal mortality and a two-thirds decline in mortality among children under five; to halt and reverse the spread of HIV/AIDS and to provide special assistance to AIDS orphans; and to improve the lives of 100 million slum dwellers.

Unlike many previous undertakings, the Millennium Declaration also highlighted the task of mobilizing the financial resources needed—to achieve the International Development Goals and, more generally, to finance the development process of developing countries. The upcoming Conference and Summit on Financing for Development, to be held in March 2002, will be a key event in agreeing a strategy for better resource mobilization.

Key Issues

Domestic Resource Mobilization. The primary responsibility for achieving growth and equitable development lies with the developing countries themselves. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. It is the actions of domestic policymakers that largely determine the state of governance, macroeconomic and microeconomic policies, the public finances, the condition of the financial system, and other basic elements of a country's economic environment. A sound fiscal policy, responsible social spending, and a well-functioning, competitive financial system are crucial to economic and social development. Finally, a good pension scheme is essential. To have the greatest social impact, a defined contribution scheme should be complemented by a tax-financed scheme, to provide for a minimum pension that has a progressive redistributional impact and safeguards the poor.

Private Capital Flows. The bulk of the saving available for a country's investment will always come from domestic sources, whether that country is large or small, rich or poor. But foreign capital can provide a valuable supplement to the resources a country can generate at home. Nowadays, large sums of capital cross national borders in the form of foreign direct investment (FDI), and the international capital markets constitute a further vast pool of funds on which countries can draw. Developing countries can undertake various measures to increase their share of FDI, including policy changes that treat foreign investors no less favorably than domestic investors, upgrading accounting and auditing standards, improving corporate governance, infrastructure and the efficiency of delivery of services. Industrial countries need to remove artificial constraints on investment in emerging markets, and refrain from imposing severe restrictions on access to credit. While private capital cannot alleviate poverty by itself, it can play a significant role in promoting growth, but its provision needs to be organized in a way that reduces vulnerability to crises.

Trade. Thanks to eight rounds of multilateral negotiations, much has been done in half a century to dismantle tariff and non-tariff barriers to trade. But by far the main beneficiaries of trade liberalization have been the industrial countries. Developing countries' products continue to face significant impediments in rich country markets. Basic products in which developing countries are highly competitive are precisely the ones that carry the highest protection in the most advanced countries. These include not only agricultural products, which still face pernicious protection, but also many industrial products subject to tariff and non-tariff barriers. Therefore, there is an urgent need to initiate a new round of multilateral trade negotiations. Although some panel members felt it was crucial that developed countries first rebuilt confidence in the WTO by delivering on both the spirit as well as the letter of previous agreements, the Panel as a whole strongly endorses the launching of a new round of trade liberalization at the next WTO ministerial meeting, to be held in Qatar next November.

The Panel recommends that the following issues be addressed:

The implementation of the Uruguay Round. This issue concerns not only full compliance with the commitments that industrial countries made under the Uruguay Round but also a responsible review—open and generous but consistent with free trade principles—of some regulations that developing countries have found either extremely hard to implement or outright counterproductive. Chief among these are standards (technical barriers to trade), anti-dumping, trade-related intellectual property rights (TRIPS), trade-related investment measures (TRIMS), subsidies, customs valuation, and phase-in periods for developing countries.

♣ *Liberalization in agriculture.* In this field, it is vital for developing countries to discuss and get from industrial countries a significant improvement in market access, an elimination of export subsidies, and a tightening of support to domestic producers.

♣ *The total elimination of remaining trade barriers in manufacturing.* Existing barriers in this sector are mostly at the expense of developing countries. An obvious, but sadly not unique, example of this injustice is protection on textiles and clothing. Some panel members consider that welfare gains for all parties would be even greater if the new round also liberalizes trade in services.

International Development Cooperation. Even if great strides are made in trade liberalization, domestic policy reform, and capital inflows into developing countries, international development cooperation will retain four vital roles in which it has essentially no substitute:

♣ *Helping to initiate development* in countries and sectors that do not attract much private investment, and that cannot afford to borrow extensively from commercial sources. This is the traditional role of official development assistance and of lending by the multilateral development banks.

♣ *Coping with humanitarian crises.*

♣ *Providing or preserving the supply of global public goods*. Goods that fall in this category include peacekeeping; prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of CFC emissions; limitation of carbon emissions; and preservation of biodiversity. No individual country has an incentive to pay for these goods and thus collective action is needed if they are to be supplied in sufficient quantity.

♣ *Confronting and accelerating recovery from financial crises*.

The Panel urges the Financing for Development Conference to obtain a commitment by the industrial countries to implement the aid target of 0.7 percent of GNP. It also recognizes that International Development Goals are unlikely to be achievable unless public opinion in the developed countries comes to recognise the moral and utilitarian case for treating them as a priority. Accordingly, it calls for the initiation of a public campaign for the International Development Goals, to be focused especially on countries that have fallen furthest behind the aid target. Finally, donors must invest in better coordination and delivery of aid, via the common pool approach.

Systemic Issues. It is clear, however, that the challenges of globalization today cannot be adequately handled by a system that was largely designed for the world of 50 years ago. Changes in international economic governance have not kept pace with the growth of international interdependence. The Panel endorses the proposal of the Commission on Global Governance to create a global council at the highest political level to provide leadership on issues of global governance. The proposed council would be more broadly based than the G7 or the Bretton Woods institutions. It would not have legal binding authority but through its political leadership it would provide a long-term strategic policy framework to promote development, to secure consistency in the policy goals of the major international organizations, and to promote consensus building among governments on possible solutions for issues of global economic and social governance. As much the Panel perceives the need for the proposed council, it acknowledges the enormous political difficulty of launching it. To pave the way, it supports a Globalization Summit to discuss this issue.

Despite its youth, the WTO is in urgent need of reform and support in certain critical aspects. The necessary changes are unlikely to be achieved from within. What may be needed is a bigger political impulse, stemming from the construction of global economic governance. In that endeavor, at least the following aspects of the WTO should be addressed:

- ♣ its decision-making system, which many developing countries perceive, with reason, as selective and exclusionary;
- ♣ its capacity to provide technical assistance to developing countries, so they can participate more effectively in multilateral trade negotiations, trade opportunities, and the dispute settlement mechanism;
- ♣ attached to the latter, the WTO's evident underfunding and understaffing.

The issues of labor and environmental standards need a stronger focus in the international arena than they presently have. In the case of labor standards, the most natural solution would be to strengthen the International Labor Organisation (ILO). In the environmental domain, the sundry organisations that now share policy responsibility should be consolidated into a single Global Environment Organisation with standing equivalent to that of the WTO, the IMF, and the World Bank.

The international community should consider whether the common interest would be furthered by providing stable and contractual resources for these purposes. Politically, taxing for the solution of global problems will be much more difficult than taxing for purely domestic purposes. If only out of self interest, new sources of finance should be considered without prejudice by all parties involved. In particular, a currency transactions tax (otherwise known as the Tobin tax) have often been proposed as a new source of finance. The Panel believes that further rigorous technical study is needed before any definitive conclusion is reached on the convenience and feasibility of the Tobin tax. There is likely to be more promise in a *carbon tax*—a tax on the consumption of fossil fuels, at rates that reflect the contribution of these fuels to CO_2 emissions.

The Panel proposes that the Conference and Summit consider the potential benefits of an International Tax Organization (ITO) to:

- ♣ At the least, compile statistics, identify trends and problems, present reports, provide technical assistance, and develop international norms for tax policy and administration.
- ♣ Maintain surveillance of tax developments in the same way that the IMF maintains surveillance of macroeconomic policies.
- ♣ Take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives.

- ♣ Slightly more ambitiously, develop procedures for arbitration when frictions develop between countries on tax questions.
- ♣ Sponsor a mechanism for multilateral sharing of tax information, like that already in place within the OECD, so as to curb the scope for evasion of taxes on investment income earned abroad.

Immigration policies must protect individual nations' economic and social interests. But it is time for governments, without risking the national interests they must promote, to start working together to develop forms of international cooperation to optimize collectively the benefits of the movement of labor across national borders. The time may be ripe to start seeking an international agreement on "the movement of natural persons".

Principal Recommendations

1. **Every developing country needs to set its economic fundamentals in order.** No country can expect to achieve equitable growth, or to meet the International Development Goals, unless it focuses on building effective domestic institutions and adopting sound policies including:

- Governance that is based on participation and the rule of law, with a strong focus on combating corruption
- Disciplined macroeconomic policies
- A public expenditure profile that gives priority to investment in human capital, especially basic education and health, the rural sector, and women
- A financial system that intermediates savings to those capable of investing efficiently, including microfinance borrowers, women, and the rural sector
- A funded, defined-contribution pension system that will promote saving in the short run and, supplemented by a tax-financed scheme to assure a minimum pension, will secure adequate, universal pensions in the long run
- Capacity building focused on developing a positive institutional environment progressively more able to implement the policies listed above
- Protection of property rights and a regulatory environment that effectively protects workers rights and the environment

2. **The WTO should launch a Development Round.** The industrial countries should take the lead in proposing that the WTO ministerial meeting to be held in Qatar in November 2001 launch a Development Round of trade negotiations, with the principal objective of fully integrating the developing countries into the global trading system. The agenda for this round should include

- Full implementation of the letter and spirit of the Uruguay Round commitments made by industrial countries
- Liberalising trade in agricultural products
- Reducing tariff peaks and tariff escalation
- A reconsideration of trade-related intellectual property protection, with a view, among other things, to seeking ways to achieve low-cost availability of inventions without unduly affecting the incentive to innovate
- Provision for limited, time-bound protection of new industries by countries in the early stages of industrialisation
- Consideration of the possibility of introducing rules governing the temporary movement of labour
- Total elimination of remaining trade barriers in manufacturing, and possibly in services.

3. **The least developed countries need some immediate help in improving their position in the world trading system**. These countries cannot wait for the outcome of a new trade round. The Panel recommends

- Generous donor financing of the Trust Fund established to implement the Integrated Framework
- Immediate implementation of Uruguay Round concessions with respect to the least developed countries

- Faithful and prompt implementation by the European Union of its promised liberalisation of imports of ‘everything but arms’ from the least developed countries, and action by the other industrial countries that goes at least as far as what the European Union has promised
- Restoration and improvement of the IMF’s Compensatory Financing Facility and the establishment of a multilateral Commodity Risk Management Scheme for less developed countries

4. **Developing countries should create an attractive environment for foreign investment, especially FDI.**

5. **The Panel urges the Financing for Development conference to obtain a commitment by the industrial countries to implement the target of providing ODA equal to 0.7 per cent of their GNP.** Achieving the aid target will require rekindling political support in the donor countries for aid. That in turn will require a Campaign for the Millennium Goals, launched by a consortium of those organisations that successfully fought for debt relief, together with the professional expertise of the key international agencies and the financial support of private foundations. It is also imperative to separate finance for development and humanitarian assistance from finance for global public goods and to provide adequate finance for each of these countries.

6. **Donors should distribute ODA across countries according to two criteria: the depth of poverty in a country, and their assessment of the extent to which the country’s policy is effectively directed to reducing poverty.**

7. **The Panel recommends that aid be voluntarily and prudently shifted to a common pool basis that would finance the recipient’s announced development strategy.**

8. **The Panel endorses the proposal of the Commission on Global Governance to create a global council at the highest political level to provide leadership on issues of global governance.** This Panel proposes a Globalization Summit to discuss this issue further. The summit would convene a group of heads of state, large enough to be representative but small enough to be efficient, to address the key governance challenges of globalization through a structured but informal discussion.

9. **The WTO should be better funded, and its governance should be reformed to enable small countries to play a more effective role in decisionmaking. The ILO should be given teeth and should be prepared to use them. The sundry organisations that currently share responsibility for environmental issues should be consolidated into a Global Environmental Organisation.**

10. **The Financing for Development conference should explore the desirability of securing an adequate international tax source to finance the supply of global public goods.** It has been suggested that a currency transactions tax might provide such a source, but the Panel concluded that further rigorous study would be needed to resolve the doubts about the feasibility of such a tax. A better possibility would be for all countries to agree to impose a minimum level of taxation on consumption of fossil fuels (a carbon tax) as a way of combating global warming.

11. **The IMF should recommence SDR allocations.**

12. **The Panel proposes that the international community should consider the potential benefits of an International Tax Organisation.** This could address many needs that have arisen as globalization has progressively undermined the territoriality principle on which traditional tax codes are based. Developing countries would stand to benefit especially from technical assistance in tax administration, tax information sharing that permits the taxation of flight capital, unitary taxation to thwart the misuse of transfer pricing, and taxation of emigrant income.

EMBARGOED
UNTIL 28 JUNE,
13:30 NEW YORK TIME

Recommendations of the High-level Panel on Financing for Development

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June 22, 2001

This report was commissioned by the Secretary-General of the United Nations. The members of the Panel do not each subscribe to every detail in the text but they endorse the report as a whole. The Panel wishes to thank John Williamson, who served with excellence as Project Director, as well as Vijaya Ramachandran and Javier Guzman.

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Recommendations of the High-level Panel on Financing for Development

> *…the central challenge we face today is to ensure that globalization becomes a positive force for all the world's people, instead of leaving billions of them behind in squalor. Inclusive globalization must be built on the great enabling force of the market, but market forces alone will not achieve it. It requires a broader effort to create a shared future, based upon our common humanity in all its diversity.*[1]

The world has seen faster human and economic development during the past half century than during any previous comparable period in history. Almost everywhere, literacy rates are up, infant mortality is down, and people are living longer lives.

Much as there is to celebrate, there is more to deplore. Almost half of the world's people are still living in abject poverty. One-sixth of the world's population, or 1.2 billion people, live on less than one dollar a day. In the low-income countries, with their 2.5 billion people, more than 100 babies out of every 1,000 die, compared to just six per 1,000 in the high-income countries. And in low-income countries, four out of ten people still cannot read or write. World income distribution is becoming more unequal. Nowadays, 80 percent of the global population lives on less than 20 percent of the global income.

The most painful international story of the past three decades has been the impoverishment of countries that are home to half a billion people, most of them in Sub-Saharan Africa. Nowhere is a global commitment to poverty reduction needed more than in this region. Sub-Saharan Africa has the largest proportion of people living on less than one dollar a day, and indeed, its people are almost as poor as they were 20 years ago.

The challenge of poverty

The successful development stories of our era are essentially the result of globalization, powered both by the explicit political decisions of nation states and by unprecedented technological progress. The market economy and globalization at large present tremendous opportunities. But too many people in too many countries lack the freedom to take advantage of these opportunities, and they are consequently left on the sidelines of the globalization process. People lack freedom when they lack food, education, training, health, basic human and political rights, security, elementary infrastructure, and employment opportunities. Provide people with these elements—through economic growth and through social policies that equalize opportunities among individuals, communities, and nations—and you will see them empowered to take up new opportunities and improve their lives.

Sadly, however, increasing polarization between the haves and have-nots has become a feature of our world.

Reversing this shameful trend is the preeminent moral and humanitarian challenge of our age. For people in the rich world, elementary self-interest is also at stake. In the global village, someone else's poverty very soon becomes one's own problem: of lack of markets for one's products, illegal immigration, pollution, contagious disease, insecurity, fanaticism, terrorism.

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1 Annan, Kofi A., *We the Peoples, The Role of the United Nations in the 21st Century*. United Nations, March 2000.

The international community has begun to acknowledge and confront the challenge of poverty. The United Nations has held a series of conferences over the past decade to address the critical problems facing humanity. These culminated in the Millennium Summit of September 2000, which brought together the largest-ever number of heads of state and government. The Millennium Declaration produced by the conference committed all governments to work to free the world of extreme poverty and, to that end, to achieve precise International Development Goals by the year 2015. The goals are to: halve the proportion of people with income of less than one dollar a day; halve the proportion of people suffering from hunger; halve the proportion of people without safe drinking water; ensure equal access to all levels of education for girls and boys; provide universal primary education; to reduce maternal mortality by three fourths and mortality among children under five by two-thirds; begin to reverse the spread of HIV/AIDS, malaria, and other major diseases; and to improve the lives of 100 million slum dwellers.

Mobilizing resources for development

Unlike many previous undertakings, the Millennium Declaration also highlighted the task of mobilizing the financial resources needed—to achieve the International Development Goals and, more generally, to finance the development process of developing countries. The upcoming Conference on Financing for Development, to be held in March 2002, will be a key event in agreeing a strategy for better resource mobilization.

Financing for development provides the mandate entrusted to this Panel by the UN Secretary-General. Drawing on our collective practical experience, our task was to recommend steps that can be taken to augment the flow of resources to the developing world. In what follows, and in the accompanying technical report, we look at ways to ensure that developing countries receive the financial resources they need. What policies must they adopt? What kind of help from the industrialized world will be most useful to them? Does the world have the right international institutions? And if so, how to ensure they play their proper role?

Policies in developing countries

The primary responsibility for achieving growth and equitable development lies with the developing countries themselves. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. It is the actions of domestic policymakers that largely determine the state of governance, macroeconomic and microeconomic policies, the public finances, the condition of the financial system, and other basic elements of a country's economic environment.

We emphasize here that achieving such a positive environment is not simply a matter of political will. Though beyond the purview of this Panel, capacity building and institutional development are an absolutely essential complement to finance in the effort to improve living standards among the poor. Many developing countries, usually the poorest ones, still lack institutions capable of implementing the necessary actions, and will need to focus major national efforts on capacity building. In this task, more and better assistance from the international community is needed; indeed, experience shows that imposing tough policy conditionality on poor countries without assisting them to build their domestic capacity is a recipe for frustration and unsatisfactory results.

Governance

First and foremost, a country needs to have good governance that commands the consent of the governed, and effective and impartial rule of law—including relentless combat of corruption, competent and socially legitimate protection of property rights, and well designed, well enforced regulations (appropriate to the specific country's stage of development) to protect workers' rights and the environment.

Macroeconomic policy

The generation of domestic resources to save and invest productively is the essential foundation of sustained development. A very low domestic savings rate is one of the main structural weaknesses to be overcome in most developing countries. But there will not be enough domestic savings, nor enough high quality national investment, without macroeconomic discipline. Economic policy must be designed to make inflation and the current account balance consistent with sustained growth. For countries with high inflation, this implies that monetary policy should aim to reduce inflation over time, and once it has reached a low level, to hold it there. Monetary policy also needs to be consistent with the chosen exchange rate regime, which must give reasonable assurance that the country will avoid an unsustainably large current account deficit.

Fiscal policy and social spending

Fiscal discipline, too, is required at all times, so as to keep deficit financing small enough to avoid causing inflation, to avoid excessive accumulation of public debt, and to ensure that government borrowing does not crowd out the private sector from domestic credit markets. Almost everywhere the most potent way to empower the poor to integrate themselves into the market economy, and hence to contribute to and benefit from growth, is to make public investments in broadly accessible education, health, and nutrition, in other basic social programs, and in the rural sector, where large proportions of the poor typically live. These programs need to have the first call on government resources—they should not be treated as marginal programs whose budgets can be slashed when times are difficult.

Financing an adequate level of social public expenditure while limiting budget deficits calls for substantial tax revenues. Most countries of the developing world must undertake significant tax reforms if they are to raise the additional revenue that they need. These reforms should generally aim to broaden the tax base and to encourage domestic savings. In designing tax reforms, care is needed to protect the consumption levels of the poor.

Financial system

A diverse, well-functioning, competitive financial system is crucially important both for mobilizing savings and for investing them productively. Every country needs a financial system that promotes savings and provides credit efficiently to small, medium, and large firms as well as to micro-enterprises—including those owned by the poor and by women. Again, in most developing countries, such a system is missing. Its development requires a modern framework that progressively incorporates accepted international standards for capitalization, accounting, auditing, regulation, and supervision, as well as arrangements for corporate governance and bankruptcy that are adapted to the local culture while meeting global standards. Building financial systems that will meet these specifications is difficult. The international community needs to help developing countries in this task.

Pension reform

A country's pension system has a dual role: as a social safety net for the elderly and as a source of savings that can be used for productive investment. How the government approaches the provision of old age security can have a significant impact on the national savings rate. The type of pension scheme with the greatest impact on savings is probably a defined-contribution scheme in which participants accumulate rights to the assets that they contribute, and thus regard their capitalized contributions as a part of their personal wealth. To have the greatest social impact, a defined contribution scheme should be complemented by a tax-financed scheme, to provide for a minimum pension that has a progressive redistributional impact and safeguards the poor. The feasibility of this approach is likely to vary among countries, however, depending in part on the solvency of the existing system and in part on the weight the society places on social cohesion.

Private capital flows

The bulk of savings will come from domestic resources, but foreign capital can provide a valuable supplement to finance investment and growth. Again the primary responsibility to tap the vast pool of funds available in the forms of foreign direct investment, portfolio investment, and bank loans, lies with developing countries themselves.

Actions by developing countries

Foreign direct investors, just like domestic investors, want assurance of political stability, knowledge that the rule of law prevails—so that there will be long-term stability of rules and procedures—and freedom from corruption. In addition, foreign investors expect a commitment to be treated no less favorably than domestic investors, as well as provisions for free transfer of capital, profits, and dividends, guarantees against expropriation of their assets, and binding arbitration of disputes. It is in host countries' interest to provide these conditions.

Foreign investors should not be exempted from domestic laws governing corporate and individual behavior, however; nor should the authority of domestic courts, tribunals, and regulatory authorities over foreign investors and their enterprises be curtailed. By the same token, we advise against the use of costly and discretionary investment incentives and eroding labor and environmental standards in a "race to the bottom".

To attract other forms of foreign capital besides direct investment, progressively more developing countries have been liberalizing their capital accounts in recent years. The long-term trend still ought to be to further liberalize capital flows, but the experience of financial crises has shown that countries should only introduce liberalization measures in appropriate circumstances: that is, when they have sound macroeconomic fundamentals, a healthy domestic financial system, and an effective system of prudential supervision. In very special circumstances, temporary taxes may need to be imposed on capital inflows, to moderate the destabilizing effects of volatile capital movements.

Actions by industrial countries

Industrial countries have an important role in facilitating private capital flows into developing countries. In cooperation with pertinent multilateral public institutions and private organizations—such as chambers of commerce and industry—these countries should enhance the flows of information on investment opportunities in developing countries, insurance schemes, and market access provisions.

The industrial countries should also consider more systematic discipline of their own competitive tax concessions, which sometimes unfairly and artificially erode developing countries' relative attractiveness to foreign investment.

In the discussions on a new international financial architecture, an important outstanding issue concerns how to prevent private lenders from calling in their capital if confidence erodes. For this purpose, bonds should have collective action clauses that permit a qualified majority of bondholders to approve changes in their payments clauses. Major industrial countries should join Canada and the UK in introducing such clauses into the bonds they issue, to ease the way for the adoption of these clauses in bonds issued by emerging markets.

Industrial countries still impose some important impediments to foreign investment by some categories of investors among their nationals; it is important that they remove artificial constraints that prevent investments into emerging markets.

Actions by international community

In countries that have not had time to build up a credible track record, many potentially viable infrastructure investment projects do not get financed by the private sector because their returns are subject to government and regulatory risk. The multilateral development banks should be enabled to increase their role in helping their client countries attract FDI, through cofinancing and by providing guarantees.

New proposals for determining banks' minimum capital requirements are under discussion in the Basel Committee on Banking Supervision. Care is needed to make sure the new rules do not make international bank loans prohibitively expensive to most developing countries.

Trade

For developing countries to achieve sustained growth, their efforts to set their fundamentals in order must be complemented with a favorable international environment. The large industrial countries, with their large economies and their dominance in world markets, have a critical responsibility to pursue macroeconomic policies that lead to adequate international growth with low inflation. And of at least equal importance is their duty to open their markets to developing countries.

Thanks to eight rounds of multilateral negotiations, much has been done in half a century to dismantle tariff and non-tariff barriers to trade. But by far the main beneficiaries of trade liberalization have been the industrial countries. Developing countries' products continue to face significant impediments in rich country markets. Basic products in which developing countries are highly competitive are precisely the ones that carry the highest protection in the most advanced countries. These include not only agricultural products, which still face pernicious protection, but also many industrial products subject to tariff and non-tariff barriers. For their own economic interest, industrial countries should open their markets more decisively to developing countries.

"Development Round" of negotiations needed

Wealthy nations' protectionism imposes an enormous human and economic cost on the developing world. But it also imposes high costs on their own populations, either through higher consumer prices or through the fiscal burden brought about by subsidies.

On balance, all countries would gain from dismantling the remaining trade protection in rich countries. While some panel members feel it is crucial that developed countries first rebuild confidence in the WTO by delivering on both the spirit as well as the letter of previous agreements, the Panel as a whole strongly endorses the launch of a new round of trade liberalization at the next WTO ministerial meeting, to be held in Qatar next November.

A new round can only succeed if it focuses mainly on the trade needs of developing countries. The Uruguay Round reached a satisfactory conclusion only because developing countries were flexible. The Seattle WTO ministerial meeting failed to launch a new round, not because of the protests in the streets, but because the major trading powers lacked the political will to accommodate the interests of developing countries. Developing countries should not be expected once again to bear the burden for improving the multilateral trading system. In order for developing countries to have confidence in a new round, rich countries must deliver on commitments made in the past, such as accelerating the agricultural trade negotiations and phasing out quotas on textiles and clothing.

For the sake of the poor people of less advanced countries but also for the self-interest of rich countries, the new round should be truly a "development round" for developing countries. To achieve this objective, the new negotiations must tackle the following essential issues:

- ♣ *The implementation of the Uruguay Round.* This issue concerns not only full compliance with the commitments that industrial countries made under the Uruguay Round but also a responsible review—open and generous but consistent with free trade principles—of some regulations that developing countries have found either extremely hard to implement or outright counterproductive. Chief among these are standards (technical barriers to trade), anti-dumping, trade-related intellectual property rights (TRIPS), trade-related investment measures (TRIMS), subsidies, customs valuation, and phase-in periods for developing countries.
- ♣ *Liberalization in agriculture.* Here, it is vital for developing countries to discuss and get from industrial countries a significant improvement in market access, an elimination of export subsidies, and a tightening of support to domestic producers.
- ♣ *The total elimination of remaining trade barriers in manufacturing.* Existing barriers in this sector are mostly at the expense of developing countries. An obvious, but sadly not unique, example of this injustice is protection on textiles and clothing.

Some panel members believe that the welfare gains to all countries could be even greater if the new round also liberalizes trade in services.

Measures for least developed countries

For the poorest countries, better market opportunities need to be supplemented by specific assistance programs. These countries need assistance to build up their capacity for trade negotiations and to help them diversify their exports. We strongly recommend generous financing of the "Integrated Framework" set up for that purpose by a number of multilateral institutions. Additional international efforts for such capacity building would be most welcome, as would be any rational effort to limit the havoc that can be wrought by weak primary commodity prices. The Panel recommends the restoration and improvement of the IMF's Compensatory Financing Facility and the establishment of a multilateral Commodity Risk Management Scheme for less developed countries.

International Development Cooperation

Even if great strides are made in trade liberalization, domestic policy reform, and capital inflows into developing countries, international development cooperation will retain four vital roles in which it has essentially no substitute:

- ♣ *Helping to initiate development* in countries and sectors that do not attract much private investment, and that cannot afford to borrow extensively from commercial sources. This is the traditional role of official development assistance and of lending by the multilateral development banks.
- ♣ *Coping with humanitarian crises.*
- ♣ *Providing or preserving the supply of global public goods*. Goods that fall into this category include peacekeeping; prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of CFC emissions; limitation of carbon emissions; and preservation of biodiversity. No individual country has an incentive to pay for these goods and thus collective action is needed if they are to be supplied in sufficient quantity.
- ♣ *Confronting and accelerating recovery from financial crises*.

The world has a crucial interest in seeing these four roles funded on an adequate scale.

Estimates of need

It was beyond the scope of this Panel to make precise calculations of the international resources required to fund these roles. Our estimates are only indicative, but they show clearly that for three of the four roles, there is a very large shortfall of resources.

Development aid. No estimates have been made of how much official development assistance is needed in total. Such estimates would need to be built up from individual country estimates, which are not available. We have used only rough, albeit conservative, estimates of how much would be required to achieve the International Development Goals.

The results show that meeting the International Development Goals alone would require an extra US$50 billion per year of official development assistance—almost double the ODA that is currently provided. And the broader need for ODA, beyond these crucial goals, is certainly much greater than this additional US$50 billion.

The state of *humanitarian aid* cries out for a more systematic donor effort. At present, humanitarian aid is financed out of official development assistance and takes some 8 percent of the ODA budget. Some emergencies have been tragically underfunded. The global need for humanitarian aid is unlikely to decline in the near future. Donors need to make a long-term commitment to fund humanitarian relief to a specified minimum standard, using a built-in mechanism for burden sharing, and providing a specific line item in their contingency budgets so that unexpected crises can be funded without diverting funds from elsewhere. Achieving a reasonable minimum standard of response to humanitarian crises would cost $8-9 billion in a typical year, an increase of at least $3 billion from recent spending levels. Furthermore, proper humanitarian assistance will not be possible without adequate funding of the United Nations, which is today grossly underfinanced. This issue should be urgently tackled by the international community.

It is fortunate that world concern with the supply of *global public goods* is at last awakening. But the recognition of new needs has rarely brought with it additional funding. Estimates suggest that 15 percent of aid budgets are devoted to the supply of what are really global public goods, and are financing activities that often benefit donors more than recipients. Beginning to address the need for global public goods in a more satisfactory manner will probably require at least $20 billion per year, four times the current spending level.

Going forward, it is imperative to separate finance for development and humanitarian assistance from finance for global public goods and to provide adequate finance for each of these causes. A primary aim of the Financing for Development Conference should be to secure adequate mechanisms for the future financing of these needs.

Further debt relief for highly indebted poor countries

The campaign spearheaded by Jubilee 2000 resulted in a welcome reduction in the debt burden on heavily indebted poor countries. The official estimate is that under the HIPC Initiative the highly indebted poor countries will pay $1.1 billion per year less in debt service than they would otherwise have paid, and $2.4 billion per year less than they would have owed. The scheme is welcome despite the fact that the actual delivery of substantial debt reduction has taken a very long time and that it has not been fully financed by additional ODA, as many had originally hoped. Some donors are simply reassigning part of their traditional aid resources to finance commitments to the enhanced HIPC initiative.

While the enhanced HIPC scheme is clearly providing increased resources for poverty reduction, in most cases it has not gone far enough to make these countries' debt sustainable. Certainly the principle that debt obligations should be repaid is central to the functioning of credit markets; debt relief programs are an exception for extraordinary circumstances. Yet the situation of several countries is still desperate. A further effort is needed to reduce debt in HIPC to sustainable levels and thus help to improve those countries' ability to attract private finance.

In the view of some Panel members, a further debt relief agreement would be an excellent step. Others believe it would perhaps be worth serious consideration. Most important, all agree that a further debt relief agreement would only be worthwhile if it is based on a firm commitment from donors to provide strictly additional resources for its proper financing. If a re-enhanced HIPC scheme is not financed by increased ODA, then its main effect would be to redistribute aid among poor countries—an outcome that must certainly be avoided. All Panel members also believe that any debt relief scheme should be designed so as to reduce, not increase, moral hazard; that is, it should not weaken borrowers' responsibility for their own actions.

More development aid needed

The inescapable bottom line is that much more funding is needed for official development assistance. Almost half a century ago the international community accepted that rich countries have a responsibility for helping poor countries get development off the ground. In 1969 the Pearson Commission formalized this by calling on donor countries to give 0.7 percent of their gross national product in ODA—a target that was endorsed by the United Nations and by many donors. In practice, in 1999, ODA stood at a mere 0.24 percent of GNP for the aggregate of the 22 members of the OECD's Development Assistance Committee.

If the DAC members actually delivered ODA according to the 0.7 percent target, aid would increase by about US$100 billion per year. With this amount available for international development cooperation, it would be possible to pay for global public goods, to provide sufficient humanitarian relief, and not only achieve the International Development Goals but also provide much more satisfactory levels of official development assistance for the take-off of developing countries.

The Panel urges the Financing for Development Conference to obtain a commitment by the industrial countries to implement the aid target of 0.7 percent of GNP.

Making aid more effective

Aid has not been yielding as much value for money as it could. Part of the problem has lain with donors: aid has become too tied, too uncoordinated, too conditioned, too thinly dispersed, and its administration too distant from local decisions and needs. A long-standing problem is that donors have often used aid to advance their own foreign policy goals or to promote their own exports, rather than to maximize its impact in reducing poverty or promoting growth.

Fortunately, this situation has started to change. The OECD countries recently took a significant step to improve aid effectiveness, by banning the practice of tying aid, albeit with some qualifications.

Also to be welcomed are the World Bank's introduction of a Comprehensive Development Framework, to assist donors to coordinate their support for a country's own strategy, and of Poverty Reduction Credits, as well as the IMF's efforts to link some external financing to support for domestically developed poverty reduction strategies.

Further improvements are still needed, to the point where aid is directed overwhelmingly toward countries with high levels of poverty and good policy environments and fully respects the ownership by the recipient country of its development strategy.

We recommend that the donor community voluntarily and prudently adopt a common pool approach to official development assistance. For a given recipient country, donors would put their aid resources into a common pool to support the financing of the development strategy designed and implemented by the government, in consultation with its people and donors. This approach would prevent donor coordination problems. It would eliminate the tying of aid to goods or services produced in the donor country.

To adopt a common pool would require a drastic change in attitude on the part of some donor countries. But it is now time to pursue that change.

A campaign for the International Development Goals

Foreign assistance gets far too little public and political support in all but a handful of the industrial countries. In most industrial countries, and prominently in the United States, the public has little awareness of the moral issues or the dictates of self-interest in alleviating poverty elsewhere in the world. For half a century, populations in many of the industrial countries have lived with a stark inconsistency, between the calling of their ethical beliefs to have compassion for others, and their indifference to the conditions of the poor in poor countries. They still believe that poverty outside their own borders will have scant consequences for their own countries and their own well being. And they have little idea of how meager is the actual record of foreign aid giving. In the US, for example, polls show that the public greatly overestimates what that country contributes in aid.

The International Development Goals may be an effective catalyst for political support for development aid. The challenge is to persuade the politicians and publics of industrial countries that aid expenditures are both morally compelling and a vital investment in building a more secure world. A campaign that centered around these goals would need to undertake public education and awareness programs and would require active political involvement. It would need to combine the enthusiasm that the debt campaigners brought to bear for HIPC debt relief with the professional expertise of the key international agencies and the financial support of private foundations. We invite altruistic institutions to take up this challenge with a well organized, well funded, massive campaign to create the needed public awareness.

Systemic issues

Many of the issues at the heart of development financing have to do with global economic governance. Economic and social policies are subjects not only of national but also of global governance. The dramatic events of the first half of the twentieth century taught nation states that global interdependence without global rules and institutions is in nobody's long-term interest. The painfully acquired awareness of the need for a global rules-based framework is what led to the building of the existing multilateral system. Despite its shortcomings, this system has made powerful contributions to the unprecedented progress and stability that much of humankind has enjoyed since the end of the second world war.

It is clear, however, that the challenges of globalization today cannot be adequately handled by a system that was largely designed for the world of 50 years ago. Changes in international economic governance have not kept pace with the growth of international interdependence:

- ♣ As economic interdependence increases, its potential benefits increase, but so do the speed and strength of the effects that a disturbance anywhere can have on the rest of the global economy. Despite recent worthy efforts, the world has no fully satisfactory mechanism to anticipate and counter global economic shocks.
- ♣ The integration of markets—either through explicit decisions of nation states or simply by virtue of technological progress and economic specialization—is not occurring as harmoniously as it could and should. This leads to mounting frictions and, in several actual and potential market participants, to a sense of unfairness and frustration.
- ♣ Sovereign states have proliferated and a good number of fast-moving developing countries have increased their shares in world production and trade. Yet global economic decision making has become increasingly concentrated in a few countries. Tensions have worsened as a result. For a range of common problems, the world has no formal institutional mechanism to insure that voices representing all relevant parts are heard in the discussion.
- ♣ The international community has no commonly agreed instrument or procedure for deciding who does what. The result is several vacuums in global governance. For some global public goods, practically no agency has effective authority and existing agencies struggle to respond to problems for which they are ill-equipped or lack a precise mandate—as for example when the WTO is asked to enact and enforce labor standards.

- ♣ Some forums that attempt to address systematically a variety of global economic issues are too restrictive in their membership—like the Group of Seven plus Russia. Others—like the Group of Twenty or the committees of finance ministers and central bankers convened periodically by the IMF and the World Bank—lack the adequate political level to make authoritative decisions.

These gaps in global governance have a host of adverse consequences for the resolution of many of the issues that this Panel was asked to address. The Commission on Global Governance[2] warned lucidly about the "global governance deficit" six years ago—and since then the trends that make it urgent to confront the deficit have continued to assert themselves very strongly.

Global Council and Globalization Summit

We thus endorse the Commission's proposal to create a global council at the highest political level to provide leadership on issues of global governance. The proposed council would be more broadly based than the G7 or the Bretton Woods institutions. It would not have legal binding authority but through its political leadership it would provide a long-term strategic policy framework to promote development, to secure consistency in the policy goals of the major international organizations, and to promote consensus building among governments on possible solutions for issues of global economic and social governance.

As much as we perceive the need for the proposed council, we acknowledge the enormous political difficulty of launching it. To pave the way, we support a Globalization Summit.[3] The Summit would convene a group of heads of state, large enough to be representative but small enough to be efficient, to address the key governance challenges of globalization through a structured but informal discussion. Very importantly, through the influence of its political leadership, the Summit could speed up some ongoing processes of reform and launch new ones that are urgently needed to help give effect to the promises of globalization.

The Globalization Summit should take as a very important input the conclusions of the Financing for Development Conference. We recommend that first the Conference and then the Summit should consider the following systemic issues that affect financing for development:

Support for multilateralism

The Conference and the Summit should endorse the multilateral approach to handling the common problems of humanity. Without the United Nations System ours would be a much worse world and, as has been wisely said, its main institutions would have to be invented anew. First and foremost, the United Nations Organization must receive the appreciation and support it deserves for its many accomplishments and its still enormous untapped potential. The UN must be reinvigorated politically and economically. And so must the Bretton Woods and some other institutions of the UN system.

Faster reform of the international financial architecture

Financial crises in several countries in recent years have given rise to a number of initiatives aimed at reforming the international financial system. Some useful initial progress has been made, but now that the sense of urgency has subsided, the implementation of the main points of the agenda has proceeded too slowly. Much remains to be done to strengthen financial systems, to promote adherence to international standards of good practice, and to promote fair burden sharing by inducing better involvement of the private sector in preventing and resolving crises.

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2 The Commission on Global Governance, *Our Global Neighbourhood*. Oxford University Press, 1995.

3 This idea is developed in Sutherland, Peter D., Sewell, John W., and Weiner, David, "Challenges Facing the WTO and Policies to Address Global Governance", in *The Role of the WTO in Global Governance*. United Nations University Press, 2001.

In the International Monetary Fund, the shift to crisis prevention, including the timely detection of external vulnerability, is yet to be completed. Another important pending issue is the streamlining of the Fund's conditionality. The Fund frequently imposes too many conditions and unrealistic demands on borrowing countries, exceeding its core mandate and taking insufficient account of domestic authorities' willingness and capacity to execute its demands. Without impairing the Fund's ability to comply with its core mandate, borrowing countries should be given the opportunity to choose their own path to reform.

The World Bank should also accelerate its refocusing, to support client countries' longer- and medium-term structural and social reforms, particularly those useful for preventing crises and fostering economic and social recovery from financial crisis, including the construction of social safety nets.

Efforts to correct anomalies in the governance of both institutions should continue.

Reinforcement of the WTO

The World Trade Organization, the first new global institution of the post cold-war era, is the centerpiece of the multilateral trading system. It is a unique institution, to the extent that it not only works through the acceptance and observance of its rules by all its members, but also provides a multilateral dispute settlement system and procedures to enforce the commonly agreed rules. The WTO system based on rules and disciplines is of critical importance to developing countries, which have much less capacity than the industrial countries to influence trading conditions, unilaterally or bilaterally. The WTO provides developing countries with an enforceable framework to ensure their rights are respected.

Yet the WTO is under enormous stress. Both developing and industrial countries claim to have quarrels with the institution—not to mention activists of all persuasions who would like to see the WTO serve their specific social and political agendas.

Despite its youth, the WTO is in urgent need of reform and support in certain critical aspects. The necessary changes are unlikely to be achieved from within. What may be needed is a bigger political impulse, stemming from the construction of global economic governance. In that endeavor, at least the following aspects of the WTO should be addressed:

- its decision-making system, which many developing countries perceive, with reason, as selective and exclusionary;
- its capacity to provide technical assistance to developing countries, so they can participate more effectively in multilateral trade negotiations, trade opportunities, and the dispute settlement mechanism;
- attached to the latter, the WTO's evident underfunding and understaffing.

Institutional response to environmental and labor issues

Various international organizations have been under huge, and frequently conflicting, pressures to address legitimate environmental and labor issues that are raised by civil society interests. With its capacity to impose sanctions, the WTO has been the most attractive target for such pressures. To a large extent, this situation reflects the lack of global instruments capable of responding adequately to the labor and environmental concerns that are raised.

To deflect pressures from the WTO and provide a more adequate forum for the development and enforcement of labor and environmental standards, serious consideration should be given to:

- strengthening the International Labor Organization by providing it with instruments to enforce its standards; and

- consolidating the sundry organizations with responsibility for environmental issues into a single Global Environment Organization.

Innovative sources of finance

Modern globalization calls for global governance, respectful of individual sovereign states, but properly equipped to address global problems such as poverty, security, and pollution. Sovereign states must empower the multilateral system to overcome its many challenges. For official development assistance, humanitarian aid, and for global public goods, the system needs more resources than are being provided by traditional sources of funding. There is a genuine need to establish, by international consensus, stable and contractual new sources of multilateral finance.

The international community must recognize that it is in the common interest to provide stable and contractual resources for these purposes. Politically, taxing for the solution of global problems will be much more difficult than taxing for purely domestic purposes. But like all political decisions that are taken for the next generation and not just the next election, this one should be assessed carefully against the alternative scenarios, including the very dangerous one of continuing polarization, exclusion, confrontation, and insecurity in the world. If only out of self interest, new sources of finance must be considered without prejudice by all parties involved.

The Panel has considered many suggestions for innovative sources of finance. We believe the Financing for Development Conference and the Globalization Summit should first discuss whether or not the world should have global, and not only sovereign, imposition of taxes. Next, if global taxation is considered desirable, they should proceed to discuss seriously the pros and cons of two such sources: a currency transactions tax and a carbon tax. We advise that before any political discussion, these possible new sources of international finance be examined purely on their economic and development merits and shortcomings.

A *currency transactions tax*, or Tobin Tax, is a tax on all spot conversions of one currency into another, proportional to the size of the transactions. Proponents of the Tobin tax believe that it would dampen speculative operations in international financial markets and would raise large revenues. Skeptics argue that it would be too complex to implement, and that its economic effects would be somewhat ambiguous. They observe that given the ease with which financial transactions can shift location, the tax would need to be implemented worldwide at a uniform rate, and that in practice it would be enormously difficult to get the necessary international agreement for this purpose. They also stress a second practical difficulty: given the possibility of bypassing spot foreign exchange markets by using derivative instruments, the tax net would need to be extended to encompass all derivatives that traders might use to undertake equivalent transactions, notably to the futures and options markets. Third, the skeptics question whether such a tax would have any systematic effect on speculation. Finally, they point out that what might look like very low rates of tax are actually very high in relation to buy-sell spreads, and thus that a Tobin tax might greatly reduce the volume of foreign exchange transactions, with unpredictable effects on the revenue that such a tax might yield.

The Panel believes that further rigorous technical study is needed before any definitive conclusion is reached on the convenience and feasibility of the Tobin tax.

If global taxation is considered desirable, the Conference and the Summit are likely to find more promise in a *carbon tax*—a tax on the consumption of fossil fuels, at rates that reflect the contribution of these fuels to CO_2 emissions. This tax could serve two important goals: limiting the rise in global temperatures associated with burning these fuels, and raising revenue. Adhering to the sound and fair principle of “make polluters pay”, it would create price incentives to economize on the consumption of fossil fuels. It would guide production to less damaging sources of supply and create a further stimulus to bring science to bear in saving energy. The appropriate forum would need to agree on what proportion of the revenue thus raised would be retained by each country and what would be directed to finance global public goods and ODA.

Revive special drawing rights. Consideration should also be given to reviving the Special Drawing Rights (SDR) created by the IMF in 1970. The original intent of the SDR system was to allow international reserves to be increased, in line with need, without imposing real costs on the average country. In effect, no allocation has been made since 1981. Developing countries have had a strong need in recent years to build up reserves to reduce their vulnerability to crises, and have financed this buildup either by running current account surpluses or by borrowing on terms much more onerous than those associated with SDRs. The result is a large flow of what is sometimes called "reverse aid". To prevent it or at least reduce it, the IMF ought to resume SDR allocations.

The role of an international tax organization

Most countries' tax systems evolved at a time when trade and capital movements were heavily restricted, so that enterprises operated largely within the borders of their home country and most individuals earned their incomes from activities in their home country.

Matters are much more complex in today's global village. We thus propose that the Financing for Development Conference and the Globalization Summit consider the potential benefits of an International Tax Organization (ITO)[4], to:

- ♣ At the least, compile statistics, identify trends and problems, present reports, provide technical assistance, and develop international norms for tax policy and administration.
- ♣ Maintain surveillance of tax developments in the same way that the IMF maintains surveillance of macroeconomic policies.
- ♣ Take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives.
- ♣ Slightly more ambitiously, develop procedures for arbitration when frictions develop between countries on tax questions.
- ♣ Sponsor a mechanism for multilateral sharing of tax information, like that already in place within the OECD, so as to curb the scope for evasion of taxes on investment income earned abroad.
- ♣ Perhaps most ambitious of all, an international tax organization might in due course seek to develop and secure international agreement on a formula for the unitary taxation of multinationals.

If an ITO succeeded in curbing tax evasion and tax competition, there would be two beneficial consequences. One would be an increase in the proportion of a given volume of taxes paid by (a) dishonest taxpayers and (b) mobile factors of production (such as capital). Most people would consider this an unambiguous gain. The second consequence would be an increase in tax revenue at given tax rates.

An ITO would also be of great importance to develop and implement innovative sources of finance if they were agreed upon by the international community.

Migration policies

Immigration policies must protect individual nations' economic and social interests. But it is time for governments, without risking the national interests they must promote, to start working together to develop forms of international cooperation to optimize collectively the benefits of the movement of labor across national borders. The time may be ripe to start seeking an international agreement on "the movement of natural persons".

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4 See Vito Tanzi, "Is There a Need for a World Tax Organization?" in A. Razin and E. Sadka, eds., *The Economics of Globalization: Policy Perspectives from Public Economics*. New York: Cambridge University Press, 1999.

Conclusion

Poverty and underdevelopment pose severe threats to stability and peace in the world.

By taking action to make markets function better—through more open international trade, more investment flowing across countries, more knowledge diffused internationally among communities and individuals—and thus creating more wealth, shared opportunities, and common interests, the nations of the world can do much to defeat the evils of poverty and conflict during this new century. More open trade, in particular, is a vital necessity.

Markets have important limitations, however, even when they function well. Sound government policies, public funds and political solutions will continue to be needed. Huge needs for public funding are unmet at present. Meeting the International Development Goals alone would require almost double the current ODA total of more than $50 billion per year. We urge the Financing for Development Conference, which is planned for March 2002, to obtain a commitment by the industrial countries to implement the aid target of 0.7 percent of GNP. To achieve this will require a massive campaign to influence public opinion in the donor countries.

Not only for official development assistance but also for humanitarian aid and for global public goods, the system needs more funds than are being provided by traditional sources. We see a genuine need to establish, by international consensus, stable and contractual new sources of multilateral finance. And, to administer these resources effectively, we see a genuine need to fill gaps in global governance. Today's challenges cannot be adequately handled by an international system that was largely designed for the world of fifty years ago.

We thus endorse the proposal that was made—as much as six years ago—by the Commission on Global Governance, to create a global Council at the highest political level. The Council's role would be to provide a long-term strategic policy framework to promote development, to secure consistency in the policy goals of the major international organizations, and to promote consensus building among governments on possible solutions for issues of global economic and social governance.

To pave the way, we support a Globalization Summit. The agenda for first the Financing for Development Conference and then the Summit should include the systemic issues we have raised and the possibilities we have outlined for new sources of finance.

With the rapid advance of global interdependence, problems of poverty and underdevelopment have become global problems for which the world must exercise global responsibility. We have outlined an ambitious agenda to raise the financial resources needed. Undertaking this agenda will require public education and political courage. But the effort is more than warranted by the scale of the development challenges throughout the world. We believe that, if only out of self-interest, all parties involved should consider this agenda without prejudice.

EMBARGOED
UNTIL 28 JUNE,
13:30 NEW YORK TIME

Technical Report of the High-Level Panel on Financing for Development

This report was commissioned by the Secretary-General of the United Nations in December 2000. The members of the Panel endorse the thrust and principal recommendations of the Report, but they do not all subscribe to every detail of the argument in the text. John Williamson (Senior Fellow, Institute for International Economics) served as Project Director to the Panel. The Panel was also assisted by a secretariat consisting of Vijaya Ramachandran (Consultant to the Executive Office of the Secretary-General) and Javier Guzman (Aide to Mr. Zedillo in Mexico City).

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Introduction

The world has seen faster human and economic development during the past half century than during any previous 50-year period in recorded history. Table 1 shows some of the principal achievements: an historically unparalleled rise in income per capita, increased life span, a decline in the proportion of the population living in poverty, higher literacy, lower infant mortality. Also on the positive side, the demographic transition—the historical process whereby the decline in death rates is followed by a falling birth rate, curbing the world population explosion—is now under way just about everywhere. But the table also reveals the magnitude of some of the challenges that remain. Over a fifth of the world's population still live in abject poverty (under $1 a day), and about one-half live below the barely more generous standard of $2 a day. One-quarter of the population of developing countries are still illiterate. The 2.5 billion people who live in the world's low-income countries still have an infant mortality rate of over 100 for every 1,000 live births, compared with just 6 per 1,000 among the 900 million people in the high-income countries. Illiteracy still averages 40 per cent in low-income countries. Population growth, although slowing, remains high.

Even where poverty is declining, globalisation is making the poverty that remains—and the illiteracy, and the ill health—increasingly oppressive. (And, sadly, there are parts of the world where poverty is still on the rise: Africa has seen a decline in consumption per capita over the past 20 years.) Surely it was grim enough to be poor and illiterate in a world where the have-nots knew little about the life-style of the haves. But to be poor in today's world, where television and advertising make even the most destitute aware of the gulf separating them from the rich, must be even more intolerable. Globalisation has spread to every poor rural village and urban shantytown the knowledge that the world offers better possibilities than exist at home; it has also provided the means to seek them out. That is why one so often reads tragic newspaper stories of would-be migrants being shipwrecked or suffocated or frozen when their attempts to smuggle themselves into the rich world fail. A by-product of globalisation is increasing polarisation between the global economy's haves and its have-nots, and not only because the measured distribution of world income is becoming more unequal.

This presents the rich countries with a moral challenge. For too long, too many of the haves have devoted too much attention to their own wellbeing, and too little to helping the have-nots help themselves build a better future. To do better is the pre-eminent moral imperative of our age.

It is also a matter of enlightened self-interest. The peoples of the rich world themselves stand to gain from lifting their fellow human beings out of poverty. This is not just, or even mostly, because economic development creates larger markets for the exports of industrial countries, although that is indeed part of the promise. The greater dividends will come from containing a host of problems, driven by poverty and hopelessness, that do not respect national borders, like contagious diseases, environmental degradation, religious fanaticism, and terrorism. To imagine that, in a globalised world, the rich can cocoon themselves away forever, serenely enjoying the fruits of their advancing technology while a large proportion of humanity continues to live in squalor and misery, is a dangerous fantasy.

There are several hopeful signs that the international community has begun to acknowledge this reality. The United Nations has held a series of conferences over the past decade to address the critical problems facing humanity: the 1992 Earth Summit in Rio de Janeiro, the 1994 Cairo Population Summit, the 1995 Beijing Summit on Women and the Copenhagen Summit on Social Development, and the 1996 Summit on Human Settlements in Istanbul. And in September 2000, the meeting of the U.N. General Assembly concluded on an historic note, with the largest number of heads of government ever to meet together adopting the U.N. Millennium Declaration. This Declaration collectively committed their governments to work to free the world of extreme poverty. Towards that end, it endorsed the following International Development Goals for 2015: to cut in half the proportion of people living in extreme poverty, of those who are hungry, and of those who lack access to safe drinking water; to achieve universal primary education and gender equality in education; to accomplish a three-fourths decline in maternal mortality and a two-thirds decline in mortality among children under five; to halt and reverse the spread of

HIV/AIDS and to provide special assistance to AIDS orphans; and to improve the lives of 100 million slum dwellers.

The Millennium Declaration also acknowledged the hitherto neglected task of mobilising the financial resources needed to achieve these goals, and it looked to the Conference on Financing for Development, to be held in March 2002, as a crucial event in agreeing a strategy for that purpose. Much work has already gone into preparing for that conference. The report issued by the Secretary-General of the United Nations in December 2000 identified and discussed a large number of the relevant issues, and a Preparatory Committee of U.N. Ambassadors has already met to deliberate on that report. The Secretary-General decided that the conference might also benefit from convening a High-Level Panel to address, within a more limited group, some of the issues that have so far remained in dispute. We are honoured to have been invited to serve on that Panel. The present Report focuses principally on a limited number of those questions, those where we believe we have developed a shared collective view that can contribute to furthering the international debate. The Report also touches on a number of other issues, in order to place the principal proposals in focus, but it does not attempt to discuss in depth the vast range of subjects covered in the Secretary-General's report.

The terms of reference assigned to us by the Secretary-General are to make recommendations regarding

(i) Best practices in policies and institutional structures for the mobilisation of domestic resources

(ii) Improvements in the volume, pattern, and effectiveness of bilateral and multilateral official development assistance (ODA)

(iii) Measures for strengthening the Heavily Indebted Poor Countries (HIPC) initiative, including the possibility of instituting a new mechanism to mediate relations between debtor and creditor countries

(iv) Improvements in market access for exports from developing and transition economies as a key element in a resource mobilisation strategy

(v) Instruments and strategies to promote private capital flows to developing and transition economies on terms intended to maximise their development potential

(vi) Greater participation of developing and transition countries in global decisionmaking processes on financial matters

(vii) Proposals for developing new and innovative sources of funding, both public and private, for development and poverty eradication, as well as for the financing of global public goods.

This Report touches on most of those topics, although in a different order, and with much more extensive treatment of some topics than others. It starts exactly where the Secretary-General's list does, with the domestic policies and institutions that govern the mobilisation and use of resources for development. One of the most welcome features of the discussions that led up to the Secretary-General's report was the universal recognition that investment in developing countries is unlikely to promote rapid economic or human development if domestic policy fails to attend to the fundamentals (as discussed in Section1).

But a country will be far better able to profit from putting its house in order if it can integrate its economy into the wider world economy without confronting barriers in its trading partners. Therefore the Report deals next with trade, in section 2. Further benefits will accrue from improving the ability of developing countries to draw on the international capital markets, and so the Report goes on, in section 3, to discuss private capital flows. This section also touches on the problems of preventing and resolving financial crises.

However, there are certain key tasks on the international agenda that the private sector cannot or will not handle. These are the topic of section 4 and include providing sufficient aid to lower-income countries[5] to get development started and achieve the International Development Goals, dealing with emergencies, and supplying global public goods. The role of the HIPC initiative in easing the financial constraints on low-income countries, and the possibility of raising finance for international purposes from new and innovative sources, are dealt with in this section, along with more traditional questions of the availability and use of aid. It is suggested that a major challenge for the Financing for Development conference will be securing enough external finance to enable lower-income countries that have put their fundamentals in order to achieve the 2015 goals. The Panel formed a strong view that the International Development Goals are unlikely to be achievable unless public opinion in the developed countries comes to recognise the moral and utilitarian case for treating them as a priority. Accordingly, it calls for the initiation of a public campaign for the International Development Goals, to be focused especially on countries that have fallen furthest behind the aid target.

The Report's penultimate section addresses the implications of globalisation for the governance of the global economic institutions, and argues that a number of major reforms are in order. An appendix discusses the state of knowledge regarding the cost of attaining the International Development Goals.

Many developing countries have already made significant improvements in their domestic policy climate, as reflected, for example, in the new attention being paid to such sensitive issues as human rights, democracy, and the fight against corruption, as well as in more disciplined macroeconomic policies and greater openness to trade. These improvements happened in part because aid donors demanded them, even though some of the problems they complained about (such as corruption) are hardly unique to developing countries.

It is one of the sad ironies of our age that the implementation of much of this agenda has not brought forth the counterpart that was hoped for (some would say, that was implicitly promised), namely, increased aid. This is particularly sad because so much depends on countries starting to exploit recent technological breakthroughs promptly, and that in turn depends on aid. Information technology offers poor countries the opportunity to leapfrog, and so reduce the time it will take to catch up with the advanced countries. Without assistance from the advanced countries, one might see instead a hardening of the digital divide, leaving some countries with even fewer possibilities of finding a profitable niche in the world economy than they have today. This is not to imply that the digital divide can be closed by technological fixes alone: it also reflects the huge gulf in educational opportunities separating rich and poor countries, and rich and poor people. It is both a symptom and a cause of the polarisation that threatens the world.

The central failure of development in the past three decades is the loss of social capital and resulting deeper impoverishment of countries where about half a billion of the world's people reside, most of them in Sub-Saharan Africa. It is not the task of this Report to assign blame for this tragic failure, although it is proper to note that adverse terms-of-trade shocks as well as domestic misgovernment played a major role in many cases. Renewed progress in development will require a combination of deep domestic policy reforms, a willingness of the industrial countries to let exports from lower-income countries compete fairly, substantially more aid where it will be used productively, a reinforced attention to capacity building, and a new and healthier basis for the relationship between aid donors and recipients. A major aim of this Report is to outline the potential elements of a policy package that meets these challenges.

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5 The World Bank defines low-income countries as those with a per capita income (as conventionally calculated, rather than on a purchasing power parity basis) of $755 per year or less. This is somewhat too stringent a threshold for identifying countries that merit international help in pursuing the International Development Goals. A figure in the region of $1,500 to $2,000 a year might be more appropriate. Countries below this level are referred to in this Report as the lower-income countries.

1: Domestic Resource Mobilisation

The main responsibility for securing growth and equity, and hence for achieving rapid poverty reduction and human development as called for by the International Development Goals, lies with countries' policymakers. It is their actions that primarily determine the state of governance, the choice of macroeconomic and microeconomic policies, the health of public finances, the parameters of the financial system, and other fundamental elements of the economic environment. There cannot be growth without investment of sufficient amount and quality. 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. Furthermore, the equally crucial question of the *efficiency* with which resources are invested is determined overwhelmingly by national decisions and the domestic policy environment. That is why it is right to start a discussion of how to provide the financial resources to achieve the 2015 targets by looking at domestic policy issues in developing countries.

Perhaps the most basic of those issues concerns governance, including the rule of law. Countries need to be able to govern themselves efficiently and fairly, and in a way that commands the consent of the governed, if they are to have a chance at development. The cancer of corruption should be vigorously combated as an impediment to growth and an offence against the poor.

Experience has also made it abundantly clear that one cannot expect savers to keep their savings within the country, or investors to risk their wealth in socially productive investments there, in the absence of macroeconomic discipline. Inflation and the current account deficit need to be consistent with sustained growth. This implies a monetary policy that aims to reduce high inflation over time, and to keep low inflation low. Monetary policy also needs to be consistent with the chosen exchange rate regime, which must give reasonable assurance that unsustainably large current account deficits will be avoided. And one certainly cannot have macroeconomic discipline without fiscal discipline.

As Amartya Sen argues[6], a market economy provides both a means for enlarging personal freedom and the most effective known way of furthering economic growth. But a market economy requires a secure institutional infrastructure in order to function effectively. This involves adherence to the rule of law, administered impartially by the courts; a coherent system of corporate, contract, and bankruptcy law; legally established property rights that recognise socially acceptable traditional practices and therefore command social legitimacy; and well-designed regulations appropriate to a country's stage of development. This includes regulations that promote worker and product safety, set environmental standards, and, in the event of monopoly, establish reasonable prices.

What markets do not automatically provide, however, is a fair chance for everyone to participate in them and exploit their potential to the full. To give the disadvantaged a chance, action may be needed to secure legal recognition of traditional property rights,[7] gender equity, and, in some countries, land reform. But just about everywhere, the most potent instrument for empowering the poor—including women--to integrate themselves into the market economy is public spending on education, health, nutrition, the rural sector, and other basic social programmes. It is these that enable the poor to contribute to—and thus benefit from—economic growth. These programmes, plus infrastructure investment, need to be the first call on government resources—not the marginal spending that is slashed when times are difficult.

Financing an adequate level of public expenditure, including a social safety net, while limiting budget deficits implies raising substantial revenue from taxation. Tax revenue (supplemented in lower-income countries by foreign aid) needs to be sufficient to permit spending to be financed without either imposing the inflation tax, which falls disproportionately on the poor, or curtailing investment by the private sector. Many developing countries will have to undertake tax reform in order to raise tax revenue to the levels required. A value added tax has been found

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6 Amartya Sen, *Development as Freedom* (New York: Oxford University Press, 1999).

7 Hernando de Soto, *The Mystery of Capital* (New York: Basic Books, 2000).

useful in many countries, because it spreads the burden of taxation over a broad tax base, although care may be needed to prevent an unfair share of the burden falling on the poor.

Experience has shown that even the most admirable tax structure on paper is of little value if it is administered incompetently or corruptly. This points both to the need to simplify the tax system wherever possible and to the importance of building a transparent, accountable, and corruption-free tax administration. Section 5 of this Report urges that the international community create an International Tax Organisation that would help countries achieve these objectives, as well as reduce the scope for tax avoidance and evasion on income sources that have a transnational element. That would broaden the tax base and thus permit lower marginal tax rates, helping to limit disincentive effects while making taxation more progressive.

The financial system has been called the brain and nervous system of an economy. It provides opportunities for households to save, determines how savings are channelled to productive enterprises, and monitors the use made by enterprises of those savings. A diverse, well-functioning, competitive financial system is thus of crucial importance both in mobilising savings and in securing their productive investment. A truly diverse financial system is one that provides credit to microenterprises as well as larger firms; that encompasses a vigorous capital market as well as widely accessible banks; that allows firms to raise both equity and debt finance; that offers a range of institutional savings mechanisms; and that provides both credit and savings opportunities to women, the informal sector, and the poor. A well-functioning system needs to be based on a modern legal framework incorporating international accounting and auditing standards, as well as corporate governance and bankruptcy arrangements that are adapted to the local culture but meet global standards. Banks must be competitive, efficient, properly capitalised, and well regulated and supervised. Countries must aspire to reach the standards and abide by the codes on financial regulation that various international fora have developed. Of course, building institutions that will meet these specifications is difficult and will take time; it will also require assistance by the international community.

Public policy can have an important impact on the level of saving through arrangements made for the provision of pensions. Many developing countries still lack a reasonably comprehensive system for providing adequate income to their retirees. This may not be a priority issue in the very poorest countries, where retirees are not the only group in society whose incomes are typically lacking. But it is fast becoming a serious social issue even in countries with quite low incomes, as the extended family system erodes and life expectancy increases. Moreover, it is a problem whose solution can have a significant impact on the mobilisation of savings.

If a pension system is to add to national saving, it must be a funded rather than a pay-as-you-go system, and the transition to the funded system must not be financed by borrowing. (A funded system is one in which contributions of today's workers are set aside for their own retirement; in a pay-as-you-go system those contributions are transferred to today's retirees.) The result will be a higher national saving rate, as the present generation of workers is obliged to save to build up the assets that will pay their future pensions, while still paying taxes to fund the pensions of those already retired when the scheme is introduced. A defined-contribution scheme, in which a participant accumulates rights to the assets that he or she contributes, is probably the most efficient way of raising saving, since people regard their capitalised contributions as a part of their personal wealth. Such a scheme can be organised and managed by the state itself, or the task can be turned over to private pension funds regulated by the state, with mandatory contributions. A programme of either type should be complemented by a tax-financed scheme with a progressive redistributional impact so as to ensure a minimum pension. The importance of a funded, defined-contribution element and a tax-financed element assuring a minimum pension is likely to vary from one country to another, depending in part on the solvency of the existing system and in part on the weight the society places on social cohesion.

Admittedly, the agenda just laid out is an ambitious one, particularly for low-income countries that have been ravaged by war or civil conflict. It is not intended to imply that all countries should adopt the same set of policies: differing circumstances will certainly require different policies. The intent has been to identify those propositions that are widely valid, and to make the point that neither economic nor human development is likely to get very far, whatever the international environment, in countries that fail to address this agenda. If the world is to achieve the 2015 International Development Goals, the first indispensable step is for all developing countries to make sure their fundamentals are being addressed along the lines sketched out here. But doing this is not simply a matter of political will. Many developing countries lack institutions capable of implementing much of this agenda. These countries will need to focus major national efforts on capacity building: developing a competent and corruption-free public service, nurturing a strong civic society and a vibrant and independent press, and promoting a strong indigenous private sector. Technical assistance as currently organised is not providing the help that it ought to be doing. The international community needs to think hard about how it can best assist developing countries build the robust, sustainable, strategic and innovative institutions capable of responding with flexibility to a fast changing domestic and external environment that will be needed to achieve the International Development Goals.

2: Trade

Trade is an engine of growth. 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. Making growth equitable and sustainable is the task of other policies; there is in general little reason to regard trade as inherently biased one way or the other on those dimensions. But since poverty in a poor country cannot be overcome without sustained rapid growth, the willingness and opportunity to trade liberally are critical to long-run poverty reduction. It is notable that, 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.

The past decade has seen a notable liberalisation of trade by developing countries, analogous to that earlier undertaken by today's industrial countries, at least as regards trade among themselves. Unfortunately, the liberal trade regime that now prevails among the industrial countries (except in agriculture) is not matched by free market access extended to the products of interest to developing countries. In part this is doubtless due to simple protectionism—jobs were perceived to be at stake. But in part it is also due to the earlier attempts of developing countries to stand outside the process of making bargains about trade, and to expect to benefit from concessions without making concessions in return. That finally changed in the most recent round of multilateral trade negotiations, the Uruguay Round, where developing countries did participate actively in the bargaining. Their involvement won them some notable gains, such as the tariffication of quantitative restrictions in agriculture and the phasing out of the Multi-Fibre Arrangement—albeit gains with a long time fuse. One important task of the coming years will be to make sure that the industrial countries fully implement their commitments under the Uruguay Round accords to liberalise trade in areas of great significance to developing countries.

Even after the Uruguay Round commitments are completely implemented, however, substantial barriers to developing-country exports will remain. One recent (post-Uruguay Round) attempt to quantify the benefits of removing all such trade barriers estimated the potential welfare gain to developing countries at about $130 billion a year (at current prices, and covering only the gains on visible trade)[8]. Another study concluded that even a 50 per

8 K. Anderson, J. Francis, T. Hertel, B. Hoekman, and W. Martin, 'Potential Gains from Trade Reform in the New Millennium', in B. Hoekman and W. Martin, eds., *Developing Countries and the WTO: A Pro-Active Agenda* (Oxford: Blackwell, 2001), table 4. Some 45 per cent of the global gains from full liberalisation were estimated to accrue to developing countries, even though these countries conduct only 35 per cent of world trade. There are two reasons for their disproportionate gains: the fact that they have higher protective barriers to remove, and the fact that industrial countries de facto discriminate against them in granting market access. The study also concludes that poor households would gain the most, in terms of the proportionate boost to their living standards, in both rich and poor countries.

cent tariff cut could give developing countries a gain in the region of $90 billion to $155 billion a year[9]. It is extremely important that developing countries be given the opportunity to realise these gains. Although some panel members felt it was crucial that developed countries first rebuild confidence in the WTO by delivering on both the spirit as well as the letter of previous agreements, the Panel as a whole felt the best approach would be to initiate a new round of multilateral trade negotiations at the ministerial meeting of the World Trade Organization (WTO) planned for Qatar in November 2001. This should be truly a Development Round, and indeed that title has been widely suggested. The industrial countries, whose leadership will be indispensable in making a new round successful, will need to accept that the negotiations are centred on questions of concern to developing countries. They must enter the negotiations prepared to make substantive concessions on those issues; many developing countries might find it difficult to start negotiations without some assurance of such willingness. The Qatar ministerial meeting should set an objective of making trade as free between industrial and developing countries as it already is among the industrial countries.

A Development Round would need to deal with the following agenda:

- *Finishing the business of the Uruguay Round.* This means securing full implementation of the spirit as well as the letter of the commitments that industrial countries made in those negotiations. There is also a need to review regulations that developing countries have found either hard to implement or unexpectedly onerous.
- *Strengthening the rules of the WTO system.* This is of critical importance for developing countries, because it is the least powerful countries that most need strong rules. Anti-dumping rules, for example, are being increasingly abused and need to be disciplined by the international system.
- *Liberalising trade in agricultural products.* All analyses indicate that this would benefit developing countries. Of course, the implications of full liberalisation would be enormously greater for some products, like sugar, than for others. The real cost of producing sugar in developing countries is as little as a third what it is in some EU countries, but developing-country exports are kept out by an EU tariff of 213 per cent. Agricultural subsidies in the member countries of the Organisation for Economic Co-operation and Development (OECD) amounted to $361 billion in 1999, more than the entire GDP of Sub-Saharan Africa. The aim should be complete liberalisation of agricultural trade, with at most two qualifications. First, in the industrial countries, any concern to sustain the real income of the rural sector should be addressed by subsidies focused on environmental protection rather than agricultural output. Second, in developing countries, a continuing concern with food security may justify variable import tariffs when world prices are low, given that these countries cannot afford extensive farm subsidies.
- *Reducing tariff peaks and tariff escalation.* Even after the Multi-Fibre Arrangement has been phased out under the Uruguay Round agreement, the average tariff on textiles and clothing in OECD countries will be 8 per cent, compared with 3 per cent on other manufactures. For many other developing-country exports, market access is limited by particularly high tariffs or by tariffs that escalate with the degree of processing. This prevents developing countries from producing higher-value products and moving up the development ladder.
- *Reforming trade-related intellectual property rights.* This was a topic covered for the first time by the multilateral trade regime in the Uruguay Round. But many developing countries have found it impractical to impose and enforce state-of-the-art intellectual property laws on the model prescribed in the WTO agreement. Furthermore, some of the results, such as the high cost of HIV/AIDS medicines and other patented pharmaceutical products in poor countries, have aroused much anxiety. This whole question needs to be re-examined, with a view, among other things, to seeking ways to increase the availability of low-cost medicines without unduly affecting the incentive to innovate and introduce new products.
- *Legitimating limited, time-bound protection of certain industries by countries in the early stages of industrialisation.* However misguided the old model of blanket protection intended to nurture import substitute industries, it would be a mistake to go to the other extreme and deny developing countries the opportunity of actively nurturing the development of an industrial sector. A requirement for international approval of such

[9] Joseph Francois, 'The Economic Impact of New Multilateral Trade Negotiations: Final Report', Report for DG-II of the European Commission, May 2000.

protection could be a help to the governments of developing countries in resisting excessive demands from their domestic lobbies (and from multinationals considering local investment).

- *Taking a new look at liberalising migration*. The time may also be ripe to start seeking some measure of international agreement on 'the movement of natural persons', meaning rules governing short-term overseas employment, which could provide an even larger source of foreign exchange for developing countries than in the past.

This list is not intended to suggest that a new trade round should be limited to these topics. Some Panel members believe that the gains to all countries could be even greater if a new round also includes services. Rather, the purpose of the list is to identify those topics that must not be omitted if developing countries are to be fully included in the world trading system on an equitable basis.

One issue that has impeded agreement on the launch of a new round is the use of trade sanctions to promote labour or environmental standards. These topics are best dealt with by developing the international institutions specifically focused on labour and the environment, as discussed in section 5.

In recent years trade liberalisation has often occurred on a regional rather than a global basis. Regional agreements can be a constructive way of advancing more liberal trade and are often of special importance for small countries, but it is important to make them building blocks of, and not stumbling blocks to, a global free trade system. Such agreements should be fully WTO-consistent, and their pursuit should not become an excuse for delaying multilateral liberalisation.

Trade rounds take a long time to reach fruition. The problems of the least developed countries cannot wait that long. Some initiatives have already been taken to strengthen their trading position. The WTO, the World Bank, the International Monetary Fund (IMF), UNCTAD, the United Nations Development Programme, and the UNCTAD- and WTO-sponsored International Trade Centre have jointly launched an 'Integrated Framework' designed to build up the capacity of the least developed countries for trade negotiation and to assist their export diversification. The extent to which countries are able to take advantage of improvements in market access obviously depends on a range of supply-side factors, many of which are covered by the discussion of domestic policies in the previous section. In the case of many least developed countries, these problems are so acute that it is right for the international community to give some immediate help in capacity building. The Trust Fund that has been established to support the Integrated Framework will do just that. It deserves generous financing.

The WTO has also tried to shame the industrial countries into improving market access for the least developed countries. New Zealand and Norway have already opened their markets completely. The United States has responded with its special programmes for Africa and the Caribbean, which have received congressional approval and are now being implemented, although unfortunately with limitations that are liable to curtail their value. The European Commission proposed that the European Union phase out all quota and tariff restrictions on imports of everything but arms from the least developed countries over 2002 to 2004. That proposal was approved in the Council of Ministers in February 2001, although with regrettable delay in giving unrestricted market access in bananas, rice, and sugar. It is important to secure faithful and prompt implementation of this commitment and to obtain actions at least as good from all other industrial countries. An immediate and useful step would be to implement without further delay all Uruguay Round concessions affecting the least developed countries, provided, of course, that such concessions not be allowed to substitute for overall liberalisation.

Many of the poorest countries still remain overwhelmingly dependent on primary commodities for their export revenue. In fact, more than 50 developing countries, including about two-thirds of the HIPCs, depend on three or fewer commodities for more than half their export earnings. This exposes them to two problems. One is that over the long run the prices of these goods have tended to fall in real terms, making it increasingly difficult for producers in these countries to earn a decent living and for the countries to buy the imports they need to grow. The other is that both the producers and their countries are buffeted by strong cyclical pressures, because commodity prices often vary sharply with the state of global demand.

It is difficult to imagine how the first problem could be resolved by direct intervention to support prices. International commodity agreements have occasionally managed to hold up prices for a few years. But such success has invariably attracted additional producers and dampened demand until the agreement finally collapsed, leading to adjustments even sharper and more painful than would have been experienced in a free market. At the root of the problem is that, under current circumstances, any rise in commodity prices spurs a rush of new entrants hoping to scratch out a living by supplying the world market, even if at a starvation wage. The problem will be overcome only when development has proceeded far enough to make such desperate behaviour unnecessary.

There is also a long history of attempts to reduce the cyclical variability of commodity prices, or at least to reduce its impact. Although some modest initiatives, such as the IMF's Compensatory Financing Facility, have been useful at the margin, none of the grand proposals floated, from Keynes onward, has ever secured agreement. Even commodity agreements that did not aim to hold prices permanently above their market-clearing levels have eventually collapsed. It is regrettable that the Compensatory Financing Facility was scaled back in the 1980s. It deserves to be restored and improved.

One interesting new approach for making a limited assault on the problem is a scheme for commodity risk management in developing countries[10]. This new initiative differs from its predecessors in two key respects. First, it makes no attempt to stabilise market prices, but rather focuses on the price received by the individual producer. Second, although it envisages the creation of a new intermediary within some international organisation to operate the scheme, this intermediary would reinsure its contracts with private sector insurers, so that the terms it offered would be essentially those being quoted by the private sector. The job of the intermediary would be to make these terms widely available to poor farmers and other producers in developing countries who now lack access to private insurance.

The proposed intermediary would sell insurance to producers on the prices of at least the 12 principal commodities exported by developing countries. Aid resources could be used to pay a part of the premium costs of poor producers, provided the eligibility criteria are unambiguous; producers with incomes above that threshold would be required to cover the costs. Since the intermediary would quote premium rates based on going rates in the commercial markets with which it would reinsure most of its risk, it would be largely risk-free.

How useful would such a mechanism be? It is important to be clear that it would not claim to *stabilise* prices received by producers, but rather to give them advance assurance of the minimum price that they will receive. This would be of special value to farmers with a choice of annual crops. They would be better able to decide which crop to sow if they knew, at planting time, the minimum price they would eventually receive for each alternative crop. The scheme would only stabilise the incomes of other producers (such as those harvesting coffee and other tree crops) to the extent that they would make claims on their insurance when times are bad and not when they are good. As world market prices fluctuate, so would the guaranteed minimum price that could be bought for a given insurance premium. Although the potential benefits of such a scheme are fairly modest, it would be worth initiating one promptly, at least on a trial basis.

In contrast to the many initiatives over the years to liberalise trade, and more recently to free capital movements, there has never been any comparable initiative to free the movement of persons between countries. In the light of demographic developments in the industrial countries (in particular, the ageing of their populations) and the potential benefits of migration in generating remittances to developing countries, the time has come to put this issue on the international agenda.

The increased trading opportunities called for in this section would create the chance for many more developing countries to enter the virtuous circle of export-led growth. These better market opportunities would need to be supplemented by strong support for capacity building and efforts to limit the havoc wrought by weak

10 See www.comrisk.net/itf/index.htm.

commodity prices. Only then will trade fulfil its potential in helping the poorest countries achieve the International Development Goals.

3: Private Capital Flows

The bulk of the saving available for a country's investment will always come from domestic sources, whether that country is large or small, rich or poor. But foreign capital can provide a valuable supplement to the resources a country can generate at home. Nowadays, large sums of capital cross national borders in the form of foreign direct investment (FDI), and the international capital markets constitute a further vast pool of funds on which countries can draw. For the world's middle-income countries, the potential of these resources far exceeds what will conceivably be available from public sector resources. And even poor countries can hope to draw on FDI, although on average they attract less of it (relative to GDP) than middle-income countries. The extent to which FDI bypasses smaller and poorer countries is often exaggerated; many countries that are either small or poor, or both, have high ratios of FDI inflows to GDP[11].

Foreign Direct Investment

The dramatic expansion of FDI into developing countries during the past decade is due in part to the improvements in the climate for investment that many of these countries have achieved. In a growing number of countries, a long-held suspicion of foreign investors has been replaced by a welcoming attitude, as countries became more aware of the access to markets and modern technology, as well as capital, which FDI brings. Another attraction is that flows of FDI are less susceptible to sudden reversal than flows of short-term portfolio capital, as the Asian crises recently demonstrated.

FDI may be attracted by several factors: the opportunity to develop natural resources, the attractiveness of a country as an export platform, or the wish to produce locally as the most profitable way to supply that country's domestic market with the particular products that a multinational sells worldwide. But in every case the investment climate is also a major factor in deciding whether to invest. Investors want political stability. They want assurance that the rule of law prevails, so that the rules and procedures governing their operations will be stable and predictable, and freedom from corruption. They seek skilled work forces and efficient infrastructure. They also need assurance that their investments will be safe against arbitrary expropriation, and they value an international mechanism for settling disputes with host governments, such as that provided by the International Center for the Settlement of Investment Disputes at the World Bank.

FDI is also more likely to take place when the host government is prepared to make a commitment to national treatment, that is, to treating foreign investors and their investments no less favourably than domestic investors. Other important conditions include transparency in government policy; provisions for the free transfer of capital, profits, and dividends; willingness to allow temporary residence for key personnel; and the absence of performance requirements. Of course, in extreme circumstances, countries may need to make exceptions to protect their national security, to safeguard the integrity and stability of the financial system, or to respond to a balance of payments crisis. And national treatment does not mean special treatment: foreign investors should not be exempted from domestic laws governing corporate and individual behaviour, nor should the authority of domestic courts, tribunals, and regulatory authorities over foreign investors and their enterprises be curtailed.

[11] In a study of 132 countries, the rank correlation coefficient between the size of FDI inflows (as a percentage of GDP, averaged over 1997-99) and 1999 GDP per capita was 0.42; that between FDI inflows and total 1999 GDP was only 0.08. China, although viewed by many as a major host of FDI, ranked 38th among these countries in terms of the ratio of FDI to GDP. Brazil ranked 47th, behind 4 countries of Sub-Saharan Africa. It is still true, however, that the majority of African countries attract relatively little FDI, and much of what does come is to the mineral sector.

Developing countries will need to continue to improve their attractiveness to FDI. This includes upgrading accounting and auditing standards and improving transparency, corporate governance, and the efficiency and impartiality of their administration, as well as their physical infrastructure. Actions like these, which will benefit the domestic private sector as well as foreign investors, are the right way to compete for FDI. The wrong way is to hand out tax concessions or erode domestic social or environmental standards in a race to the bottom. One of the roles that an International Tax Organisation could play is in disciplining competitive tax concessions, which end up mainly benefiting foreign investors rather than the host countries. These disciplines would need to apply to industrial as well as developing countries, since many industrial countries are now also engaged in tax competition to attract FDI.

The primary obligations of foreign investors, as of domestic corporations, are to obey the law and be economically effective. But there is also a widespread view that they have a responsibility to behave as good corporate citizens of the countries in which they invest. Those responsibilities are laid out in the Global Compact sponsored by the Secretary-General, to which companies are invited to subscribe. The Compact's nine principles include two dealing with human rights, calling on businesses to support and respect the protection of internationally proclaimed human rights and to make sure they are not complicit in human rights abuses. Four of the principles deal with labour standards, calling for upholding freedom of association and the right to collective bargaining, as well as eliminating forced labour, child labour, and discrimination. Three deal with environmental issues, calling for businesses to adopt a precautionary approach to environmental challenges, to undertake initiatives to promote greater environmental responsibility, and to encourage the use of environmentally friendly technologies.

The multilateral development banks (MDBs; these include the World Bank and the regional development banks) have for some time played a role in attracting FDI to developing countries through co-financing, through investment guarantees, and through the sponsorship of the International Center for the Settlement of Investment Disputes. Their contribution has been valuable, and there is a good case for enabling the MDBs to increase their catalytic role [12]. Many potentially viable infrastructure investment projects fail to get private sector financing because their returns are subject to political and regulatory risk—still often perceived as high in emerging markets that have not had time to build a credible track record. MDBs can provide partial risk guarantees to investors that will safeguard them against a host government reneging on pricing or performance agreements, as well as against expropriation and currency inconvertibility.

Portfolio Investment

Besides FDI, developing countries today can hope to benefit from inflows of portfolio capital from world capital markets. Without these flows, governments and the local private sector would not be able to reduce their cost of capital by tapping private foreign savings. It is for this reason that progressively more developing countries have been liberalising their capital account in recent years. But this has proved to be a mixed blessing. Although the infusion of capital in good years was quite substantial, in all too many cases the boom years soon gave way to a bust, marked by currency or banking crises, or both. Countries with large foreign debts, particularly short-term debts and private sector debts denominated in foreign currencies, proved vulnerable to crises, as herds of investors fled in panic. No one can claim that private financial institutions distinguished themselves by this boom-bust behaviour.

Recognition of the susceptibility of borrowing countries to financial crises led to international discussions to redesign the international financial architecture in ways that would reduce this vulnerability. One outcome has been an effort to strengthen financial systems in emerging markets. Another has been the design of standards and codes intended to codify best practice and improve transparency in a number of relevant areas: data provision,

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12 See the Report of the Commission on Multilateral Development Banks chaired jointly by Angel Gurria and Paul Volcker, 'The Role of the Multilateral Development Banks in Emerging Market Economies: New Policies for a Changing Global Environment', published in 2001.

prudential regulation and supervision of the banking system, accounting standards, corporate governance, and more. This is a welcome initiative, which should help emerging markets reduce the gap between their systems' present performance and best practice. There is, however, concern that developing countries are not being adequately involved in the design of these standards. And it is important that the IMF's Reports on Standards and Codes recognise that rapid implementation of these codes can be difficult and costly, and not make unreasonable demands about the speed of implementation. Abundant and efficient technical assistance is also called for, to help countries build the capacity to implement these codes.

The experience of financial crises has also led to a reconsideration of appropriate macroeconomic policies. The dangers of insecurely pegged exchange rates are now widely recognised. And although the long-term trend ought to continue to be towards progressive liberalisation of capital movements, it is important that liberalisation be phased in, and then only in appropriate circumstances. Liberalisation can safely proceed only gradually in pace with the capacity of the domestic financial system and when there is no serious macroeconomic disequilibrium, financial institutions are solvent, and an effective system of prudential supervision is in place. There may be occasions during capital surges when the introduction of temporary capital inflow taxes proves to be part of the least-bad policy mix. But some other forms of capital controls are unambiguously counterproductive, such as those that privilege short-term over long-term borrowing. And there is some evidence that controls intended to prevent capital outflows often have the opposite effect, of limiting net inflows, because investors are more willing to bring money into a country when they believe they will be able to take it out again when and how they choose.

These and other reforms can hope to reduce the frequency and severity of financial crises, but it would be unrealistic to suppose that they can eliminate crises entirely. Accordingly, the discussions of a new international financial architecture have also considered how to improve present arrangements for crisis resolution. For its part, the IMF has streamlined its emergency facilities, abolishing a number of windows that were little used while introducing two new facilities. One of these is the Supplementary Reserve Facility, which is designed to lend large sums quickly at high interest rates for relatively short periods. The other is a Contingent Credit Line, which allows preapproved countries to draw on emergency financing when a crisis strikes via contagion from other countries. Although the objective of this facility, of making substantial sums pre-emptively available to countries threatened by contagion, makes a great deal of sense, the fact is that no country has yet chosen to apply for this line of credit.

The most important outstanding issue in the discussions on a new international financial architecture concerns how to 'bail in' the private sector, that is, to secure the participation of private creditors in resolving crises by extending debt maturities. Everyone agrees that there could be circumstances when this would be necessary, given the massive amounts of foreign credit that can be withdrawn and the incentives for private creditors to run for the exits once confidence erodes. Keeping a lid on moral hazard also depends on the private sector knowing that it may be bailed in rather than bailed out. Some helpful elements of a solution can be delineated. Bonds ought to have collective action clauses, permitting a qualified majority of bondholders to approve changes in the payments clauses. Most bonds issued in London already have such provisions, but bonds subject to New York law do not. Other major industrial countries ought to join Canada and the United Kingdom in introducing such clauses into the bonds they issue, to ease the way for their adoption by emerging markets.

Important as it is to reduce the frequency and the costs of crises, it would be a Pyrrhic victory if crises were eradicated by killing the capital flows that create them. These flows can benefit both developing and developed countries: borrowing by developing countries allows them to accelerate their development, and lending by developed countries allows their citizens to place part of their savings in high-yielding assets and diversify their portfolios. Both therefore have an interest in allowing private investors in the developed countries to invest in emerging markets where the investors find that to their advantage.

Yet despite the liberalisation and globalisation of recent years, industrial countries still impose some quite important impediments to such investment. For example, many insurance companies in the United States are not free to invest in emerging market debt, because many of the individual states that regulate them prohibit this. Similarly, pension funds in many Continental European countries are effectively prohibited from buying emerging market equities. The draft Pensions Directive that has been presented by the European Commission to the European Parliament would change this, but has yet to be voted on. It is important that industrial countries remove such artificial constraints on investment in emerging markets, especially where the investors in question can be expected in their own self-interest to take a long-term view. And there is a danger that the new proposals for determining banks' minimum capital requirements, now under discussion by the Basle Committee on Banking Supervision, will make even bank loans prohibitively expensive to all but the most creditworthy developing countries[13].

Private capital cannot be expected to finance poverty reduction or human development directly. Nonetheless, it can be an important factor in promoting growth—or in precipitating crises. That is why it is important to achieve a substantial inflow of private capital, with much but not all of it in the form of FDI, to developing countries; and why it is important to reduce the crisis vulnerability of the system.

4: International Development Co-operation

Although the bulk of financial flows to developing countries are virtually certain to come from private sector sources in the future, international public finance retains four vital roles:

- It has a role in initiating development in lower-income countries. Most of these countries cannot expect to attract much private sector finance, and they should be discouraged from extensive commercial borrowing even if lenders are willing. This is the traditional role of official development assistance (ODA), and of lending by the MDBs. A particular focus for ODA in the next few years should be to help lower-income countries achieve the International Development Goals.
- It can help in coping with humanitarian crises.
- It can contribute to accelerating recovery from financial crises. The IMF is the lead international institution in this area. The MDBs can also play an important role in financing social safety nets and protecting access to basic social services during crises.
- It can play a role in providing global public goods, meaning goods and services whose benefits accrue to humanity in general rather than to the residents of any single country[14]. The principal global public goods include peacekeeping; the prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of chlorofluorocarbon emissions; the limitation of carbon emissions; and the preservation of biodiversity. The United Nations is responsible for peacekeeping; the World Health Organization and the World Bank are involved in combating contagious diseases; the research centres that comprise the Consultative Group on International Agricultural Research (CGIAR) deal with agricultural research; and the Global Environmental Facility deals modestly with the last three issues.

The world has a crucial interest in seeing these four roles funded on an adequate scale. A primary aim of the Financing for Development conference should be to secure adequate mechanisms to achieve this. In particular, every country that seriously pursues the International Development Goals should be assured that their achievement will not be thwarted by a lack of external finance.

13 Helmut Reisen, 'Will Basel II Contribute to Convergence in International Capital Flows?', paper prepared for the 29th Economics Conference of the Austrian National Bank, 31 May-1 June 2001, Vienna.

14 Pure public goods are both nonexcludable (the buyer cannot prevent others consuming them) and nonrival (one person's consumption of the good does not diminish that of others). These characteristics imply that no isolated, self-interested individual will have an incentive to pay for these goods: collective purchase is necessary. Similarly, no individual self-interested country has an incentive to pay for global public goods: collective international action is needed if they are to be supplied in appropriate quantity.

The Scale of Need

What would constitute adequate funding of these four roles of international public finance? Consider first the aim of preventing the International Development Goals being frustrated through a lack of finance. Estimating the cost of that objective does not imply reversion to the discredited view that one can always increase growth, or secure better education, or provide any other public service by pumping in more money. On the contrary, the evidence is now quite unambiguous that aid given the wrong way can harm a country's poor, even if it consists of grants and does not build up debt, by permitting the perpetuation of bad policies and by diverting resources to the inefficient or corrupt. But it is equally important to recognise that growth cannot take place unless there are resources to be invested, that children will not be educated unless teachers can be hired and paid, and so on. The policy and institutional environment needs to be there for aid to be worthwhile; but the evidence also says that, where they are right, aid can deliver. An example of the right approach is the Global Initiative agreed at the World Education Forum in Dakar in 2000. Developing countries agreed to develop National Education Action Plans by 2002, and donors agreed that no country serious about achieving the Dakar education goals should be thwarted by lack of external resources. What is needed is an estimate of how much aid would be necessary to achieve all of the 2015 targets *if* each of the lower-income countries puts in place the policies needed to make that aid worthwhile.

The appendix to this Report reviews the present state of the evidence on the costs of attaining the 2015 Development Goals, on the assumption that the recipient countries are doing what is necessary on their side. It notes that these estimates are not yet at all satisfactory, in part because such estimates ought to be built up from estimates for the recipient countries individually, and they have not yet started doing their homework on this costing. Table 2 summarises the partial and preliminary figures now available, which suggest that the cost of achieving the 2015 goals would probably be on the order of an extra $50 billion a year.

The second need for public sector finance is to respond to humanitarian crises. The global need for humanitarian aid has been vast in recent years, and, sadly, there is no reason to expect it to decline in the near future. At any point in the 1990s, more than 100 million people were living lives blighted by conflict or natural disaster[15]. The Red Cross has estimated that over the past 10 years the number of people affected by floods and high winds has increased by more than 300 per cent, possibly as a consequence of the climatic disruption resulting from global warming. Humanitarian assistance in recent years has run at about $4.5 billion a year, or some 8 per cent of the aid budget (and is financed out of ODA). About a third of this assistance is in the form of food aid. This has left some emergency situations tragically underfunded; for example, Eritrea in 1998 received less than $2 for every person affected by its emergency.

This is an area that cries out for a more systematic donor effort. Humanitarian aid at present is marked by extreme inequality and is heavily skewed in favour of particular countries and regions, usually those with high media visibility. There is a need for a long-term commitment by donors to fund humanitarian relief to a specified minimum standard, with a built-in burden-sharing mechanism, and with a specific line item in their contingency budgets to permit the funding of unexpected crises without diverting funds from elsewhere in the aid budget. Achieving a reasonable minimum standard might cost around $8 billion or $9 billion in a typical year, an increase of around $3 billion or $4 billion from recent spending levels. This would mean roughly doubling the financial component of humanitarian aid (holding food aid constant). Moreover, donors need to recognise that the rules for dispensing humanitarian aid are very different from those that should govern development assistance. Many emergencies occur precisely because the governments in question are not providing good governance: the appropriateness of humanitarian assistance needs to be measured in terms of lives saved, people protected, epidemics prevented, and foundations provided for rebuilding lives and communities. It will be a challenge to provide adequate humanitarian assistance without undermining the need to focus development assistance on those countries where it can be effective.

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15 The figure is from *Global Humanitarian Assistance 2000*, an independent report commissioned by the U.N. Inter-Agency Standing Committee for the co-ordination of humanitarian response.

The third need is for mitigating financial crises. The IMF regards its current resources as adequate for the tasks it is likely to be confronted with in the coming years.

Estimating the desirable scale of expenditure on the fourth need, the provision of global public goods, involves a lot of uncertainty. The Appendix to this Report also reviews estimates of the cost that would be involved in addressing these needs. It concludes that a serious attempt to meet them would be likely to cost something on the order of $20 billion a year, even if most of the costs of combating global warming remained on national budgets. It is good that worldwide concern about the supply of global public goods is at last awakening. But this concern carries with it a danger: that funds may be diverted from traditional development assistance to meet these needs. Rarely in recent years has the recognition of new needs led to new, additional funding; instead they have mainly been financed by cannibalising existing programmes. Indeed, estimates of the proportion of aid budgets already devoted to the supply of what are really global public goods run as high as 15 per cent. And often these activities benefit the donors more than the recipients. Given what is at stake in reversing the tendency toward polarisation of rich and poor in the world economy, this is dangerous. The answer is to separate development and humanitarian assistance from finance for the supply of global public goods, and to provide adequate funding for all three.

Although the figures presented above should be taken as indicating no more than orders of magnitude, those magnitudes are substantial. To summarise: Achieving the 2015 development targets may require an extra $50 billion a year. Humanitarian assistance needs an extra $3 billion or $4 billion a year. And seriously addressing the need for global public goods will require a budget of the order of $20 billion a year, compared with current spending of around $5 billion a year.

The HIPC Initiative

In retrospect, everyone welcomes the reduction in the debt burden on the world's heavily indebted poor countries that resulted from the campaign by a broad coalition of nongovernmental organisations under the banner of Jubilee 2000. The lowering of their debt should go part way towards achieving the desired increase in net financial flows to lower-income countries. The official estimate is that debt service will decline by $1.1 billion a year from what would otherwise have been paid, and by $2.4 billion a year from what would have been due. But at best, debt relief will offset only a small part of the estimated shortfall in ODA, and this suggests one reason why the question is still being posed as to whether debt relief has been pushed far enough.

When the HIPC initiative was first launched, in 1996, a number of very poor countries had built up high levels of debt, to donor countries and their export credit agencies and to the MDBs. Servicing that debt would have absorbed an unconscionably large proportion of those countries' fiscal revenue and foreign exchange receipts. In reality, not all of that debt service was paid. But even so, what should have been priority social expenditures, on education and health and so on, were being squeezed out by the need to service debts incurred in the past, sometimes with little to show for the borrowing. The result was a lose-lose situation. If the debts were not serviced, the debtors' reputation suffered, and with it their ability to access new credit, even trade credit. If they were serviced, it was at the expense of desperately needed spending. Given this situation, it was not too difficult to win agreement in principle that, despite the importance of the axiom that in general credit markets will function only if debt contracts are honoured,, debt reduction made eminent sense. Getting from agreement to actual delivery of substantial debt reduction, however, has taken a very long time. Some initial measures of debt relief were agreed in 1996, but these proved insufficient. An enhanced HIPC initiative was therefore agreed in September 1999. This revamped but maintained the conditions attached to debt relief, designed to ensure that the savings on debt service were in fact channelled into increased spending on growth-enhancing social programmes, while increasing the relief available.

In addition to the point of principle of whether circumstances justify overriding the normal presumption of the sanctity of debt contracts, three technical factors must be considered in appraising the desirability of debt relief. The first is who pays for it. In principle, it has always been said that the HIPC initiative will be paid for by additional ODA. Since ODA is undersupplied (as argued above), that is appropriate, provided that it actually occurs. But one must not take it for granted that this is necessarily the way things will work out. For example, it is sometimes argued that the MDBs could find the resources to forgive their claims by drawing on their reserves, but the question is whether this could be done without cost to their borrowers. Accountants have recently argued that their triple-A credit ratings could survive such use of the MDB reserves. This is doubtless true, but one would still have to anticipate a widening of the spreads on the MDBs' borrowing, and that is a cost they would have to pass on to their borrowers. These countries, in effect, would thus pay the bill for debt relief to the poorest. Presumably the MDBs have already tried to optimise the size of their reserves, balancing the benefit of being able to charge less to their borrowers against the benefit of being able to devote a larger part of their net income to development causes[16]. Perhaps they have got the calculation marginally wrong, but the presumption is that getting the MDBs to foot the bill for HIPC really amounts to getting other developing countries to pay.

But matters could be even worse. Suppose that debts owed to the International Development Association (IDA, the World Bank Group affiliate that lends on a concessional basis to low-income countries) were forgiven under the HIPC initiative, and that this were financed by cutting future IDA lending. In this case debt relief would be paid for by those low-income countries whose new IDA loans decline by more than their debt service payments. These would mostly be low-income, non-HIPCs such as Bangladesh. It is possible that some of these countries have been making more effective use of funds to reduce poverty than have the HIPCs. If so, debt relief would actually have a perverse effect on the global fight against poverty. This may be a worst-case scenario, but it would be wrong to assume that it could not happen. Who really pays for debt relief is a crucial issue.

It is not just how much more or less money countries get, and where it comes from, that is relevant in appraising the desirability of debt relief. There are two major reasons why, even if debt relief were offset one for one by a reduction in new aid receipts, it might still be a boon to the debtor. The first is that debt relief provides aid that is not tied to imports (of food, technical assistance, and so forth) from the donor country; such tying reduces the real value of much bilateral aid[17]. The second is that debt relief may release resources for spending on basic social services. This is because most aid is given as support for particular projects, whereas the payment of debt service pre-empts general budget resources, and a lack of these may squeeze higher-priority social expenditures. Moreover, this *ability* to increase spending on basic social services has been reinforced by the conditionality that has accompanied the HIPC initiative, which has a mandate to see to it that the savings from debt relief are indeed directed to such spending.

These considerations suggest strongly that the debt relief already given is to be welcomed. Donors have promised that they would finance that debt relief without cutting other ODA, which gives hope that most of the resources are, in the final analysis, really coming from the donors themselves. In particular, there is little reason to fear that other low-income countries have paid for it, inasmuch as the donors have promised to increase their subscriptions to IDA. Debt relief financed by bilateral donors resulted in the untying of aid. And, as already noted, debt service was so high that it was squeezing out what should have been priority social expenditures on education and health. It is difficult to see a downside to the enhanced HIPC initiative.

Debt campaigners have compared debt service payments still due with projected social spending and concluded that, in a number of the HIPCs, debt service will still exceed spending on education or health. Perhaps more important, they have also argued that some of the HIPCs remain unable to finance minimally adequate levels of social spending, and are for this reason unlikely to be able to achieve the International Development Goals. And

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16 For example, the World Bank already uses part of its net income to support the HIPC initiative, and it funnels funds to IDA, East Timor, the Palestinian Authority, and others.

17 One member of the Panel writes, 'A number of African Ministers of Finance will prefer to have $200,000 saving from debt service than $500,000 of ODA, because of inefficiency attached to ODA dollars, in the form of over invoicing… [and] expensive technical assistance (for the price of one European expert…one can hire 10 Indians or 5 Latin Americans). The food assistance (rice for example) is priced three times more than the market price!'

they have pointed to a new IMF/World Bank study on debt sustainability[18] to establish that many of these countries will still be vulnerable to adverse shocks (e.g., from commodity price declines or climatic catastrophes) undermining their ability to service their remaining debts. These considerations imply that not enough has yet been done to help the HIPCs.

A possible concern is that if a re-enhanced HIPC initiative, a HIPC3, were to be agreed but it was not substantially financed by increased ODA, then its main effect would be to redistribute aid between countries. In particular, a HIPC 3 would distribute more resources to countries that have built up high debts in the past, and the danger is that this could be at the expense of less indebted but equally poor countries. Insofar as aid is now being distributed rationally, taking into account both the prevalence of poverty and the presence of policies that make aid effective in reducing poverty, this would risk undermining the fight against poverty. In other words, while some Panel members believe that a further debt relief agreement would be an excellent step and all agree that it merits serious consideration, it would be essential that a HIPC3 be financed by strictly additional resources.

Official Development Assistance

ODA has long been the principal source of funds for financing development. The international community accepted almost half a century ago the principle that rich countries have a responsibility for helping poor countries get development off the ground. In 1969 the Pearson Commission formalised this by calling on donor countries to give at least 0.7 per cent of their GNP in ODA, a target that was endorsed by the United Nations and by many (but not all) donors. Yet only five countries—Denmark, Luxembourg, the Netherlands, Norway, and Sweden—have ever achieved the target, and they have continued to do so in recent years. On average, ODA as a percentage of donor countries' GNP was already falling when the international community first adopted the 0.7 per cent target, and it has continued to decline almost every year since then, at least until 1997. At $56 billion in 1999, it stood at only 0.24 per cent, on average, of the GNPs of the 22 members of the OECD's Development Assistance Committee (DAC). (Even if one excludes the United States, which never committed itself to the 0.7 per cent target, the average was only 0.33 per cent in that year.) Most donor countries have a long way to go before their citizens can take pride in having reached the target that their governments endorsed so many years ago.

One can draw some hope from the fact that a couple of donors have begun to increase the share of their budget they devote to aid, and that the aid effort has edged up since 1997. Nevertheless, even if the HIPC initiative is financed entirely by additional resources, rather than by diverting existing ODA, this alone will not prevent the 2015 goals being missed for lack of financial resources. Given the threat to the future of the rich world posed by the ever more glaring contrast between its wealth and the misery of the world's billion-plus absolute poor, the prospect of missing the 2015 goals for lack of maybe $50 billion a year is a matter of profound concern.

It would be unrealistic to expect any substantial increase in the volume of aid in the absence of widespread political concern in the donor countries with the issues to which aid is addressed. But perhaps the International Development Goals that arose out of the major conferences and summits of the 1990s, and which were strongly endorsed in the Millennium Summit Declaration, provide a foundation for rekindling political momentum behind the aid programme. The public in the donor countries need to be made aware of the goals, the stake that they have in achieving them, the resource costs of doing so, and the role of aid in their financing. This message needs to be conveyed particularly to the citizens of those countries that lag furthest behind the 0.7 per cent target. A Campaign for the Millennium Goals might track the progress being 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.

If the DAC member countries actually delivered ODA equal to 0.7 per cent of their GNP, aid would increase by about $100 billion a year. Despite the margin of uncertainty in estimating the cost of achieving the

18 IMF and World Bank, *The Challenge of Maintaining Long-Term External Debt Sustainability* (2001).

human development goals, this would surely be enough to provide every lower-income country that seriously pursues the 2015 goals with aid sufficient to avoid their attainment being jeopardised by a lack of external resources. It could pay for additional debt relief to deserving HIPCs. It would permit full funding of the Dakar Global Initiative on Education and of the programme now being developed by the Commission on Macroeconomics and Health to deal with the health crisis in Africa. It would permit the extra expenditure of perhaps $7.5 billion a year needed to achieve universal access to reproductive health facilities. It would allow the CGIAR centres to be properly financed. The problem is not finding worthwhile ways of spending an extra $100 billion, but persuading the politicians and the general public of the rich countries that these expenditures are not only morally compelling but a bargain investment in building a more secure world.

New and Innovative Sources of Finance

One response to the growing concern with securing an adequate supply of global public goods would be to seek new financial resources for the international community. Present expenditure on global public goods—around $5 billion a year—is financed from a wide variety of sources, and revenue from these cannot be expected to keep pace with the increasing perceived need. The Financing for Development conference should therefore consider the desirability of establishing an appropriate global source of funds, both to permit the adequate funding of global public goods and to pre-empt the danger that the aid programme will be further cannibalised to meet these needs. If a high yielding tax source were established, it might be possible to use some of the revenue to supplement ODA.

The candidate that has attracted the most attention is a currency transactions tax (often called a 'Tobin tax', after the economist and Nobel laureate James Tobin, who originally suggested the idea). This would be a "small" tax--something between 10 and 50 basis points (0.1 to 0.5 per cent) is often mentioned–imposed on all transactions in the foreign exchange market. Advocates claim two advantages for such a tax. The first is that, because the tax would fall most heavily on those taking short-term positions, it would deter short-term speculation and thus help stabilise exchange rates. The extra cost of the tax would be inconsequential for traders and long-term investors. The second alleged advantage is that, given the enormous turnover on foreign exchange markets, even a modest tax rate could raise huge sums. For example, a tax of as little as 10 basis points on the current trading volume of $1.6 trillion a day would yield about $400 billion a year.

Opponents of the tax have pointed to two practical difficulties as well as disputed both of the claimed benefits. One practical difficulty arises from the need to extend the tax base beyond the spot foreign exchange market to encompass all derivative instruments (such as futures and options) that might be used to undertake equivalent transactions. The problem would be how to achieve equivalent taxation of spot and derivative instruments, which would be necessary to avoid inefficient shifting from one to the other. A tax only on the value of the derivative contract would be too low to achieve equivalence, but one on the value of the underlying assets would be so high that it might wipe out these markets[19]. The other practical difficulty arises from the ease with which financial transactions can shift location, especially with current information technology and telecommunications. This means that such a tax would have to be implemented not just in the major financial centres, but worldwide. It is difficult to imagine that the necessary unanimity among all the world's countries and jurisdictions could be reached. Even if it were, financial engineers might succeed in creating new derivative instruments able to escape the tax net.

Critics have also argued that a currency transactions tax would be unlikely to contribute to stabilising the foreign exchange market. Advocates implicitly assume that most foreign exchange turnover not explained by trade or longer-term capital movements is engaged in speculation. Even if that were so, it is not clear that a tax of 10 basis points would do much to curb speculation. The fact is that the large and sudden shifts in capital flows characteristic of financial crises are driven by hopes or fears of gains or losses in the tens of percentage points, not a few basis points. In any event, it turns out that the advocates' assumption is wrong. Much of the turnover results from what is called 'hot potato' trading, where dealers shuffle positions around following an initial large foreign

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19 See Parthasarathi Shome and Janet G. Stotsky, "Financial Transactions Taxes", *Tax Notes International*, January 1996.

exchange transaction (for example, to finance trade) until a new short-run equilibrium portfolio position is established a few minutes later[20]. The typical margin on such deals is around 1 basis point. A tax of 10 basis points would therefore amount to a tax rate of about 1,000 per cent on these transactions. Rarely is it possible, even within a jurisdiction, to collect taxes that high: those subject to the tax usually find a way to avoid it.

Finally, even if an equitable basis for taxing spot and derivative transactions could be devised, even if all countries agreed to collaborate in imposing the tax, and even if the tax base were not eroded by the invention of new derivatives, the market could still be reorganised as a broker market. Foreign exchange traders would switch from acting as dealers, drawing on their own inventories of currencies to consummate transactions, to acting as brokers, bringing together buyers and sellers who then transact directly. The results would be a marginal inconvenience to those wanting to buy and sell foreign exchange, and an unknown but possibly drastic fall in the volume of transactions. It is not clear why there should be any reduction in speculation and volatility: indeed, by impeding price discovery, it has been claimed that such a tax could increase volatility.[21]

Critics have also queried the revenue-raising potential of a currency transactions tax. Here the critical question is how great the fall in trading volume would be upon introduction of the tax, especially if the market reorganised itself in response as a broker market. Admittedly, only a very drastic decline in volume would suffice to subvert the revenue-raising potential of such a tax, but some critics argue that such a decline cannot be ruled out.

In sum, the merits of a currency transactions tax remain highly controversial. The Panel believes that further rigorous study is needed before any definitive conclusion is reached on the feasibility and convenience of a Tobin tax. However, the Panel also believes that it is worth asking whether a currency transactions tax is really the only option, or whether other potential tax bases exist that might be harnessed to raise revenue to pay for global public goods.

In fact, a number of other suggestions have been advanced in the past. For example, it has been proposed that an international tax be imposed on use of the ‘global commons’, meaning the high seas, Antarctica, and outer space. The international community might, for example, impose a tax on seabed mining (if and when it starts), on ocean fishing, or on the launch of space satellites. None of these, however, seem likely to generate substantial sums in the near future. Other possibilities would be to tax various international transactions, such as international trade, air travel, or arms exports. The Panel did not judge any of these to be likely candidates for winning international agreement.

An alternative tax proposal that merits very serious consideration, if a global tax is considered desirable, also happens to be one that would create an incentive to increase the supply of an important global public good. The public good in question is the control of global warming, and the proposed tax is a tax on carbon emissions.

Scientific evidence has established, beyond all reasonable doubt, that the continued emission of carbon into the atmosphere will, on prospective trends, result in a significant rise in average global temperatures. No professional consensus has yet been reached on the likely magnitude of the costs of global warming, and therefore one cannot make an informed assessment of the optimal expenditure on restraining carbon emissions. Nonetheless, it has been clear for a long time that the threat deserves a policy response.

A carbon tax could take the form of a tax on the consumption of fossil fuels, at rates for each type of fuel that reflect its contribution to global carbon emissions. An agreement among countries that each would impose such a tax at or above some minimum rate would bring into play various economic incentives. The higher prices for carbon-based fuels would guide energy production to less-damaging sources, encourage consumers to economise on the use of carbon fuels, and raise the returns to scientific research in energy-saving technology. In the version of

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20 See Rich Lyons, *The Microstructure Approach to Exchange Rates* (Cambridge, Mass.: MIT Press, forthcoming).

21 Karl Habermeier and Andrei Kirilenko, ‘Securities Transactions Taxes and Financial Markets’, IMF Working Paper WP/01/51, May 2001.

the proposal being explored here, industrial countries would agree to transfer that portion of their tax receipts corresponding to the agreed base rate to the international organisations responsible for financing the provision of global public goods[22]. (Developing countries would be allowed to recycle all their tax receipts into their own economies.) One use of the resources thus generated would be to pay developing countries for actions that sequester carbon from the atmosphere, such as the preservation of forests or reforestation. This would make sense because the evidence is that sequestration will be a low-cost way of combating global warming for the next couple of decades. The balance of the tax revenue would be retained by the countries that collected it, allowing them to reduce fiscal deficits, cut distortionary taxes on effort (like income taxes), or increase worthwhile public spending.

The Financing for Development conference should consider whether or not to establish an international tax designed to generate revenue for financing the supply of global public goods. The international community should recognise a carbon tax as a promising possibility for this purpose.

Another promising approach to easing financial constraints on developing countries might be described as 'new and innovative' even though it is, in one sense, over 30 years old. That would be to revive the use of the Special Drawing Rights (SDR) created by the IMF in 1970. SDRs were invented for the purpose of providing a secular increase in the world stock of monetary reserves without requiring countries to run surpluses or deficits. Such imbalances force countries to incur costs in earning or borrowing reserves, while large deficits in reserve-issuing countries may threaten their financial stability. No allocations (that is, distributions) of SDRs to IMF member countries have been made since 1981, for several reasons. One is that industrial countries have perceived no benefits from receiving SDR allocations since the advent of full capital mobility and the increase in the SDR interest rate to the average short-term rate in the five largest industrial countries. These countries are now able to borrow on the international capital market on terms similar to what they would receive if they took an allocation of SDRs. Another reason is that any allocation other than in exact proportion to IMF quotas would require amendment of the IMF Articles of Agreement. This impedes the use of SDRs in ad hoc schemes intended to benefit particular groups of countries, or to prevent outlaw countries benefiting along with others. An example will illustrate how serious an impediment this is. The Fund agreed in 1997 to make a special, one-time allocation of SDRs designed to equalise the ratio of cumulative allocations to current quotas for all member countries; the required amendment to the Articles is still in the process of ratification four years later.

The cessation of allocations has severely prejudiced the interests of developing countries. Unlike the industrial countries, they are not in the happy position of being able to borrow additional reserves in the market on SDR-like terms, yet even so, many have sought to build up their reserves in recent years so as to diminish their vulnerability to crises. Developing countries now hold reserves of over $850 billion, close to $300 billion more than before the Asian crisis broke. The additional reserves not financed by current account surpluses have been borrowed on terms distinctly more onerous than they would receive on SDR issues; indeed, emerging markets are currently paying an average premium of about 8 per cent over U.S. Treasury bond rates. The result is a large flow of what is sometimes called 'reverse aid', which in the aggregate is not far short of the flow of conventional aid from the DAC countries.

The original intent of the SDR system was precisely to allow international reserves to be increased in line with countries' need, without imposing real costs on the average country. The IMF ought to resume SDR allocations so as to limit the real costs now being imposed on the average developing-country member. Now would be a good time to resume allocations, in that the original concern was not just with the cost to a typical country of having to earn or borrow a secular increase in its reserve holding, but also with the impact on the financial fragility of the country issuing reserves. For many years the latter was not much of a concern, but the unprecedented size of the U.S. current account deficit that has emerged, in part as the counterpart to this desire to build up dollar reserves,

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[22] This would also permit a compromise solution to the U.S.-EU dispute that arose when this topic was last discussed in an international forum, when the Europeans sought credit for the high energy taxes they already impose. The compromise would be for the Europeans to receive partial credit, while still paying the same international tax rate.

is now too large for comfort. Substantial SDR allocations might help to shrink the U.S. deficit while allowing other countries to continue to build up the reserves they feel they need to guard against financial crises.

Expenditure Issues

The Panel has been at pains to emphasise that it does not believe that problems can be solved simply by throwing money at them. How ODA is spent matters as much as how much is available to spend. And there are reasons for believing that aid has not been yielding as much value for money as it could, in part because of donors' actions.

One longstanding problem is that donors have not distributed their aid among countries in a way that maximises its impact in reducing poverty (or even in promoting growth). They have often used aid instead to advance their foreign policy objectives or to promote their own exports. These practices may have waned with the end of the Cold War and with efforts by the OECD to discourage countries from tying aid to exports. The latest available data (for 1998) show for the first time some sign that bilateral aid is being directed towards countries with high poverty and good policy environments[23]. This process should go much further, until the distribution of aid is determined overwhelmingly by the depth of poverty of the recipient country and the ability of its policy environment to support an assault on poverty.

Although the two traditional disfigurements to aid programmes may be on the decline, recent years have witnessed the growth of other problems. Donors have increasingly imposed a host of requirements on aid recipients concerning governance, official procurement practices, anti-corruption measures, macroeconomic discipline, the environment, social spending, gender equality, human rights, child labour, and so on. Worthy as each of these causes is individually, collectively they impose a crippling burden on the fragile political and administrative systems of most aid recipients. Donors have also tried to micromanage their aid programmes. The result has been technical assistance that uses home-country nationals to staff project implementation units that focus only on how the project being financed is functioning, and neglect the larger purpose of technical assistance in passing on skills that will permit replication of the project. As a result, the administrative costs of aid supply have escalated and now amount to some 5.4 per cent of the aid budget (not including the cost of technical assistance). And a lack of donor co-ordination has imposed serious transactions costs on aid recipients, whose ministers must devote an inordinate amount of time to satisfying phalanxes of donors instead of focusing on their country's problems. At the same time, countries in acute need, notably those where violent conflicts have recently been resolved, find that well-intended safeguards deny them access to aid.

The international community has begun to address these concerns. 'Ownership' and 'participation' are now buzzwords. The World Bank has introduced a Comprehensive Development Framework to help donors co-ordinate their support for a country's chosen strategy. The IMF has renamed its Enhanced Structural Adjustment Facility the Poverty Reduction and Growth Facility and has revamped it around the new vehicle of Poverty Reduction Strategy Papers (which the World Bank also plans to support via Poverty Reduction Credits), which present a country's own deliberated strategy for tackling poverty. These initiatives go very much in the right direction.

The question is whether they go far enough. As noted in the introduction, a new relationship between the donor community and Sub-Saharan Africa is needed if the prospects of that troubled region are to improve. The common pool proposal recently advanced by Ravi Kanbur and Todd Sandler might be capable of providing the basis for such a relationship[24]. Each potential aid recipient would elaborate its own development strategy, programmes, and projects, primarily in consultation with its own population but also in a dialogue with donors. It would then present its plans to the donors, who would, if the plans meet with their favour, put unrestricted

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[23] Paul Collier and David Dollar, *Can the World Cut Poverty in Half?* (Washington: World Bank, 2000).

[24] Ravi Kanbur and Todd Sandler, *The Future of Development Assistance: Common Pools and International Public Goods* (Washington: Overseas Development Council, 1999).

financing into a common pool of development assistance. This, together with the government's own resources, would finance the overall development strategy. The level of financing by each donor would depend on its assessment both of the strategy and of the recipient country's ability to implement the strategy and effectively monitor progress and expenditures. Donors' views would be made known to the country and to other donors during the dialogue leading up to the financing decision. However, earmarking of this or that donor's funds to this or that item, or specific donor monitoring and control of specific projects or programmes, would not be permitted to those donors that choose to participate. (A donor could not be forced to participate in such an approach against its will.)

This proposal is intended to provide a mechanism whereby aid recipients are made aware of the consequences of pursuing policies that the donor community judges unwise, while allowing their policymakers to economise on their time spent negotiating conditions. It would allow each recipient country to decide for itself what technical assistance it values receiving and who should provide it. It would eliminate the tying of aid to goods or services produced in the donor country, a practice that still encumbers nearly 30 per cent of all aid (and virtually all technical assistance) and has been estimated to reduce its value by at least 15 per cent. Only in May 2001 did the OECD countries finally agree to ban this practice, and even then only with qualifications. The proposal might also break the paralysis that seems to be creeping over aid programmes, as donors continue to pile on more and more prerequisites, many of which are individually compelling, but which collectively constitute a barrier that might prove formidable even in countries with strong governance.

The proposal would involve major changes in the way that aid is dispensed, and major changes always involve the danger that things will go wrong. One danger is that the donors might accept the letter but not the spirit of the proposal, and attempt to use the Consultative Group meeting at which they are supposed to make their views known to impose old-fashioned conditionality. Another danger could arise from the loss of donors' ability to supervise such things as environmental standards and procurement. Since few recipient countries have the capacity to police procurement as tightly as the MDBs do, for example, abuses can be expected to increase. This might upset elements of the donor community, particularly those most dedicated to the causes that the conditions were intended to address. For this reason the initial effect might be to reduce the quantity of aid, and hence some aid recipients might hesitate to endorse the proposal. But a part of ownership is the right to make mistakes, and the proposal is based on a conviction that countries cannot be expected to build up their own capacity as long as they are denied real responsibility. A new relationship with Africa will never be established if donors place safety first.

Adoption of the common pool proposal would put relations between donors and aid recipients on a new footing. But it is a proposal designed to deal only with the first of the four purposes of public sector finance identified at the beginning of this section, namely, to fund development in lower-income countries. The world also needs to finance the provision of global public goods, and it is desirable to draw a sharp distinction between the ways that funds are allocated for these two different purposes. Countries should essentially be allowed to decide for themselves how to spend money provided to them to spur their development, although they should expect to find money more forthcoming if they spend wisely. But money that is provided to finance the supply of global public goods needs to be spent on those goods, and it does not matter *where* it is spent so long as the goods are provided. The necessary regime is therefore very different from the common pool proposal. Funds should be extended in return for contractual obligations to provide the goods in question, and middle-income countries should be just as eligible as lower-income countries to 'bid' to provide them.

Moreover, developing countries should not, as a rule, be expected to borrow in order to finance the production of global public goods. By definition, they are undertaking this production for the benefit of humanity in general rather than just their own citizens, and so they will expect to receive grants rather than loans for this purpose.

There is also a case for supplying ODA to low-income countries on very concessional terms. The vast majority (approaching 90 per cent) of bilateral ODA is in fact already provided on a grant basis, the main exception being Japanese aid. In contrast, IDA disbursements still take the form of concessional loans. One way to reduce the probability that low-income countries will again become over-indebted, and therefore require a repeat of the HIPC

exercise, is to increase the concessionality of IDA loans. For example, these loans could have a term of 99 years and a grace period of 40 years. As a quid pro quo, there should be a moral obligation on countries that graduate from IDA borrowing to themselves become donors promptly once their income per capita rises to that of an industrial country. The importance of improved IDA terms should not be exaggerated, however. The bulk of the past debt problem of the HIPCs originated in export credits rather than ODA, and official export credit agencies in the industrialised world are now taking a more cautious attitude towards lending to such countries.
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It is unlikely that the 2015 International Development Goals will be achieved unless the Financing for Development conference agrees measures that will achieve a substantial increase in the flow of aid. This requires more than a renewed affirmation of the 0.7 per cent of GNP target. A public campaign is needed to persuade public opinion in those donors performing below the target that they have both a moral duty and strong self-interest in doing better. And aid should be progressively shifted to a common pool basis that will really put the recipient country in the driver's seat, with donors distributing their aid among recipients on the basis of good poverty reduction strategies and costed plans aimed at achieving the International Development Goals. Finally, consideration should be given to the desirability of establishing a separate income source, perhaps in the form of a carbon tax, to finance the supply of global public goods, so that aid programmes are no longer cannibalised for that purpose.

5: Systemic Issues

Although the structure of international economic governance has evolved in recent years, with the emergence of new bodies like the WTO, the Financial Stability Forum, and the Group of 20, these changes have hardly kept pace with the globalisation of the world economy. This may be one reason for the widespread perception that globalisation is responsible for the tragic and dangerous disparities between rich countries and poor. Many proposals aimed at modernising international economic governance have been advanced. This section seeks to identify those proposals whose adoption is critical either to improve the governance of existing institutions or to fill such gaps as remain.

Changes in Existing Institutions

Some of the biggest problems are to be found, perhaps unsurprisingly, in the latest recruit to the ranks of the major international economic organisations, the WTO. Part of the problem is simply the inadequacy of its budget, which, at less than $80 million in 2000, was a fraction of the $583 million at the disposal of the IMF that year. Cost-effectiveness is essential, but it should not become a threat to simple effectiveness. One service that the WTO ought to provide to its members, but presently does not, is legal aid to the smaller and poorer member countries. Such aid is needed when a country must mount a legal defence against, say, an unwarranted anti-dumping action by a much larger country[25]. To extend the range of such services it offers to its members, the WTO needs more money.

Like the General Agreement on Tariffs and Trade before it, the WTO works by consensus. The informal negotiations in the 'Green Room' that normally precede achievement of a consensus are conducted among a limited group of essentially self-selected countries. This process is now close to collapse, partly as a result of the increased numbers of countries involved, but mainly because the developing-country members have a far greater stake in the world trading system than they used to. Under the Uruguay Round accords, members can no longer pick and choose which of the negotiated agreements they will subscribe to—they are obliged to abide by all of them. Hence they cannot stand aside from the process of negotiation in any important area without endangering their interests. Many countries found after the Uruguay Round that they had accepted a series of obligations that had been developed without their participation, and which they would have great difficulty in implementing.

[25] See G. Helleiner, 'Markets, Politics, and Globalization: Can the Global Economy be Civilized?' Raul Prebisch Lecture delivered at UNCTAD, Geneva, December 2000.

There is a case for establishing a small steering group that can be delegated responsibility for negotiating consensus on future trade accords among WTO member countries. Such a group should not undercut countries' rights and obligations in the WTO, nor should it supersede the rule of decisionmaking by consensus. It need not involve proportional or weighted voting. Each member should retain the ultimate decision to accept or decline participation in trade pacts. Ideally, the composition of the steering group should be representative of the total WTO membership, and participation should be based on clear, simple, and objective criteria[26].

It was argued above that the issues of both labour and environmental standards need a stronger focus in the international arena than they presently have. In the case of labour standards, the most natural solution would be to strengthen the International Labour Organisation (ILO). The ILO should be quicker than it has been to condemn governments that violate its conventions, and it should be able to impose economic sanctions, perhaps in the form of fines, on persistent offenders. Reform of the ILO needs more careful thought than the Panel has been able to address to the issue; there is a case for convening another Panel charged specifically with developing concrete proposals for its reform. In the environmental domain, the sundry organisations that now share policy responsibility should be consolidated into a single Global Environment Organisation with standing equivalent to that of the WTO, the IMF, and the World Bank.

The IMF and the World Bank–the Bretton Woods institutions—play a key role in the world economy. The IMF has responsibility for monitoring and guiding countries' macroeconomic policies and, when guidance fails, managing the ensuing crises. The World Bank is the premier international development bank and profoundly influences the strategies that countries adopt to promote development. Yet in practice the operation of both institutions is often criticised. The Fund, for example, does very little to influence the macroeconomic policies adopted by its major members with a view to bringing the interests of the smaller countries to bear.

Conditionality is another perennial source of complaint from borrowing countries. The basic principles of Fund conditionality and of directing Bank lending to countries with a good policy environment are widely endorsed. But concerns are frequently expressed about the breadth of Fund conditionality, the perceived arrogance of its staff, the application of a one-size-fits-all approach to policies, and insensitivity to political realities. The current effort by the Fund to prune back conditionality to its macroeconomic core is welcome. Both the Bretton Woods institutions face a particular challenge in reconciling the concept of country ownership of policies and strategies, on the one hand, with that of lending only where the policy environment is favourable, on the other. Dialogue with the United Nations might be helpful in keeping the process from degenerating into one of simply lending to only those countries that claim to 'own' policies the Bretton Woods institutions are known to favour. Another possibility would be to use panels of 'wise men' drawn from the borrowing country's surrounding region; such groups played a useful role in the allocation of aid during the Alliance for Progress of the 1960s.

The importance of their mandates makes the governance of both Bretton Woods institutions a key issue. Both the IMF and the World Bank are governed under a very different voting structure from the one-country, one-vote arrangement that prevails in the United Nations. Both organisations instead have a system in which a country's voting weight (in both the governing board and, more important, the executive board) depends upon its quota, which in turn is determined (and periodically renegotiated) against the background of a formula that reflects the country's weight in the world economy. Some decisions require a supermajority vote, of either 70 or 85 per cent, in order to pass. This in effect gives the developing countries, acting collectively, a veto over such decisions. But the size of the United States' quota allows it to veto unilaterally any decision that requires an 85 per cent majority. This includes decisions to amend the Articles of Agreement as well as, most important, changes in quotas and allocations of SDRs.

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26 A formula for achieving this was suggested by Jeffrey J. Schott and Jayashree Watal, 'Decision-making in the WTO', IIE Policy Brief 00-2, March 2000. A very similar approach was advocated by the Jamaican Ambassador to the United States Richard Bernal in a letter to the *Financial Times* on 5 February 2001.

The practical impact of this voting structure is to place decisionmaking power firmly in the hands of the industrial countries (although the developing countries did use their collective veto once, in 1994). This has been a perennial source of criticism among those who regard the one-country, one-vote arrangement as more democratic. The question can, of course, be posed as to whether it is really democratic to give the same voting power to a country with a population of 100,000 as to one with a billion citizens. However, the standard objection to this proposal does not rest on a philosophical debate about what constitutes true democracy. Rather, it is that both organisations function because of the willingness of the industrial countries to commit substantial financial resources to them. It is a fact of life that creditors expect to control organisations in which they place money. Were the creditors reduced to minority voting status, the likelihood is that their support would be curtailed, which would emasculate the effectiveness of the Bretton Woods institutions. Acceptance of this reality should not, however, preclude the continuation of attempts to correct anomalies in their governance.

Creating New Institutions

The idea of creating new public institutions is strongly resisted in some quarters. It is certainly proper to question the need for new institutions, and to demand that a strong case be made before one is sanctioned. By the same token, it is proper to be sure that the case is convincing before any existing institution is closed. But to demand that the world work permanently with the set of institutions that it happens to have inherited from the past is to allow the forces of inertia a quite irrational weight in decisionmaking. In fact, there appears to be a prima facie case for creating at least two new international economic institutions.

The principal area of economic policy where international spillover effects are strong but no international organisation is yet charged with addressing them is taxation[27]. The tax systems of most countries evolved at a time when trade and capital movements were heavily restricted, so that enterprises operated largely within the borders of one country, and most individuals earned their incomes from activities in their home country. In this environment, the territoriality principle—governments have the right to tax all incomes and activities within their territory—provided an unambiguous rule as to which government was entitled to tax what. The tax policies of other countries were a matter of marginal concern to policymakers.

Matters are much less simple in today's globalised world. For example, under the territoriality principle, income from an investment in a country that is not the investor's country of residence could legitimately be taxed by either. The distribution of the right to tax the income of a multinational corporation with operations in many different countries depends today upon complex and in some respects arbitrary conventions. The taxes that one country can impose are often constrained by the tax rates of others: this is true of sales taxes on easily transportable goods, of income taxes on mobile factors (in practice, capital and highly qualified personnel), and corporate taxes on activities where the company has a choice of location. Countries are increasingly competing not by tariff policy or devaluing their currencies, but by offering low tax rates and other tax incentives, in a process sometimes called 'tax degradation'. And tax evasion is greatly aided where capital earns income in a country other than that where the taxpayer resides—a fact that sometimes provides a major motivation for capital flight.

All these considerations suggest an important role for an International Tax Organisation (ITO)[28]. At the very least, such an organisation could compile statistics, identify trends and problems, present reports, offer

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27 This is not to suggest that these issues are wholly neglected. The OECD deals with some of the matters that might be suitable for an ITO, but membership in the OECD is restricted. The United Nations and UNCTAD convene occasional expert groups on specific topics. The IMF provides technical assistance in tax administration.

28 Perhaps the most specific discussion of what an International Tax Organisation might cover is by Vito Tanzi, 'Is There a Need for a World Tax Organization?' in A. Razin and E. Sadka, eds., *The Economics of Globalization: Policy Perspectives from Public Economics* (New York: Cambridge University Press, 1999).

technical assistance, and provide a forum for the exchange of ideas and the development of norms for tax policy and tax administration. It could engage in surveillance of tax developments in the same way that the IMF maintains surveillance of macroeconomic policies. Going further, it might engage in negotiations with tax havens to persuade them to desist from harmful tax competition. Similarly, it could take a lead role in restraining the tax competition designed to attract multinationals—competition that, as noted earlier, often results in the lion's share of the benefits of FDI accruing to the foreign investor. Slightly more ambitiously, an ITO might develop procedures for arbitration when frictions develop between countries on tax questions. More ambitiously still, it could sponsor a mechanism for multilateral sharing of tax information, like that already in place within the OECD, so as to curb the scope for evasion of taxes on investment income earned abroad. Perhaps most ambitious of all, it might in due course seek to develop and secure international agreement on a formula for the unitary taxation of multinationals.

Another task that might fall to an ITO would be the development, negotiation, and operation of international arrangements for the taxation of emigrants. At present most emigrants pay taxes only to their host country, an arrangement that exposes source countries to the risk of economic loss when many of their most able citizens emigrate. The general introduction of arrangements analogous to those in the United States, which requires its nationals to pay U.S. taxes on their world-wide income regardless of where they reside, might be important in turning such a brain drain into a benefit to the source country. Without an ITO to help with enforcement, however, enactment of such legislation by most countries would be an empty gesture.

If an ITO were successful in curbing tax evasion and tax competition, there would be two consequences. One would be an increase in the proportion of a given volume of taxes paid by dishonest taxpayers and by mobile factors of production (like capital). Most people would consider this an unambiguous gain. The other would be an increase in tax revenue for a given tax rate. Governments could take advantage of the increased revenue by either increasing public expenditure, improving the fiscal balance, or cutting tax rates. The latitude to increase public spending would be welcomed by some but deplored by others, who may for that reason oppose the proposal.

The other major lacuna in existing international economic arrangements is the absence of any apex organisation with political legitimacy. This is a serious matter, given the need to confront the economic polarisation in the world noted at the beginning of this Report. The world needs an apex body with the ability to focus other international institutions on reducing economic insecurity as an essential condition for a politically more secure world. One of the key recommendations of the 1995 Commission on Global Governance was a new institution to address this need[29]. The commission argued (pp. 153-54) as follows:

> The international community has no satisfactory way to consider global economic problems in the round and the linkages between economic, social, environment, and security issues in the widest sense. The boundaries between issues of trade, competition policy, environment, macroeconomic policy, and social policy are increasingly blurred …global interdependence is growing, and traditional institutional arrangements no longer suffice. Political structures that can articulate a sense of common interest and mediate differences are not keeping pace … at a global level.

The commission concluded that what was needed to fill this gap was an Economic Security Council (ESC) within the United Nations. This body would have the same standing on international economic matters that the Security Council has with regard to peace and security. Its tasks would be to monitor the state of the world economy, to supervise interactions among the major policy areas, to provide a strategic framework for policy made in the several international organisations and secure consistency across their policy goals, and to promote intergovernmental dialogue on the evolution of the global economic system. Its recommendations would carry weight by virtue of the authority of those who participate in its deliberations, rather than from the power to make legally binding decisions. The commission envisaged two meetings of the ESC per year, one at the level of heads of government and one at the level of finance ministers, with a supporting infrastructure of deputies and a small

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29 Commission on Global Governance, *Our Global Neighbourhood* (Oxford: Oxford University Press, 1995).

secretariat. The commission emphasised that they did not foresee the need for any major new bureaucratic apparatus.

The commission maintained that an effective ESC would need to be small, by which they meant no more than 23 members. (This would preclude adapting the Economic and Social Council as an ESC.) They suggested that the world's largest economies, in terms of GDP measured on a purchasing power parity basis, should be represented as of right. Membership by these countries would be supplemented by a constituency system to provide balanced representation among regions and participation by some of the smaller states. One way of implementing this proposal would be for each of the five U.N. regional economic commissions to elect periodically one of their members to represent the smaller countries of the region. The commission also suggested, more tentatively, that regional organisations like the European Union, ASEAN, and Mercosur might participate on behalf of all their members.

The suggested model has its attractions, but it would be presumptuous and possibly counterproductive to set a particular design in stone before any meetings have occurred. A safer approach would be for the United Nations to convene a Global Economic Governance Summit on a one-off basis[30], with the possibility of it deciding to perpetuate itself as an ESC if the first meeting proved worthwhile. Its agenda would be focused on the operation of the multilateral system, and on evaluating the need for new global institutions and rules of the sorts that have been discussed in this section.

For all of their shortcomings, the major international institutions have played a positive role in supporting development over the past half century—a period that, as noted at the start of this Report, has witnessed human and economic development without parallel in world history. But recognition of what has been accomplished already should not obscure the magnitude of the task that remains. If progress is indeed to accelerate, as it must if the International Development Goals are to be attained, the international institutions need to adapt to reflect the ongoing process of globalisation. This means giving the WTO enough money to function effectively and a governing structure that offers the smaller countries a voice in determining the rules. It means giving the ILO some teeth and a willingness to use them. It means consolidating the sundry institutions with responsibility for environmental questions into a Global Environment Organisation. It means creating an International Tax Organisation. And it means at least considering the case for creating an apex institution in the form of an Economic Security Council.

[30] This idea is developed in Peter D. Sutherland, John W. Sewell, and David Weiner, 'Challenges Facing the WTO and Policies to Address Global Governance', in Gary Sampson, ed., *The Role of the WTO in Global Governance* (Tokyo: United Nations University Press, 2000), also available at www.odc.org/commentary/wtorpt.html.

Appendix: Costing Global Policy Objectives

International Development Goals

Several slightly different versions of the International Development Goals have been promulgated by different bodies. The version on which attention is focused here is that embodied in the Millennium Declaration issued by the General Assembly in September 2000, which is described in the introduction to the Report.

The first goal was described as 'halving the proportion of people living in extreme poverty, the hungry, and those without access to safe drinking water'. It seems reasonable to suppose that extreme poverty and hunger go together; halving one would more or less halve the other. Two recent studies provide a reasonable basis for estimating the cost of reducing world poverty by half.

The first is an UNCTAD study[31], which suggests that such a goal would require additional aid of about $10 billion a year to increase economic growth in Africa to 6 per cent a year, on the assumption that all countries make themselves eligible by adopting policies that merit support. That figure would need to be at least doubled to allow for a parallel effort in the lower-income countries outside of Africa. This yields a figure of $20 billion a year, over and above current spending, as a minimal order-of-magnitude estimate of need.

The second study is a recent World Bank study that examined the feasibility of achieving the goal of halving world poverty by 2015 (using the headcount measure of poverty and a poverty line of $2 per day in 1993 purchasing power parity dollars)[32]. It concluded that, in the aggregate, this target could well be achieved, because even on present trends Asia looks likely to more than halve its poverty by that date. But the study also concluded that the outlook for halving poverty is poor in all other regions, and that poverty in Sub-Saharan Africa could be expected to decline only modestly, from 72 per cent in 1996 to 64 per cent in 2015 (again using the $2 a day poverty line). A combination of three actions will be needed if Africa is to come close to halving its poverty. First, African countries will need to improve their policies to at least the level of present policies on the Indian subcontinent. Second, donors will need to allocate their aid more efficiently, focusing it on countries where poverty is rampant and policies are good enough to make aid effective. Third, donors will need to increase their aid. The short-run increase in aid implied by this scenario is again some $10 billion for Africa.

Other work under way at the World Bank appears to indicate that aid to IDA-only countries would need to double, from $15 billion to $30 billion a year, to achieve the 2015 goal of halving acute poverty. Because many very poor people live in non-IDA-only countries such as India and Pakistan, this again points to a need of at least $20 billion a year.

Assuming costs and the mix of services similar to the current mix, work done by the Global Water Partnership estimates that it would cost $30 billion a year over the next 25 years to provide universal water supply and basic sanitation (without treatment). The Water and Sanitation Collaborative Council has estimated that very basic universal coverage could be provided for $9 billion a year over 25 years. These estimates suggest that getting half way there over the next 13 years would cost something between $10 billion and $29 billion a year, depending on the level of services to be provided. Current spending is running at over $25 billion a year, implying that additional expenditure should not be needed to achieve this target.

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31 UNCTAD, *Capital Flows and Growth in Africa* (New York and Geneva: United Nations, 2000). The estimate in the text departs from the UNCTAD estimate in not assuming that a part of increased aid would leak into capital flight and reserve build-up.

32 Paul Collier and David Dollar, *Can the World Cut Poverty in Half?* (Washington: World Bank, 2000).

Estimates of the cost of achieving some of the human development goals are even less well explored than that of a halving of poverty. UNICEF has estimated that achievement of universal primary education by 2015 would require additional spending of some $9 billion a year[33]. Achieving gender equality might add a further $3 billion to that sum. These estimates are based on the simple assumption that increased public spending on a given social service translates into proportionately increased provision of that service, or, in other words, that marginal cost is equal to average cost. That may not be an inappropriate assumption for education, but it would be a terrible assumption if used to estimate the cost of cutting infant mortality by two-thirds and maternal mortality by three-quarters (it would imply that less than $3 billion a year would suffice). The problem is that the main variables impacting mortality rates are not public health expenditures. At present there is no reasonable basis for costing these goals.

The Secretary-General has presented an estimate that the cost of halting and reversing the spread of HIV/AIDS is on the order of $7 billion to $10 billion a year. It appears that no one has yet attempted to quantify the cost of providing special assistance to AIDS orphans.

The World Bank's Cities Without Slums Action Plan estimates the cost of slum upgrading at approximately $500 a person, which implies total expenditure of around $50 billion to improve the lives of the world's 100 million slum dwellers. To that one might need to add preparation costs of $500 million to $1 billion. Spread over 13 years between now and 2015, that implies expenditure approaching $4 billion a year.

It is clear that our present knowledge does not suffice to put a convincing price tag, even a rough one, on the cost of meeting the human development goals. Individual countries have not yet started to estimate the costs of meeting the goals, as they need to do if credible worldwide estimates are to be made available. However, a group of researchers from international organisations and national governments met in March 2001 to begin addressing the issue[34], and it seems likely that some more authoritative figures will be produced in the coming months.

The partial figures presented above suggest that such a sum is bound to be large; a best guess might be that it would be on the order of $30 billion. Not all of this would necessarily be in addition to the extra $20 billion needed to halve world poverty. For example, an efficient programme to achieve the poverty reduction target would probably include much of the extra spending in the $12 billion needed to achieve the education goals. And faster growth is likely in itself to help reach the human development goals. On the other hand, this estimate does not allow for the fact that the marginal cost of supplying some services to more scattered populations will probably exceed the average cost of those already supplied. There is also the problem posed by the loose relationship between public spending and service delivery, which reflects the fact that achievement of the 2015 human development goals depends crucially on the efficiency of service delivery as well as the availability of money. Thus the figure used in the text of this Report, a total of $50 billion a year, should be interpreted only as indicating an order of magnitude; but there is no doubt that the magnitude is substantial.

Global Public Goods

The Report argued that there is a strong case for international financing of global public goods, and it identified the goods that fall in that category as peacekeeping; the prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of chlorofluorocarbon emissions; the limitation of carbon emissions; and the preservation of biodiversity. The task undertaken in the following paragraphs is to provide a rough estimate of the desirable scale of expenditure on these goods. The exercise is certainly one that involves a lot of uncertainty.

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33 Enrique Delamonica, Santosh Mehrota, and Jan Vandemoortele, 'Education for All is Affordable: A Minimum Cost Global Estimate', UNICEF Staff Working Paper, January 2001.

34 *A Report on the Seminar on International Development Goals*, World Bank, April 2001.

The cost of peacekeeping fluctuates from one year to the next, but in a typical year it has been costing about $1 billion.

The Secretary-General has estimated the cost of dealing with the HIV/AIDS epidemic at $7 billion to $10 billion a year. He is initiating the creation of a Global Fund for HIV/AIDS and Health, aimed at raising that sum of money plus another $2 billion a year to supplement the fight against TB and malaria.

The cost of developing vaccines can run into the billions of dollars, but at the moment there is little being done to develop vaccines of relevance specifically to developing countries, because these countries lack the purchasing power to buy the vaccines even if they were available. The Panel endorses the suggestion that donors should establish a Vaccine Purchase Fund, to guarantee substantial purchases of vaccines if these are developed. Such a fund would provide an incentive to undertake the necessary research. Estimates of its ideal size span a wide range, roughly from $1 billion to $6 billion a year.

The Consultative Group on International Agricultural Research (CGIAR), some of whose centres played a key role in nurturing the Green Revolution of the 1950s and 1960s, spends some $330 million a year on research into crops of relevance to developing countries. The rate of return on its activities is estimated to be very high (although the range of estimates is wide), and the primary beneficiaries are poor farmers; nonetheless, its budget has been squeezed in recent years.

Control of chlorofluorocarbon emissions has proved not to be as expensive as at one time feared, and most of the costs are borne by individual industrial countries; the cross-border cash payments designed to compensate developing countries for joining the curb have amounted only to some $1.2 billion so far.

Limiting greenhouse gases will be an altogether more costly undertaking, if and when any serious effort is made in this direction. Since the scientific evidence needed to estimate the optimal restraint on greenhouse emissions is not yet available, it is not possible to estimate the cost of an optimal programme, but there is little question that it would be high. The bulk of those costs would fall on individual countries, and the main problem will be to allocate the burden fairly among them. But it is also likely to be desirable to devote substantial sums to pay some countries for undertaking activities that sequester carbon from the atmosphere.

Finally, regarding biodiversity, there appear to be no estimates available of the cost of mounting a serious effort to stem the continuing loss of plant and animal species, but that, too, would surely run into the billions of dollars each year.

This brief review suggests that desirable spending on global public goods is certainly substantially greater than $10 billion a year. A best estimate is that it may be of the order of $20 billion a year.

Table 1

Global Progress in Economic and Human Development, 1950-2000

Item	*1950*	*1998 or 1999*
Average income per capita (1990 dollars)[a]		
World	2,114	5,709
Developing countries	1,093	3,102
Average longevity (years)		
World	49	66
Developing countries	44	64
Share of population living on less than $2 a day (per cent)		
World	63	40[b]
Share of population living on less than $1 a day (per cent)		
World	42	17[b]
Developing countries	n.a.	26
Share of population literate (per cent)		
World	54	79
Developing countries	40	75
Infant mortality (deaths per 1,000 live births)		
World	156[c]	54
Developing countries	179[c]	59

Sources: Angus Maddison, *The World Economy: A Millennial Perspective* (Paris: OECD, 2001), pp. 31, 126; F. Bourguignon and C. Morrison, *The Size Distribution of Income among World Citizens 1820-1990* mimeo, 1999); World Bank, *World Development Report 2000/2001* (New York: Oxford University Press, 2001); UNESCO, *World Illiteracy at Mid-Century* (Paris, 1957) and *Education for All Year 2000 Assessment* (New York, 2000); World Bank *World Development Indicators* (Washington, 2001); United Nations, *World Population Prospects: The 1996 Revision* (New York, 1997).

a. At purchasing power parity.
b. In 1992.
c. In 1950-55.

Table 2

Estimates of Additional Annual Costs for Achieving the 2015 International Development Goals

	Billions of dollars
Halving poverty and hunger	20
Halving population without access to safe drinking water	0
Achieving universal primary education	9
Achieving gender equality in primary education	3
Achieving three-fourths decline in maternal mortality	No estimate
Achieving two-thirds decline in under-five mortality	No estimate
Halting and reversing HIV/AIDS	7-10
Providing special assistance to AIDS orphans	No estimate
Improving lives of 100 million slum dwellers	4
Total cost (approximate)	50

Source: Appendix to this Report.