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Political economy of additional development finance

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Political Economy of Additional Development Finance

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Abstract

The paper considers the political obstacles and supports for additional development finance and a number of possible devices through which advantage may be taken of the supports and the obstacles circumvented. It emphasizes the need for effective negotiating alliances among developing-country governments that will draw on support from outside their own ranks. It gives particular attention to the ‘innovative’ methods by which funds might be mobilized by transnational activity for global disposal within a strategy for the progressive reduction of poverty. In order to eliminate one difficulty it outlines a possible arrangement through which funds so raised might be allocated.

Keywords: development finance, aid, Tobin Tax, global governance

JEL classification: F41, O16, N25

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Acronyms

AIDS	acquired immune deficiency syndrome
ARV	anti-retro viral
BWIs	Bretton Woods Institutions
CTT	currency-transaction tax
ECOSOC	Economic and Social Council, United Nations
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter American Development Bank
IFC	International Finance Corporation
IFF	international finance facility
ILO	International Labour Organization
IMF	International Monetary Fund
ISPs	internet service providers
MDGs	Millennium Development Goals
NGO	non-governmental organization
ODA	overseas development assistance
OECD	Organization for Economic Cooperation and Development
SDRs	special drawing rights
TRIPS	Trade-Related Aspects of Intellectual Property
UNDP	United Nations Development Programme
WTO	World Trade Organization

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INTRODUCTION

The world needs more ‘development finance’ in order to facilitate faster growth in the economies of low- and middle-income countries and for attending to the shorter-term basic material-welfare needs of poor people in poor countries. There are many purposes counting as urgent from a humanitarian point of view that depend on extra funding: vaccination, essential medicines, dehydration doses, clean and accessible water supplies, sewerage, teachers’ pay, teacher training, emergency food stocks, and with all the transport and skills and administrative infrastructure to bring these benefits to fruition. And this is to take no account of the relevance of much of the same infrastructure, or of the immediate welfare benefits themselves, to economic growth and to the increased material capacity that these in turn will bring.

Extra development finance may come, first, as *extra ‘own-resources’*: in the form either of *enhanced ‘own-revenue’* for the governments of developing countries, or of *enhanced personal disposable income* for those of their citizens likely to spend part of the addition on enlarging their productive capacity or ministering to the urgent needs of their families or communities. It may come, second, from *voluntary donations*, directly or through non-government organizations (NGOs). It may come, third, in the form of *Official Development Assistance (ODA)*, either bilaterally (government-to-government) or in the form of payments from governments to international institutions. Fourth, it may in principle come from the *activities of international institutions themselves*, or from *taxes imposed by agreement on resources or activities that are held to be international in character*, or from *taxes or comparable levies that depend for their collection on international cooperation*, so that in each of those cases the funds generated do not appear to belong naturally to any state or private person. Resources coming in any of these last ways may be called *global-provenance funds*. Genuine possibilities exist for realizing finance in this fourth form, but their exploitation would raise the question of who would determine the disposal of the funds so generated.

The Sachs Report (UN 2005) on strategy to achieve the Millennium Development Goals (MDGs) is concerned with action on a wider front than aid in these senses. And, over aid itself (in the sense of the third and fourth categories in the preceding paragraph), it adopts a selective approach, advocating heavy concentration on those recipient countries geared by the character of their governance to make good use of the resources provided. Even so, it advocates increasing aid provided by high-income countries from around 0.25 per cent of donor national income in 2003 to around 0.44 per cent in 2006 and 0.54 per cent in 2015. Millennium Project personnel calculate the difference between total ODA needs and existing annual commitments as US\$48 billion in 2006, US\$50 billion in 2010, and US\$74 billion in 2015.

This paper is concerned with any potential sources of additional development finance that have an international dimension: that depend on some form of cross-national activity.

The underlying question in the paper is how political forces might be more effectively mobilized to secure, and effectively to use, additional development finance. The paper comes in three parts.

The first part considers the bearing of political arrangements and strategies on the opportunities for increasing development finance through cross-national activity. It looks at types of political strategy or presentational device that might enable additional funds to be released; the obstacles that this enterprise faces; the bodies that are potential allies in its pursuit; some sources of funds that might be realized by exploiting potential support and attacking soft targets; and what particular tactics may be helpful or necessary for securing these funds.

The second part considers specifically how to deal with any large sources of funds that are recognized as being international in nature and not naturally the property of any state or person—the *global-provenance funds*—together with any other sources that the governments of the world are prepared to assign to international disposal. It considers the political problem of finding institutional means through which these funds, possibly flowing in amounts that dwarf existing multilateral development finance, might be acceptably allocated. The quest is motivated by the view that the allocating institutions may well have to be approved before there can be a decisive impetus for tapping large innovative sources of funds for global disposal. The devices adopted will need to be widely deemed legitimate, to inspire a measure of confidence, and to be efficient in directing the funds to purposes recognized as having high priority. A proposal is made for one possible way of meeting these requirements.

The third part is a brief conclusion.

PART A

RAISING FINANCE

1 Preliminary

Development finance and its global enhancement constitute one of several major international ‘development’ issues for which existing institutions and practices are widely held to be inadequate.

Others are trade, the physical and biological environment, stabilization, international debt, and direct foreign investment.

The matter of development-finance overlaps with these other concerns, and similar or overlapping ranges of political strategies and tactics may be available for them.

Suppose that we believed that there was a desirable outcome or a desirable range of outcomes or a desirable direction of movement on any of these questions. It might be said then that we regarded that outcome, or one of those outcomes, or that direction of movement, as in the broadest sense *a global public-good*: ‘in the broadest sense’ in that it might in that case be necessary to include as global public-goods such objectives as equity across the world or the mutual responsibility of peoples for one another, in other words to regard those objectives as broadly good for all, both those that give and those that take. But that is a matter of terminology. There is a narrower concept of global public-goods that would exclude the satisfaction of such ideals.

Whatever terms are used, however, our belief that there are in any of these areas desirable and feasible objectives—objectives whose pursuit or achievement would be *possible* given the consent or positive commitment of certain people with power (in the context, mainly members of governments), and of whose desirability it seems that people generally have the potential to be persuaded—raises the question of how those objectives can be effectively approached or achieved. That the question arises implies that there are obstacles that ostensibly might be removed, or gaps that ostensibly might be filled, in order that the path toward the objectives might be appreciably cleared. Mostly we are concerned with intergovernmental cooperation. It is principally governments that have to be drawn to take together the necessary action.

We could say that the obstacles (and hence the means of their potential elimination) might lie in one or more of four categories: *attitudes*, *understanding*, *focus*, and *process*. ‘Attitudes’ would include both values and perceptions of personal or group interest. ‘Understanding’ would cover both factual knowledge and grasp of causal connections: clarity both on what is and on how the world works. ‘Focus’ would refer to a sufficiently clear view of a possible rule, or of a combination and sequence of actions, by which an objective might be advanced. And ‘process’ would denote the routine requirements of laws and constitutions that would have to be met if the required rules were to be instituted or the required combination and sequence of actions to be followed.

Action under the first head (to influence attitudes) would involve eloquence or persistence in moral persuasion, or else forms of depiction of the relevant needs and their satisfaction, or presentation of worldviews in which universal mutual responsibility has a part, in such a way as to alter the emotive responses of the relevant public. Under the second it would entail the assembly and presentation of relevant information and of *a-priori* or empirical analysis. Under the third it would require principally imagination. Under the fourth, ingenuity would need to be applied to local (national) institutional knowledge. These categories of needed responses overlap, and in any situation the effectiveness of one is quite likely to depend upon the presence of another or others.

2 Strategies and tactics available for exploitation in pursuit of objectives in these areas

The ten approaches listed below are not to be seen as *alternatives*. One or more may be invoked as occasion arises.

(a) Highlighting ‘win-win’ opportunities

This would mean identifying and publicizing measures that would secure what economists call ‘Pareto-improvements’ for the major legitimate interests, that is to say measures that would represent *win-win possibilities* for them, or at least no sacrifices, even in the fairly short term.

Where it can be shown that the main recognized governmental partners in any contemplated arrangement can all gain from it soon enough for the gain to be politically relevant to them, the obstacles to the arrangement should not, by ordinary reasoning, be

difficult to remove. It will be a matter of demonstrating the balance of advantages rather than asking for sacrifices. The requirements for advance may well include progress in *understanding*, in *focus*, and in attention to *process*. But the most difficult category of movement—in *attitudes*—will not be necessary.

Such, it would seem, first, are a number of the possible measures of international tax cooperation. Examples where there would be, or might be, gains to fiscal authorities almost all round would be (i) the concerted imposition, at least by the rich countries, of a withholding tax at a significantly high rate on interest and other portfolio income accruing to foreign residents; (ii) a coordinated whole-enterprise system of assessing the taxable income of multinational firms with the total divided by formula among the countries of operation; and (failing that, or where it can not be fully applied) (iii) tax-liability in a multinational firm's country of residence (origin) for its *whole* global income but subject to *credit* (not deduction from base or exemption) for tax paid in other jurisdictions. The governments of most or all major countries, rich and poor, have the potential to gain fiscally, that is, in government revenue, from the first two of these arrangements (Avi-Yonah 2000; Tanzi 1995). The third would be of clear benefit fiscally to the poorer host countries as a body over arrangements normally in place now, because it would remove any incentive they had to competitive tax reduction for the purpose of attracting multinational investment. It might or might not be of fiscal benefit to the countries that were predominantly sources rather than recipients of direct investment, depending in part on the provisions that it would be replacing.

The obstacles, at least in the first two of these cases, are probably the lack of a widespread understanding of the effects of present arrangements and of the alternative possibilities; lobbying by criminal or socially irresponsible private vested interests that may among other actions exert themselves to mis-represent the issues; the opposition of a few, small states, some of them quite affluent, that profit from offering opportunities of tax-evasion and tax-avoidance, but might possibly be compensated, at least in part, for their loss; and bureaucratic-cum-political inertia or lack of imagination. (Some individuals would of course lose from these changes—as a result of having to pay the taxes that the law obliges or intends them to pay but which they would otherwise evade or avoid. But evasion and avoidance in this sense are generally both unfair and inefficient. The fiscal gain accruing to the authorities of most countries from closing these gaps would generally be in the interests of their peoples as normally considered.) Of the four areas of movement, it is thus mainly changes in understanding and focus that are required. Attitudes—values and perceptions of interest—need not shift. Argument and presentation of evidence would doubtless have an important part to play in breaking the factors of resistance, but the argument would be about cause and effect rather than about values.

A second example of what might very well rate for the present purpose as a win-win (Pareto-type) improvement is the regular issue of Special Drawing Rights (SDRs) by the IMF. The primary purpose of SDRs, at the time of their institution in the late 1960s, was stabilization in a world in which a shortage of international reserve media was feared. Stabilization is still an important reason for expanding their supply: it would enable the currency reserves of all IMF member-countries to be increased without cost to those countries. This is of particular value for developing countries because, for most of them, the expansion of their reserves would otherwise entail net costs; and they are the ones at greatest direct risk of currency crises, against which reserves form a defence. So, if their alternative to receiving SDRs would have been the same reserve levels, but at a cost, the

issue of SDRs would constitute a direct real-income gain to them. If their alternative would have been lower reserve levels, the gain would come in the form of greater protection against currency collapse; and, because of the contagion that may arise from currency collapse in any one country, as was seen in the East Asian crisis of 1997-98, that enhanced protection would constitute a gain to the rest of the world as well. The modernized case for regular SDR ‘allocation’ has been argued by Clark and Polak (2002). On the potential income gain to developing countries as a body from regular SDR allocations within the range that has been considered in IMF circles as feasible, Clark and Polak cite a study by Mussa (1996), which estimates that a repeated annual ‘allocation’ of 36 billion SDRs would add to the income of developing countries, given a constant level of reserves held by them, amounts of the order of 1 billion SDRs in the first year, 2 billion in the second, and so on, that is a cumulative total addition to income of about 55 billion over the first ten years. (The value of an SDR is of a similar order to that of a US dollar, and has usually been higher over the past twenty years.)

If the developing countries that had the potential for this income gain chose to enjoy it in full and did not use it to add to their reserves, this might constitute a corresponding cost for those parts of the world (effectively the rich countries) that would not benefit in the same way—but *only* insofar as the resources of those rich countries were already *so fully employed* that they would need to curtail their domestic demand in order to accommodate this increased spending-power of the developing countries. In other words, it would represent a cost to them only insofar as extra demand for their exports would overstretch their economies, obliging them to reduce their own consumption or investment.

If at the other extreme the developing countries were to use all their SDR allocations to add to their reserves, this would involve no levy on the income of the rest of the world, even if the latter were operating at full capacity. It would contribute to the real global benefit of greater currency stability. It would admittedly in a small degree reduce the capacity of the countries issuing the main reserve currencies (principally the US dollar) for borrowing at low interest from foreign monetary authorities, but the reduction would be small, as Clark and Polak (2002) show, in relation to those countries’ total short-term borrowing from the rest of the world. It is in any case questionable whether what appears now as an unlimited capacity for the reserve-currency countries to borrow from the rest of the world is, on a longer perspective, an unqualified boon to those countries themselves.

So there may be argument over whether strictly speaking the resumption of regular annual issues of SDRs would constitute a win-win-improvement from the viewpoint of every state and its population, under every possible circumstance. But there is a strong presumption that increasing reserves, for any country likely to be subject to currency-flight, contributes to the global good of increased *stability* of income. And any costs resulting to any party from the actual enjoyment of extra real income on the part of developing countries as a result of the SDR allocations would be questionable, difficult to identify, and highly diffused.

So, for purposes of its political prospects, resumption of SDR allocations may well count as a win-win-improvement. There are likely to be no significant vested interests against. No government has to allow in its budget for the benefits at the cost of others. And no serious ‘respectable’ case can be made against it on the ground of harm to any country or to the global system. Ignorance, prejudice, and possibly inertia, form the

main obstacles. The machinery is all there, ready to be used. The key corrective ingredient needed is *understanding*.

An additional possible bonus to developing countries or other global concerns from regular SDR allocations has been advanced by Soros (2002). The SDRs received by countries with access at most favourable rates to short-term financial markets—roughly speaking, the rich countries—derive no net benefit from them. This is because they can borrow to increase their reserves at similar rates to those that they can earn by holding SDRs. The proceeds from selling these SDRs (or, if the rules permit, the SDRs themselves), making up roughly 60 per cent of each SDR allocation, might be ‘recycled’ as development finance. However, because the original recipients would still have to pay interest on them at the (low) SDR rate, they would have to be recycled as low-interest (termless) loans rather than as grants if there were to be no net cost of the operation for these original recipients. These assets would still be useful as finance for any ‘development’ purpose that could cover the low servicing charges but would otherwise involve borrowing at higher cost. An example might be reducing the burden of international debts incurred at higher interest rates.

Again there would be no net cost to any party. It would be simply a case of use of the IMF’s power to make funds available on more favourable terms to certain borrowers than the market would otherwise provide. There would appear to be no interests against this transformation.

Third, it may also be that improved arrangements for facilitating migrant-worker remittances, which might increase the capacity for development and welfare spending in poor countries, can be devised so as to be of little or no cost to most national authorities fiscally, and not to be against the identifiable interests of any party except, at most, certain financial intermediaries.

There are also possible cases, mentioned below in subsection (c), in which the donor-countries may be able to obtain what they regard as compensatory benefits from the recipients, and as a result again most or all parties can recognize themselves as gainers on balance from the deal, over and above any gain that may be held to flow from the global public-good of equity and mutual responsibility.

However, most of the modes of obtaining additional development finance do have costs, whether fiscally or not, that matter to the governments of the countries whose cooperation for supplying the finance is needed. In those cases *attitudes*—that is, *values or perceptions of interest*—may have to move. At the same time, because these movements are probably the most difficult to generate, it is reasonable to seek ways of minimizing the changes required in attitudes.

(b) *Alliance and concentration*

John Braithwaite (2004), drawing on Braithwaite and Drahos (2000), has brought to light important instances in which apparently weak parties in international economic negotiation have achieved their purposes through alliances and networking strategically exploited. The strategy required may involve the building of alliances (alliances that may include commercial enterprises and NGOs as well as governments); using assertively, but in a measured and graduated way, the powers of punishment and reward that the alliances have; concentrating the bargaining power, creativity, and technical

competence of the alliances at what are described as 'nodes' (briefly times and places, already available or fixed by the allies themselves, at which they take opportunities to pursue their objectives); and in this process choosing, from among international forums, those that from time to time will be most favourable to the purpose pursued. 'The power of rich nations sometimes crumbles' Braithwaite writes, 'because their own largest corporations and NGOs ... defect to the cause of poor nations. This allows, in an era of networked governance, for weapons of the weak to become formidable' (2004: 298).

Economic weight counts, so Braithwaite argues, but it is not the only factor in determining power and influence in international economic negotiation. Japan, with the second-largest affluent economy, far ahead of those next in line, appears to have played a much less powerful role in global business regulation than France or Britain, less powerful in some cases even than some of the much smaller Scandinavian countries. By mobilizing the Cairns Group of countries with strong interests in primary exports, Australia, which by its economic weight ought to be not more than a medium-sized player, was able to influence the farm-protection policies of the EU, the USA, and Japan. Developing-country governments opposed to the projected Multilateral Agreement on Investment were able, with the help of NGOs in both rich and poor countries, to sink it in 1998. On the other hand, a small group of Washington lawyers, representing particular firms, were able to build up a coalition that could use the formation of the World Trade Organization as an occasion for pushing through the TRIPS Agreement on intellectual property, an arrangement that much of the world soon came to deem as against its interests. As another example, proponents of an ozone-layer agreement were able, by enlisting Dupont, the largest US chemicals producer, which had potential interests in favour, to bring the US government on side and so to achieve, in the Montreal Protocol of 1987, the most successful global environmental treaty so far. All these are examples cited by Braithwaite. Success on the part of the ostensibly weaker parties in such instances may on balance have been good or bad. No general position need be taken on this question. The point is simply that such success has on certain terms been possible.

Another case, exemplifying a possibility to which the same paper alludes, was one in which it could be maintained that the developing-country governments involved signally *failed to use the intrinsic bargaining-power that they had*. This was the 1980s debt crisis, which involved as debtors so many middle-income-country governments, some of them, such as Brazil and Mexico, with considerable economic weight. Collectively, it could be argued, the debtor-governments could have inflicted more harm on the creditors, and indirectly on the states in which the creditors were based, than the creditors could have visited on the debtors. At all events, each side had potential weapons. The significant debtor governments numbered in the teens, with a small subgroup of them owing a big proportion of the debt. By contrast, the relevant creditors of Mexico and Brazil numbered around 500 and 800 respectively (Boughton 2001: 359, 377). Mobilization of the debtors would seem on the face of it to have been intrinsically much easier than that of the creditors. But it showed no sign of happening. With difficulty, the creditors of some particular debtor could sometimes be mobilized to reach a settlement that appeared to be in their collective interest. No serious attempt seems to have been made to mobilize the handful of big-debtor governments. The IMF staff, concerned above all to prevent a collapse of the international financial system, was fitfully able, with the help of some large creditors, to devise, and to maintain, just-tolerable arrangements between each individual debtor and its creditors, with potential free-riders among the latter largely brought into line. The Paris Club of government

concessional lenders and the IMF itself helped to seal the deals. Boughton's detailed history of these attempts has a heroic character. The show was very precariously and painfully kept on the road.

Yet *debt-reduction*, except in a few exceptional cases (notably that of Bolivia in 1986-87 and tentatively that of Mexico in 1987-88) (Boughton 2001: 484-91), did not come until the Brady bonds were instituted in early 1989. Debt-reduction seems to have been critical in finally surmounting the crisis in some important cases (Boughton 2001: 499-531), and it might quite plausibly have been forced on the creditors, with the connivance of the multilaterals, some years before if the debtors had deployed their collective muscle. It had been persuasively advocated earlier by some members of the IMF staff and other highly reputable economists (Boughton 2001: 480), and had been supported in different forms by the governments of Japan (*ibid.* 480, n. 1) and France (*ibid.* 481, n. 1). In retrospect the citadels of opposition to debt-forgiveness do not seem to have been secure.

Proverbially, if you (a handful of you) owe a trillion dollars to hundreds of creditors and can't pay, it is the creditors that have the problem. But no use was made of this bit of folk-wisdom. It is possible that myths about the power of international finance, 'dependency theory', and the like, had promoted a victim-psychology and removed the hope of effective resistance.

It is easy to see why parties with punitive weapons at their disposal can sometimes be effective in pursuing their goals against otherwise powerful opposition if and only if they combine and coordinate their actions. What is less obvious is why intrinsically weak parties that have *no* convincing threats in their armoury can, as Braithwaite argues, sometimes prevail by concentrating their resources at appropriate points: not only whatever capacity for obstruction or harassment they possess but also their creativity and expertise. It seems possible, for example, that the Jubilee movement over the late 1990s and early 2000s, with no obvious capacity for punishing opponents, has helped significantly to push forward the forgiveness of official bilateral debts of the 'Heavily Indebted Poor Countries'. If that is the case, we may ask how it is possible, when 'realist' analysis would appear to imply that governments will consistently pursue their national interests—and by implication that they will not change their views on the policy implications of their nations' interests in response to outside pressure unless that pressure comes with the offer of compensating concessions or with the credible threat of punishment.

The reason seems to lie in certain familiar features in the character of human beings, which they do not lose by becoming politicians or officials. Government decisions are not made by intelligent robots rigorously pursuing objectively determined national interests. What constitutes the national interest in any instance is always a matter of opinion. Members of the political executive in any country may have differing views about it, or no firm views at all. Career diplomatic and economic officials and opinion-leaders in that country may differ among themselves and on balance differ from the ruling politicians. Every government taking part in an international negotiation is hence likely to be itself an arena, some of its members and servants uneasy about the currently dominant official line or wanting to please domestic elements other than those whose support the prevailing strand in the government has in its sights.

And we humans, including the politicians and officials negotiating internationally, are more or less ‘moral’ and ‘reasonable’ beings: *moral* in the sense of being inclined to respond to appeals from need vividly and forcefully presented, being moved in some degree by plausible claims of justice, and desiring on the whole to maintain good relations with those we meet (especially those we meet repeatedly and face-to-face); *reasonable* in the sense of valuing consistency in statement and action, in having a capacity for being persuaded by argument and evidence, in accepting that we need reasons for opposing a plausible case that has been made to us, in sometimes recognizing when a dilemma or conflict of interest has been or can be circumvented, and in having some respect for intellectual dexterity. Hence appeals to justice and compassion, and the reasoned and striking presentation of evidence and argument, do not always fall on entirely deaf ears. It is not that all negotiators are *incapable* of ignoring plausible arguments based on justice and compassion or on strong evidence. It is rather that ignoring such arguments *costs many people an effort*: we have to suppress some of our spontaneous reactions. We are also (many of us at least) impatient to settle disputes in which we are engaged and keen to avoid trouble, so that stubborn and vocal opposition on several fronts, such as the number of international forums often makes possible, may have a wearing-down effect. And we value visible success in endeavours in which we are ourselves involved. If we have taken part, however unenthusiastically at the beginning, in setting up a meeting that has particular aims in view, these aims tend to become important to us personally. If the aims entail resolution of some disagreement, that objective readily becomes our own, and delay in reaching it can be unsettling to us.

These human characteristics, present more or less among international negotiators, play out on a stage which, over the last century, has become full of international forums, official and unofficial. Heads of government and corresponding ministers and officials have plenty of opportunities of communicating with each other, even of meeting face-to-face. They may also come repeatedly across certain insistent and capable lobbyists, for interests or for causes.

And it is possible for new forums to be set up, with unimpeachable objectives (‘international tax cooperation’, for example, or ‘the Millennium Project’). If such a forum is furnished with high-level staff, there will be a force released for serious pursuit of the objectives, a force that can add its weight to those of other parties with similar aims. Even though most of the participating governments may initially regard any possible progress on the issue as entailing too much trouble to be worth the effort—because they can not envisage easy compliance on the part of other countries, say, or because of the technical complexity of the issues, or because of contrary lobbyists on their own domestic scenes, who may have vocal legislators at their disposal—they may be presented in international forums with appeals to sympathy or justice; expressed or implied promises or threats; evidence; arguments over cause and effect; specific options; possible sequences of action; which they will at least feel obliged to find plausible reasons for ignoring or rejecting. If in addition there is an effective campaigning NGO or NGO alliance—seeking interviews, submitting memos, briefing the press, possibly organizing demonstrations—all perhaps in support of the ostensible objectives of the forum, then, from the point of view of the delegations of major governments, this may serve to tip the balance of potential trouble-making between the sides, tilting it in favour of progress as against immobility (Chasek and Rajamani 2003).

Of the four types of movement that may be needed to remove political obstacles to a course of action—in attitudes, understanding, focus, and process—it is possible to see how a coordinated alliance (potentially governments, firms, and NGOs) may produce shifts in all four, even in the absence of explicit menaces or of the offer of concrete concessions, and it is clear why in the process concentrating expertise, imagination, and ingenuity—beside any potential weapons of promises and threats—in the appropriate forum or forums may well be crucial. Providing the forum with the resources of a well-staffed international organization—one directed by its founding brief at the recognized public-good sought (freer trade, sovereign-debt sustainability, the MDGs)—will bring obvious advantages to the cause of movement in the direction of that public-good.

Can these insights be relevant to the cause of additional development finance? In contrast, admittedly, to some other questions, such as those relating to trade or direct investment, the global volume and terms of development finance have *not* generally been a matter of negotiation between rich countries and poorer countries collectively other than through the replenishment negotiations for the International Development Association. This is no doubt partly because there is no institution linking together the amounts of ‘bilateral’ (government-to-government) financial aid coming from the various donor-countries. Global targets for amounts and ‘quality’ of aid from rich countries have been declared, but they have been no more than aspirations. In part it may be because, to a much greater degree than with the relationships of trade and direct investment, the bilateral donor-recipient relationship in aid seems asymmetrical: the recipient has nothing intrinsic to the relationship with which it can bargain.

However, some modification of this situation may be achieved if negotiations can consider questions of aid together with other objectives, some of them of interest to the countries that would be predominantly donors of aid. If an alliance such as the new (Cancún) Group of Twenty could be united enough to entrust a small subset of its members to negotiate on its behalf with say a similar subset from the G8, a number of issues might be put on the table together. For good reasons, the conventional wisdom on negotiation is that the likelihood of an outcome acceptable to all parties is enhanced if several more-or-less connected issues can be considered at the same time so that they can be traded-off against each other. Possible examples are considered below in subsection (c).

Moreover, the idea of development finance as a bounty rather than a responsibility or obligation on the part of potential donors is a matter of prevailing values, which may be altered. There are vocal NGOs and highly respected world personalities pointedly challenging these values. Those who mistrust their own and others’ engaged politicians and officials may pay attention to Oxfam or Nelson Mandela. Negotiation over the total volume and quality of external development finance is thus not necessarily off the agenda forever.

(c) *Bargains*

In the context of financial aid, we may picture aid-receiving countries as offering some concessions to aid-givers, explicitly or implicitly, as a *quid pro quo* (Cassen and associates 1994). There are matters over which organized public opinion seems to be more exercised on the whole in rich countries than in poor: such as the general observance of human rights, or the need for environmental restraints with global implications. Rich-country governments are also likely to value security for their

citizens' investments abroad, security that need not be against the interests of the host countries. There might be possibilities of financial aid in exchange for conformity on the part of its potential recipients to conventions that both sides might recognize as good in themselves, or that neither side might see as significantly harmful to its interests.

One case of this sort over which, it would seem, a bargain might have been made, and may still be made, is global warming. With quotas of emissions ('assigned amounts') worked out for individual countries more or less on the basis of previous emission levels alone, as they were for the purposes of the Kyoto Protocol, there was not the slightest possibility that quotas would be adopted by most of the less-affluent, low-emitting countries; and little enough chance that they would sign up for *any* serviceable and efficient system of quotas unless there was some pay-off for themselves. In fact it is quite possible to conceive of an efficient and arguably equitable system of quotas, with financial incentives for observing them, that at the same time is likely to involve transfers from high-income high-emitters to lower-income lower emitters (Clunies-Ross 2000). If the countries in the latter category had come to Kyoto with such a scheme, clearly worked out and argued, behind which they were prepared to stand, it is still unlikely that they would have prevailed. But, as public opinion in the affluent countries and the world at large becomes more serious about the question and about the increasingly important gap in any arrangements that do not involve cooperation by low- and middle-income countries, a genuine opportunity along these lines may well arise. Yet it is unlikely to bear fruit without the active cooperation in negotiation on the part of the major developing countries, possibly in alliance with environmental NGOs, and broadly the kind of tactics foreshadowed under 'Alliances' above.

(d) Double-dividend devices

On the face of it, the case for aid might be enhanced by any device that plausibly tied its provision to the simultaneous pursuit of some other widely-approved objective. A possibility sometimes discussed is the collection for development-aid purposes of a universal tax on carbon emissions. This is a tempting idea because a levy of trivial dimensions, such as the equivalent of 5 US cents per US gallon of gasoline, would (on the assumption of very little resulting change in demand) raise worldwide such a large sum: on figures from the mid-1990s already of the order of US\$130 billion a year. (The fact that there probably would be very little resulting fall in demand does, of course, greatly dilute the double-dividend case.) However, as with other suggestions invoking the same principle, consideration of the means by which this would need to be done makes its political appeal dubious. It would have to be collected by each country individually, under authorization achieved through its own fiscal processes, and, if this happened, there would be no obvious moral or pragmatic reason why the proceeds of this tax, rather than of any other, should be directed internationally. In fact, on grounds of equity, it might be considered an unsatisfactory tax for assignment to international use, since the level of carbon-emission is only very loosely related to national income, and the tax, if collected at a constant rate per physical unit, would take much larger shares of income from some countries than from others, and indeed larger shares from some developing, than from some affluent, countries. The worst of the inequity might be avoided, however, if only those carbon-tax proceeds raised from affluent countries were to be applied to international purposes.

Similar practical difficulties from a political standpoint, complicated by questions of equity, arise with other suggested methods of raising global revenue—such as air-travel

or airline-fuel taxes—that involve each national authority in separately authorizing and collecting the tax within its jurisdiction and then (so it is hoped) remitting the proceeds internationally.

One rather different suggestion, still perhaps to be fully investigated, is that of a tiny levy on emails, which might have the public-good effect of reducing ‘spam’, and would probably have to be enforced through voluntary agreement among Internet Service Providers (ISPs). The robustness of the agreement might depend on whether the public were prepared to pay a small amount for the benefit of reducing spam. This can not necessarily be ruled out, but a worldwide levy collected by voluntary agreement among commercial enterprises would be a first of its kind.

(e) Shift from explicit, apparent, or concentrated burdens to implicit, concealed, or diffuse burdens

Where aid has to be voted through national budgetary processes, each unit of its funding is competing with other public purposes. Even if public opinion within the country concerned is broadly favourable, the temptation for a government, faced with the choice, to prefer other spending items is always likely to be great. Spending an extra 0.5 per cent say of national income on aid will probably benefit no one within the country directly; only the grubbers among figures are likely to be aware whether it has or has not happened, and among them only a subsection are likely to recognize what its significance may be. A similar amount diverted to domestic purposes can make tangible differences. Yet perhaps ways of transferring resources that avoid national budgetary processes and are not so explicitly competitive with domestic purposes may be discovered. It will be said that the burden of surrendering the resources must fall upon someone, and generally that is likely to be true. However, if the burden-bearers were, in spite of quite open procedures and practices, to be largely unaware of the burden and the humanitarian grounds for imposing it were good and widely approved, it might be both politically acceptable and morally justified.

One of the politically attractive features of a possible currency-transaction tax (CTT), at the minute rates usually discussed, is that its burden, though undoubtedly real and probably touching in some degree most of the world’s people, would be highly diffused and very hard to detect except perhaps by high-level workers for firms in parts of the financial sector (firms whose shareholders would probably in fact carry a differentially large part of the burden: more, that is, than the average for groups of people of similar income, though still a very small fraction of the total). This advantage would not depend on any secrecy or deceit about what we could know or reasonably guess about the tax and its impact. It is simply that the burden would be spread so widely and would not be apparent in any tangible way to the overwhelming majority of those carrying it.

(f) Segregation of global-public-good elements from other purposes within the processes of allocating ‘development finance’

To formulate the tactic in this way implies of course a more narrow definition of global public-goods than that used above. The term is confined to goods in which each state can recognize a concrete benefit to its own people, rather than encompassing ideals such as social justice and mutual responsibility. Inge Kaul and colleagues in several publications (e.g. Kaul *et al.* 2002: 19-23) have argued that national outlays for global public-goods should be separated from aid outlays, a reform in presentation envisaged

as going hand-in-hand with a transfer of responsibility for global public-goods from overseas-aid ministries to those concerned with the particular subject-matter involved: for example, transfer of responsibility for contributions toward international infectious-disease control to the national health ministry. The pragmatic argument for this change seems to be that this will result in more adequate cover of global public-goods in that contributions to them will be recognized as self-interested rather than charitable, and that it will also work to the benefit of aid proper, whose slender dimensions will be made manifest when contributions to global public-goods are stripped out.

The case has been made only recently, and time may be needed to see whether governments will take up the proposal. Doing so would disturb existing departmental empires, and that is always likely to face opposition. It is probably too technical a reform to motivate NGO agitation. Moreover, there is an intrinsic difficulty in that the dividing-lines between global-public-good and aid outlays are not always easy to draw. This is exemplified by considering a national contribution to the Global Fund for AIDS, Tuberculosis and Malaria. It can be argued that the process of eliminating tuberculosis anywhere in the world (like the process of eliminating smallpox) is clearly in the material interest of every nation individually. The present gaps may be mainly in poorer countries, but everyone has a stake in their elimination. The same is not so obvious in the case of AIDS. Because the weapons against AIDS are largely behavioural, with the drugs presently available useful for individual amelioration rather than for eliminating the infecting organism, anti-AIDS programmes have to be effectively local, national, or at the widest regional, without important spillovers from one region of the world to another. This might cease to be the case if an effective vaccine were to be found, and research to find it comes clearly into the (narrow) global-public-good category. But taxpayers and legislators in Italy or Estonia may reasonably regard contributions that would be used now against AIDS on the ground in sub-Saharan Africa as essentially charitable rather than self-interested. Malaria raises similar questions. It is now almost entirely a tropical disease. Most of the temperate rich world is touched by it only when its residents travel or sojourn in the tropics, in which case reasonable protection can be obtained at prices that simply have to be costed in to the expense of the travel or sojourn. For many of us large outlays against malaria are contributions for the benefit of others. The case is even clearer with more localized tropical diseases such as schistosomiasis.

Similar questions could arise over UN peacekeeping. In some places, its benefits are purely local. In others they have world implications. Considered as an undivided whole, it is a global public-good, even within the narrow definition. But many of its particular operations may not have obvious spillovers elsewhere. Unless we were to adopt the wider definition of the concept of global public-goods, which would include the mutual-responsibility and social-justice ideals, and would hence cover all well-motivated and well-judged aid, UN peacekeeping would count in part as a global public-good and in part not.

Moreover, it is not obvious that in all cases transferring the funding of the global public-good to the related domestic ministry would be likely to increase spending upon it. The domestic health ministry might be reasonably expected by habit to rate various projects upon their surplus of benefits over costs for the country's own residents. Reducing the incidence of tuberculosis across the world, or contributing to eliminating though vaccination remaining pockets of smallpox say in West Africa, might well be regarded as of *some* domestic value in Finland or Austria. But there is still the intrinsic problem

of adequately funding public-goods when the parties are attending independently to their own interests. On the strict criterion of domestic value, the health ministry in Finland would be evaluating the returns on an outlay of say a million dollars devoted to smallpox vaccination in Niger against its value not to Niger or to the world but to the very small part of the world which is Finland: that is, on the value of the expected reduction that it would generate *of smallpox infection in Finland* (which has probably not seen a smallpox case for decades) through the contribution it would make to eliminating smallpox finally from the world—*other things being equal*, the other things including the outlays expected from other countries. By that standard the outlay might appear less well-spent than if it were devoted say to training additional nurses in Finland—despite its potential for relatively large human benefits in Niger and (in the context of an international programme to eliminate the disease) additional expected benefits to the rest of the world.

Of course the health ministries of the rich world might covenant together to complete the elimination of the disease with an agreed scale of contributions, and they might fight their respective treasuries and cabinets to realize these outlays. There are various favourable *mights*. And indeed health ministries may very well combine for these purposes whether or not their aid ministries are instructed *not* to concern themselves with diseases whose elimination can be regarded as global public-goods. Kaul and colleagues indeed propose additional devices or practices that might facilitate the outcomes desired: such as requiring relevant sector ministries to provide separate accounts for their domestic and international outlays and to coordinate with aid ministries. But still transferring the potential responsibility for programmes of vaccination in Niger and the like from Finland's aid ministry to its health ministry might seem to provide no strong presumption of increased attention to such goods or of increases in other elements of aid.

(g) *Segregation of directly humanitarian outlays*

For the purpose of providing a relatively incontestable case for expansion of 'development finance' in at least certain directions, a fund or funds might be set up for certain purposes that are likely to be regarded as clearly and indisputably humanitarian. These might include say emergency relief, including maintenance of global food stocks against famine; the combating of contagious diseases and provision of basic facilities and supplies required for primary health care; plant, training and running expenses for primary and secondary schooling; accessible clean water and sanitation; and UN peacekeeping. The line could be drawn wherever it was necessary to keep the purposes uncontroversial. It would be an advantage if the methods to be promoted were to be largely technical or routine and the outputs concrete and readily monitored. Grounds for assurance that the funds would be effectively used would add to their uncontroversial character.

Two approaches are possible. One, pursued already, is the multi-stakeholder global fund for a particular area of activity, such as the combating of AIDS, tuberculosis and malaria, or the vaccination of children. The UN Children's Fund may be regarded as a somewhat more general version of the same principle. These have the further advantage of being set up in forms in which they are open to contributions, and in some cases to influence and expertise, from outside the public sector. The other possibility is a more general fund, whose uncontroversial humanitarian purposes might be held by enough of the world's public to justify drawing on a source of revenue that was otherwise

untapped or that could in some way be regarded as international—such as a tax on (international or all) airfares or on airline fuel or on currency-exchanges. Part B of the present paper explores how such a fund (whether closely confined in its purposes as suggested here or not), with its sources regarded as being of global provenance or devoted by agreement to global purposes, might be set up and managed.

Perhaps the idea of segregation of purposes might, with advantage, be carried further: several funds, each with a particular class of purposes that could readily be explained, might be created, each possibly fed by a particular source of global revenue. It may be that the idea of undifferentiated ‘aid’ is not a good marketing device.

(h) Appropriate public-relations activity

Professional, and at the same time scrupulously honest, public-relations material might be presented. Ideally, this might itself be financed by a specific donation from outside the public sector. Its task would be easier if each exercise of the kind was confined to the support of the uses of a particular fund with a limited range of purposes, for example, one of the multi-stakeholder funds concerned with particular health needs, or a more general humanitarian fund as mooted in (g) above. If allocations from the fund concerned were targeted on relatively well-governed recipient countries, as proposed in the Sachs report, or there were other devices to prevent waste and misappropriation, this could be emphasized. These possibilities point to the advantage of having *international* funds of large enough scale, either actually in being or at least as frameworks awaiting activation. That would mean that the same publicity material, with minor necessary variations such as in language, could be presented across those countries that were predominantly donors, without the need for tailoring it to the peculiarities of each country’s ODA programme. At the same time, we might expect some halo effect to operate in favour of aid in general.

(i) Means of manifestly circumventing ‘governance’ deficiencies in recipient countries

Among the genuine doubts about the value of aid and the pretexts for opposing it is the belief, justified in a number of cases, that aid has been wasted through governance failures in recipient countries, principally corrupt misappropriation. Removing as far as possible the fact and the perception of misappropriation is likely to reduce one obstacle on the donor side, quite apart from its value in the country receiving the aid. There are two possible approaches. One is that proposed in the Sachs report (UN 2005) as mentioned below. This is to concentrate aid explicitly on a smallish number of comparatively well-governed countries deemed capable of effectively using large amounts of additional aid. The second approach, necessary where trust in the recipient government is inadequate, is to provide checks and scrutiny, not only through international monitoring but also through agents within the recipient country that appear likely to be independent of government. It is reported, for example, that aid to Chad has recently been channelled through an ad-hoc body composed of respected people and organizations detached from the executive government.

(j) *Targets, explicit and quantified*

Because development finance is a matter of more or less, negotiations to increase it may lack point unless a quantified target, with some plausible basis for it, is propounded. This has been half-recognized in the Finance for Development process of 2000-02, by the publication on the part of the World Bank of attempted best estimates of external public-sector finance needed on the part of the developing and transition countries in order to fulfil the MDGs (Devarajan *et al.* 2002). These, roughly US\$50-60 billion a year, became informally accepted after the 2002 Monterrey summit in debate about additional finance. But somewhat more ambitious external-finance targets were later put forward in connection with the UN's Millennium Project (UN 2005), as mentioned above.

The above ten tactics or strategies are by no means mutually exclusive. They form a quiverful of possible weapons. Some are much more general in their application than others. The approach outlined in (b) will probably be relevant and needed in most cases. Others are designed to make use of particular opportunities.

A further point is worth making, following in part from (g) and (h) above. There is a positive advantage in tapping global-provenance funds, rather than concentrating simply on expanding nationally-budgeted ODA—an advantage that may at least be set against the drawback that the whole idea of international cooperation in the revenue field has been inclined in recent years to induce apoplexy among the legislators of one important donor country. The advantage is that they must be *allocated and administered internationally*. If a broadly accepted way of doing this can be found (a task we attempt to consider in Part B) and the funds are substantial, then it may be possible to follow something akin to a *strategy* for meeting poverty-reduction targets such as the MDGs. Pursuit of a poverty-reduction strategy is difficult so long as most of the world's aid comes in the form of national votes of ODA, each allocated at the donor government's discretion. It is notorious that in the Cold War period much aid was given for the sake of political allegiance, with little attempt to monitor whether it served any 'development' purpose rather than simply enriching the Mobutus and Suhartos and Mengistus and their hangers-on. In spite of deliberate attempts more recently to channel aid to where it can usefully be 'absorbed'—for example in the rigorous rules applying to the US's post-Monterrey Millennium Challenge Account—political-diplomatic objectives, worthy or not, are difficult to eradicate from bilateral ODA, as is evident in the large concentration of US aid still given to Israel and Egypt. The International Finance Facility (IFF) proposal from the UK involves an aspiration among other things to coordinate bilateral aid, but without much to guarantee that this would happen.

The ten 'key recommendations' of the Sachs report (UN 2005) suppose *a capacity on the part of the world community to pursue a strategy*, with (a) priorities over the objects on which aid would be spent (a high priority for certain 'quick-win actions', for example, such as free mass distribution of bednets and anti-malaria medicines, or ending fees for primary schools) and (b) discrimination among recipient countries in favour of a dozen well-governed 'fast-track' countries with the capacity to absorb rapid increases in ODA. Propounding such priorities as an ideal for all aid may have *some* impact on how individual donor governments allocate what they give. But it is much more likely to influence what actually happens if a large part of total aid can be

allocated by acceptable global processes. And for practical purposes this *must* happen with funds of unquestionable global provenance such as proceeds from a CTT or from SDRs. As suggested above, those two sources have other ‘political’ advantages as well. They would not need to go through any government’s budget. Any costs of either would be highly diffused and not easily identified. And the use of SDRs for increasing development finance, which would of course necessitate reviving their issue, would on that ground contribute significantly to the global good of increased economic stability, and on balance (issue and ‘recycling’ together) would arguably approach the status of a win-win-improvement for all the nations affected.

There is a further political or marketing point. If the proceeds of certain sources of funds are being blatantly and exclusively and demonstrably devoted to following such a strategy, with aid going for purposes that ordinary people can easily understand *and* doing so *either* under strict international monitoring *or* through governments that can be given a fairly clean bill of health as administrators, the operation of tapping those sources should be easy to ‘sell’. The presentational tactics mooted in (g) and (h) above could readily be followed.

3 Obstacles to additional development finance

Several factors—depending on either objective interest or some other determinant of attitude—that constitute political obstacles to additional development finance will be considered here. In several cases, there will be suggestions on how any of the devices listed in section 2 may be used to surmount the obstacle concerned.

A common complaint among those who favour increasing development finance is lack of political will among the governments that would have to authorize it. Where these are governments in democracies there may well be a misperception or underestimation of the extent of support for ODA amongst voters (see 4 below). Yet certain expressed, intellectual grounds for opposition doubtless seep into popular consciousness and have a bearing on the general climate of opinion. Some of the opposition to additional development finance applies to all forms of concessional assistance and some to one or other of the innovative forms of fund-raising now being proposed. Amongst the opponents to *any* increase in aid are people who consider that developing countries do not need external assistance and others who are sceptical about the effectiveness of ODA.

(a) View that aid is unnecessary

Some observers argue that developing countries have sufficient capacity to raise any additional funds they need from domestic sources, while foreign direct investment, together with borrowing for economically viable projects, could provide all the external funding required, and the investment and loans would be forthcoming if only those countries’ governments would adopt appropriate policies.

It is not our business here to contest that set of beliefs, which may or may not be influential. Knockdown arguments against it are not easily found because its differences from our own view, or indeed from prevailing officially proclaimed views, are based not entirely on different beliefs about facts and social mechanisms but at least in part on

different values: differences in *attitudes* and not simply differences in *understanding*. If this outlook can be shifted, it may have to be through a combination of facts such as those about national incomes and budgets and costs of various facilities, and the extent of developed-country contributions, together with the opportunity to enter imaginatively into the real situations faced by individuals, households, entrepreneurs, and officials in countries of low income.

How can those who do see the potential value of additional aid manipulate the arrangements so that such underlying counter-aid orientations lose some of their political potency? This question will be considered below in answer to the same challenge raised by sub-section (b).

(b) *Doubt about the effectiveness with which aid is used*

A second source of scepticism about external financing relates to *uncertainty about the effectiveness of concessional external finance* in contributing to economic and social development. Critics on this score are opposed to growth of ODA, arguing that past experience shows that increases will not stimulate economic growth efficiently. They argue that much of it will be mis-applied or otherwise wasted; it will encourage tendencies within government to private rent-seeking; and what is available for public purposes will discourage local effort, saving, and economic reform. It is not that extra resources are not needed: simply that this method of attempting to provide them will be worthless or even counter-productive.

There is now considerable solid research ammunition against a comprehensive dismissal of this sort. Recent surveys have generally reached positive conclusions about the value of ODA. For example, McGillivray (2005) has surveyed the literature on aid and growth and concludes that ‘the overwhelming majority of recent empirical studies find that aid increases growth, despite many valid criticisms of aid delivery’. Aid increases public expenditure, including expenditures that aim to improve services for the poor. Donors are tending to focus more actively on policies that assist development than in the past, when the objectives of aid were more diffuse. In a widely read World Bank study, Burnside and Dollar (2000) concluded that aid works when allocated to well-governed countries. Others have reached more nuanced conclusions: that aid generally benefits growth, but the benefits are greatest in countries with well-judged policies. These conclusions underlie the recent growth of confidence in the effectiveness of ODA.

In an influential paper published towards the end of 2004, Clemens, Radelet and Bhavnani divide aid into three categories: emergency and humanitarian aid; aid that could affect growth only over a long period of time, such as to support democracy, the environment, health or education; and aid that could plausibly stimulate growth within four years, including budget and balance of payments support, and also investments in infrastructure and for productive sectors such as agriculture and industry. There is a strong, positive relationship between aid of the third kind, which accounts for 53 per cent of all aid flows, and economic growth over a four-year period, two to three times as large as between aggregate aid and growth. ‘Even at a conservatively high discount rate, at the mean a \$1 increase in short-impact aid raises output (and income) by US\$1.64 in present value in the typical country’ (Clemens *et al.* 2004: 1). This clearly suggests that aid targeted at stimulating growth is likely to be effective.

This empirical evidence at least raises questions for the ideological opponents of aid, many of whom simply mistrust public expenditure and public-sector activity in general, and it should also serve to reassure those who are fearful that aid creates dependence or reduces the motivation of receiving countries for improving the collection of national revenue or engaging in other economic reforms.

Partly because of its intrinsic character, this set of objections to aid is thus easier to contest than that outlined in sub-section (a).

The trouble, from a political viewpoint, with the counter-evidence is that it is likely to permeate to only a small section even of the economics profession, let alone become the stuff of public-house asseverations. It provides ammunition for arguments with politicians and officials, and a good licence for wording-up serious journalists and endorsing serious marketing in the cause of aid. It may gradually help to shift the climate of opinion. But a politically potent answer both to this objection and to that expressed in sub-section (a) may require not only some professional and transparently honest public-relations (combining the visual and personal perhaps with a few significant statistics) but also some segregation of different forms of aid, so that the case for each can be clarified without confusion.

A division comparable to that mentioned above derived by Clemens and colleagues might serve; a controlling consideration in determining the actual criteria used should be the likely perception of the public. For transparency and public-relations purposes, there might be a threefold division. There is emergency aid. There is aid, which, while not geared to any unusual disaster, is directly and manifestly humanitarian in immediate purpose. And there is aid that is predominantly directed to economic growth.

The first of this trio—disaster relief—is easy enough for people in donor countries to appreciate once they see on television, as most of them probably now do, the startling effects of famines and floods and earthquakes and hurricanes, and of course warfare. The response to the Indian Ocean tsunami suggests that, once people recognize with their own eyes, through repeated exposure, really serious need that clearly demands funds for its mitigation, they can be generous and expect their governments to be generous.

But it will be good to separate emergency relief in people's minds from the clearly and immediately humanitarian improvement that must go on year after year when nothing of striking journalistic interest is happening. This too is easy enough to understand, but there is less to see. Some deliberate educational or public-relations work is probably needed if enough people are to become its active supporters. The knowledge that a fund specifically for this class of activity is proposed may help to gain support for tapping whatever sources are under consideration for the purpose. The fund might hope to acquire the sanctified status of the UN Children's Fund, and to this end it might be endowed (perhaps from a separate source, such as a single very rich individual or foundation) with a budget that would allow it to do a certain amount of public relations. Vivid ways might be found of showing that, for say Uganda or Ethiopia, in spite of moderately effective governance, to provide from its own fiscal resources ARV drugs *and* impregnated bednets and antimalarials *and* vaccination against tuberculosis *and* free primary schooling and school meals, to all who could be regarded as needing these things, would require an inordinate proportion of the country's budget or indeed its

national income. And these are requirements that most people can readily see as essential.

The third segment, which might for marketing purposes be called a ‘self-help fund’, could cover the rest: not only infrastructure and training but most of the content of the Clemens *et al.* (2004) third category, the relatively quick-acting growth-increasing outlays, including such unglamorous but sometimes necessary elements as budget support, debt-reduction, port improvement, and feeder roads. Again it may not be difficult to make a convincing public case for these forms of help. After all the debt-reduction campaign since the mid-1990s has generated wide support that seems to have borne fruit. But, once more, relevant marketing will be needed, and the case is not exactly the same as for the other two categories. Publicity for the second and third funds might stress the extent to which their proceeds would be concentrated on countries with appropriate governance, as the Sachs report proposes, and might possibly stress also the extent to which methods of aid administration would be used that might enable the effects of bad governance to be circumvented, as suggested in 2(i) above.

There might be sense in proposing to divide the proceeds of any big new (‘innovative’) sources of finance sought between three funds specified in this way. There are good and easily explained reasons for all three. But the presentation of outlays of the three different classes together as ‘aid’ may confuse the cases for them. And it may make (political) sense to propose the assignment of one new, arguably global, source of funds to each.

Suppose a group of rich and not-so-rich countries such as the France-Brazil quadrilateral (perhaps also a number of others that assented to the New York Declaration of September 2004) were to agree with a number of effective campaigning NGOs that they would back, say, an air-ticket or aircraft-fuel and e-mail tax to supplement resources available for emergencies, a CTT for other humanitarian purposes (possibly including peacekeeping), and recycled SDRs (plus something else to pay the interest for the poorer supplicants) for infrastructure and training and other high-return growth outlays: could this, or support for any one of the funds individually, grow into a concerted campaign like the Jubilee campaign over debt?

This type of ‘assignment’ of particular revenue sources to particular purposes can be criticized on grounds of inflexibility and hence inefficiency (the usual objection to earmarked taxes), but it could sharpen a campaign for seriously *supplementing* the funds that are already available, which is all that is proposed here. The proposals in Part B below for institutions to allocate global-provenance funds could be applied whether or not the uses of the funds were separated according to source.

(c) *Hostility to globally networked governance*

A third obstacle is the movement of donor countries into unilateralism, as happened in the US during the first George W. Bush administration. How far unilateralism will continue in the second administration remains to be seen. American unilateralism has already constrained international organizations working collaboratively for development. The US since 2001 has opposed the creation of international forums for the promotion of common economic and environmental purposes, as for example on tax cooperation. Longer-running Congressional hostility to global governance has weakened the UN system and its finances, and constrained international initiatives that

would have served common goals—through either new institutions or new instruments within existing institutions—such as the International Criminal Court and proposals for review of various aspects of the international economic and financial system suggested for consideration at the Monterrey summit in 2002.

The obvious remedy here, though not necessarily an easy one, is to *prove* to any major country inclined to unilateralism that this orientation does not pay. In other words, there may need to be an effective *alliance* of developing countries prepared to *bargain* with the power inclining to unilateralism and prepared if necessary to withhold concessions within their collective gift that it would value.

(d) *Power of adverse vested interests against*

The huge inequalities of power between and within states give some of the people who would be most adversely affected by the various proposals for innovative sources of finance great capacity to resist them. Global corporations and business associations can be especially influential in blocking measures that they find commercially unwelcome.

So each of the innovative-finance proposals is likely to receive criticisms particular to itself. Banks, which are major dealers in foreign exchange, and oil companies, both especially powerful types of corporation, tend, for example, to be resistant to the proposals respectively for a CTT and for a carbon tax. Improved international tax cooperation was opposed by the US for a while, motivated by the opposition of corporations that had been minimizing tax through use of tax havens. Fortunately that US opposition has been withdrawn, in order for action against money laundering by terrorists to be strengthened. In fact, the US has also come to oppose tax havens unambiguously.

The failure of OECD countries to act together to tax unrepatriated income earned abroad by their multinationals, a failure largely prompted by influential multinationals from certain countries, has been blamed (Littlewood 2004: 425-7, 454-7) for a loophole concerning this element of income in the tax regimes of most rich countries. This loophole also damagingly leaves incentives for the countries in which the investments are located to reduce taxes competitively on inward foreign direct investment. Vested interests in tax loopholes may well have a bearing on the refusal of the present US Administration even to discuss the formation of a global institution for the promotion of tax cooperation.

The wide departure from the population principle over the allocation of voting power within the Bretton Woods institutions, in which developing countries' people are severely under-represented, is another arrangement with implications for proposals on innovative finance for development. So the opposition of just a few members has been enough to prevent new issues of SDRs since 1981. (On the one occasion, in the mid-1990s, when the US administration spearheaded a proposal for an SDR allocation that in the circumstances required amendment of the IMF's Articles of Agreement, and had the whole package approved by the necessary majorities in the IMF, the project was stopped by the failure of the US Congress to ratify the amendment.) The opponents' ostensible reasons have bordered on the national or ideological. Thus new issues have been opposed by the US Treasury for much of the intervening period apparently because its officers dislike the idea of a further competitor to the dollar as an international reserve currency. They have been opposed over a similar period by

Germany, probably on the ground of the inflationary impact that additional international currency might be supposed to have. Yet it is not impossible that interests of a sectoral character, such as that of financial enterprises within the major economic powers, have played a part in their governments' resistance on these grounds, resistance which the countries' own voting-power within the IMF has made conclusive.

The general cast of remedy here is probably to make clear that the vested interests concerned conflict with the national interests of the countries whose policies they influence. In other words, of the four requirements listed earlier, it is primarily *information* that is needed: making clear that, from the viewpoint of nations, we may even in some cases be considering what are more or less win-win-improvements that respect for vested interests is leading governments to reject.

(e) *Ideological opposition to aid or to particular measures for financing it*

There are philosophical and ideological opponents to several of the particular 'innovative' proposals for aid—in addition to the general scepticism on the part of market fundamentalists over any suggestion for increasing public revenue and expenditure.

There has, for example, been intense opposition to a CTT from within the US Congress, which, in 1996 passed an Act requiring that before the US pay any assessed or voluntary contribution to the UN or its agencies the President must certify that the receiving agency has 'not engaged in any effort to develop, advocate, promote, or publicize any proposal concerning taxation or fees on United States persons in order to raise revenue for the United Nations' (Raffer 1998). Opposition from Congress is an expression of habitual hostility to any proposal that would affect national sovereignty. However, the particular animus in this case seems to have been based in part at least on a misunderstanding. Often the CTT in the form discussed is misrepresented as a UN tax. Yet this is quite impossible: only governments can tax; the UN does not have that power. Without big institutional developments, any so-called international tax could only be the result of international agreement and would still have to be collected by national authorities.

The more doctrinaire neo-classical economists are sceptical of any idea that would involve intervening in markets, arguing that this would distort competition and reduce efficiency; and most taxes do in fact have some potentially 'distorting' effect in this sense. The saving grace is that these extreme views are of course not universally held among officials of rich-country treasuries and finance ministries, or of the BWIs and the OECD, even where they may appear to represent the prevailing view. Their political masters and mistresses are if anything even less likely to be monolithically doctrinaire. Successful democratic politicians are rarely ideological extremists. So there may be opportunities for developing-country governments, sufficiently well-briefed and united on particular issues—and perhaps supported by non-official allies—to wear down ideological opposition. *Attitudes* and *understanding* may both need to be modified, but, even where the opposition at first seems obdurate, there may well be chinks that can be exploited.

There are also strong *advocates* of aid, and specifically of innovative sources of finance, as will appear in section 4. The questions are whether they or the opponents are likely to have greater weight in the various arenas where a contest can be played out; if the latter, whether there are potentially effective actions that could change the balance; and, in view of judgments on these matters, which arenas are worth entering for the advocates of more development finance. These questions are considered in section 5.

4 Potential support for additional development finance

Two events at the beginning of 2005 suggested a strengthening of support for aid to impoverished countries. By far the more important was the global outpouring of contributions to disaster relief for the survivors of the Indian Ocean tsunami, which also shamed governments into increasing their aid. The swift global response to the disaster showed that the human instinct to help others in desperate need continues to be strong in many people, and that this can bear fruit when they are vividly enough aware of the need. The enormity of the disaster evoked substantial giving and mobilised external physical assistance from many countries. The level and extent of contributions to the appeal for tsunami victims is one of many reasons for thinking that there could be sufficient depth and breadth of concern for poverty internationally to motivate support for new and demonstrably effective ways of mobilizing funds.

The second ground for encouragement was the vote at the World Economic Forum at Davos endorsing a motion that tackling poverty was the most important global issue. Bono remarked that ‘something significant is emerging, and I have the feeling this is one of those moments we will look back on and say it marked a turning point’. There was reported to be an erosion of confidence in the military campaign against terrorism and recognition that much more needs to be done in the non-military dimension and that business has a vital interest in contributing to this (Kitney 2005: 53). The G8, meeting against a background of unusually public and coordinated campaigning on aid, trade, and debt questions at their summit in July 2005, agreed to double aid to Africa by 2010, implying ostensibly an additional US\$25 billion a year (*Financial Times* leading article, 9 July 2005). The World Social Forums, mostly held at Porto Alegre, have repeatedly demonstrated some of the breadth and depth of concern for global social justice.

What then are the forces on the side of increasing aid?

(a) Popular support for aid

Within donor countries there has always been substantial support for ODA, the strength of which naturally varies between societies and over time. In the US, the highly industrialized country which gives the lowest amount of aid as a proportion of income, a study of public attitudes found that most Americans supported the principle of aiding developing countries, but that they over-estimated the amount given by the US by between 10 and 20 times or more. That is, the median estimate of the proportion of the US budget given as foreign aid was between 10 and 20 per cent in various surveys. In fact it is much less than one per cent. When those questioned were asked what proportion they thought it should be, the median response was 5 per cent, much more than five times as high as the actual level (Kull and Destler 1999). Readily available, accurate information is a necessary condition for public support for aid. This evidence

suggests that much greater generosity may prevail if people are given enough accurate, relevant information.

According to the Landau Report (France 2004a: 61), surveys have shown that 92 per cent of the public in Germany supported development aid in principle, 79 per cent in the US, 78 per cent in the UK, and 74 per cent in France and Japan. Support for *increased* ODA was expressed by 83 per cent in Germany, 81 per cent in the US, 72 per cent in the UK, 68 per cent in Japan, and 96 per cent in France. While these results may exaggerate the support that aid would receive if its opportunity-costs had to be taken into account, and the support in the US for *increasing* aid seems much greater than would be consistent with the Kull and Destler findings mentioned above, they at least suggest a potential that might be realized if ruling politicians were so minded.

(b) *Increasing support among developing-country governments for innovative sources of finance*

Potential beneficiaries are becoming increasingly strong supporters of innovative methods of financial assistance. For example, there was uncertainty amongst the G77 (developing countries) about supporting a CTT and other innovative sources of funding during the negotiations about the content of the declaration to be issued by the special session of the UN General Assembly on social development, held in Geneva in June 2000. Yet by September 2004, over 100 countries accepted the invitation of Brazil, France, Chile and Spain to attend a summit meeting in order to discuss ending poverty and hunger. The meeting considered a report by a Technical Group of experts on innovative sources of financing (the so-called Quadripartite Report (France 2004b) issued by those four governments, which took up the agenda studied by the French Government's Landau Report). At the end, 113 countries supported the New York Declaration (Brazilian Mission to the UN 2004), which includes a paragraph on the innovative proposals:

In addition to the need to raise and improve assistance levels, we acknowledge that it is also appropriate and timely to give further attention to *innovative mechanisms* of financing – public and private, compulsory and voluntary, or universal or limited membership – in order to raise funds needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid. In this respect, we urge the international community to give careful consideration to the report that has been prepared by the Technical Group.

This report (France 2004b) explores ways to find new resources for development, on a sound economic basis and at a significant level.

The Declaration was supported not only by developing countries: many European countries also signed. Many national representatives were explicit in their expression of support for the Technical Report, which included analysis and positive comments about a CTT, taxation of the arms trade, the IFF, issuing SDRs, and improved international tax cooperation. This meeting was the first at which most of these issues had been explicitly placed on the inter-governmental agenda. Developing-country governments have been catching up with many of their parliamentarians, academics, some of their business people, and their civil-society organizations, who have long been advocates.

(c) Support from non-governmental organizations in the rich world

Many scholars, development NGOs, and faith-based, professional and social-democratic and liberal organizations from developed countries have been advocates of innovative methods of financing for a decade or more. Universities often have a conceptual interest and at the same time receive financial benefits from the fees of international students, the number of whom increases with the growth of income. Private foundations are sometimes involved in philanthropy for developing countries but want dependence on their assistance to fall and so are interested in alternative funding mechanisms as well as the pace of economic growth. Anti-globalization protesters have also advocated internationally agreed taxes. The political norms of international discourse include international justice and so incline towards support. Likewise, the staffs of international organizations, including the IMF and the World Bank, and UN agencies such as the ILO and UNDP, are generally, though not uniformly, supportive.

Several international civil-society and professional development networks linking concerned organizations have been effectively active for some years in supporting the tapping of innovative sources of finance. They include both the international development organizations and specialist study and advocacy groups. Potent examples include: the international Catholic development network, CIDSE; the French-based, but now more widely spread, ATTAC; War on Want in the UK; New Rules in the US; and the Halifax Group in Canada. They have major achievements to their credit. A recent development that must be encouraging for these networks and possibly demonstrates their effectiveness is the call by President Chirac at Davos on 26 January 2005 for various innovative ways of financing development, and the support of the French and German governments, announced in February 2005, for a pilot IFF project on immunization, and also for a tax on air travel (tickets rather than fuel being the base favoured just before the July 2005 G8 summit) ‘which would finance health programs in the poorest countries, especially for AIDS’ (France 2005a). One of the sets of illustrative rates cited for the air-ticket tax was estimated to yield, with full participation, 10 billion euros a year (France 2005b). Another encouraging development for the campaigners is the passage through the Belgian parliament of statutory support for a CTT.

(d) Support from multinational businesses

Many multinational corporations with interests in developing countries—through production, trade, financial intermediation, international consultancy or tourism—have also been supporters of increased aid and might well become advocates for any methods of financing that would add to aid flows without cost to their own activities.

(e) Increasing recognition of the importance and range of global public-goods

The imperatives of globalization highlight the necessity for improvements in the provision and extension of global public-goods as well as the demands of equity, and this is increasingly widely recognized.

5 Ways of overcoming or circumventing the obstacles

(a) *Main ideas and inferences from sections 3 and 4*

Four main points emerge from these last two sections as guides about what is likely to be useful in breaking down barriers to additional development finance and especially barriers to ‘innovative methods’, some of which may most naturally lead to funds administered and allocated globally.

One is that professional but transparently honest public-relations work, involving not only key relevant facts in a widely digestible form but also some immersion (through say television) in the visible and personal realities of world poverty, may be necessary to realize the potential for public support that is latent in rich countries.

A second is the possible value, for reasons of public relations and indeed public understanding, of some segregation of funds—especially perhaps those raised by innovative methods and allocated internationally—according to two or three broad purposes, such as ‘emergency’, ‘humanitarian’, and ‘self-help or growth-generating’ (which could include transport and energy infrastructure and possibly most forms of training). For practical purposes, this may make one degree clearer what ‘aid’ actually means. (The Landau Report (France 2004a: 25-6) puts the case for possible earmarking of the proceeds of an international tax.)

A third is the special opportunities provided by funds of genuinely global provenance, partly because they make it relatively easy to introduce the greater transparency following from the kind of arrangement just mentioned, fortified by devices adopted to neutralize the effects of weaknesses of governance among some recipient countries; partly because they permit a definable strategy to be adopted over a significant part of world development aid (which will itself have public-relations advantages); but partly also because they enable the political hurdles and hazards of national budgetary processes to be circumvented. (The last of these advantages arises in part because the costs of the aid can be widely diffused; and hence, in spite of complete openness, may not be readily noticeable by those that bear the burdens; and may sometimes be zero or even negative on balance, or at least of dubious sign).

A fourth is the need, and the great potential, for mobilization of the numerous forces—governmental, commercial, and humanitarian—favouring additional development finance. Not simply pleas and protest but hard-headed negotiation will be needed; and this is unlikely to happen unless developing-country governments are prepared to play an assertive and coordinated leading role.

(b) *Conditions for mobilization*

If the forces are to be mobilized, then, governments of some major developing countries must be prepared to take the lead—with or without the support of sympathetic affluent countries. It will be most valuable and effective if alliances, or an alliance, can be formed *over a range of issues* relating to poverty and development, a range that goes beyond additional finance. This will provide a richer field for negotiation, which is always more likely to realize benefits for both sides if several issues are on the table together. However, it is likely to require the various parties on the developing-country side to make some concessions over their particular concerns for the purpose of being

able to act together. To be most effective the lead governments (i) will need to be authorized by a number of others to act together on their behalf; (ii) will equip themselves with a high-powered secretariat to concentrate the intellectual and research resources of the alliance; and (iii) will be prepared to interact with NGOs and other potential allies. The task will be facilitated if the campaigning NGOs that are generally sympathetic to development and anti-poverty aims are prepared to behave to some extent tactically and to concentrate their immediate demands on targets that have a reasonable chance of being achieved (rather than, as sometimes happens, dulling their message by appearing to make common cause with every movement of protest against the world as it is).

Yet, though a steady alliance over a range of issues represents the ideal, solutions that appear to be second-best may have to be accepted because they are available. A limited ad-hoc coalition of developing countries can achieve significant victories, as demonstrated powerfully by the (new) G20 led by Brazil, China, India, and South Africa during the 2003 Cancún trade negotiations. The formation of this group suggested a redistribution of power resulting from changed attitudes rather than from changes in weight. The Summit in New York called by Brazil, France, Chile, and Spain in September 2004, as mentioned above, is an example of another species: a core-alliance between countries across the 'North-South' divide—even though there are widely different interests within that group about agricultural trade. Its members may continue to act together in order to promote the study of innovative finance and perhaps, as suggested above, campaign together for the innovative sources that they judge most politically feasible.

There is a crucial opportunity for either of these groups to exert influence during the negotiations on Kofi Annan's proposals for upgrading UN policy on development, security, human rights and UN reform in his report entitled *In Larger Freedom*.

(c) *Innovative sources: aiming at soft targets*

The public-relations activity suggested above may have favourable effects on the amount of *national* ODA provided. But, together with the 'segregation' of funds by major purpose, it fits most easily with *sources of finance that can be globally allocated*, as explained above at the end of section 2. Some of the 'innovative' methods must by their nature be treated as global: others may be. In any case, the more intrinsically global of the innovative methods avoid the need to be subject to national budgeting. And it seems likely that any big increase in funding within the near future, an increase of the order foreseen in the Sachs report as necessary for meeting the MDGs, will have to rely extensively on innovative methods. So the remarks in this section mostly refer to innovative sources.

A sensible rule for groups of governments wanting the world to tap new sources of development finance may be to pick those that seem for the time being to represent relatively 'soft targets' politically; to reach understandings with sympathetic NGOs that they will embody these explicitly and prominently in their campaigns; and to do what they can to form governmental alliances that will be prepared to negotiate the targeted approaches against objectives valued by the major economic powers that will have to be brought inside.

What makes targets ‘soft’ may be (i) the absence of serious and objective national, as distinct from sectoral, interests against; (ii) gains of a common or fairly widespread ‘public-good’ character across nations from tapping them (gains that may be incidental to the financial proceeds); (iii) clear paths to implementation, requiring a minimum of active administrative cooperation and coordination among governments; (iv) the absence of clear and striking inequity in the distribution of any burden; and (v) the absence of intense ideological fervour on the other side.

Which innovative sources best fit these requirements at any time will be a matter of judgment. We consider how some of the candidates meet these tests.

- *Tax cooperation*: As pointed out earlier, some important objects of tax cooperation can be expected to give fiscal gains (or at worst no losses) to all the large sovereign parties, rich and poor. These ought to be the star examples of soft targets for advocacy and negotiation. If a number of prominent developing-country governments that would be major beneficiaries of a particular measure of this character (such as a uniform withholding tax on all interest income flows to non-residents as a means of eliminating the tax-evasion obtainable through capital flight) could combine to press for it (and/or for an international body likely to further its realization)—enlisting for the purpose campaigning NGOs and those rich-country governments that they could muster in support, and drawing in the highest level of intellectual ammunition—there would seem to be good *a-priori* reasons why they should prevail, even if no concessions on other matters of primary interest to some rich countries were simultaneously on the table for negotiation. Though the US has recently set its face firmly against an international tax organization of the kind advocated by some of those eager for reforms, the UN agreed in 2004 to upgrade international tax cooperation by establishing a strengthened Committee of Experts on International Cooperation on Tax Matters. Both the OECD generally and the EU have moved in the direction of eliminating the capital-flight abuse among their members, and the OECD has engaged in continuing activity against tax-havens (Avi-Yonah 2000: 1654-62; OECD 2002; France 2004a: 52-4). This is at least a half-open door.

- *‘Increasing remittances’ benefits*: The Quadripartite Report (France 2004b) uses this expression to cover measures (which in general it supports) to preserve and enhance the value of migrant workers’ remittances to their (usually poorer) home countries. A particular mode of doing this has been suggested (Clunies-Ross 2004, largely drawing on Addison and Chowdhury 2004, and Solimano 2004) under which the only cost or pain would be to certain (largely informal) financial intermediaries, and the gain would be not only enhancement and increased security for the migrant funds but also incidentally some addition to funds available at any one time for lending at non-concessional rates by the World Bank. This again should be a very soft target politically, requiring only some coordinated assertion by the governments of beneficiary countries with a carefully-worked-out scheme to propose. (As if to emphasize the relatively easy path likely to be open to this and the preceding method for increasing development finance, the Quadripartite Report places them under the heading ‘Political Coordination’.)

- *International finance facility (IFF)*: This (since early 2003 the ‘innovative method’ most consistently championed by the UK government) would depend on an agreement among major donor countries to commit a certain part of their ODA (specifically the extra that they had promised in and after the Monterrey Summit in early 2002) to the

servicing of loans that would be raised in the markets. The borrowing would be done in order roughly to double the disbursements that could be made as aid to developing countries in the years leading up to the MDG deadline of 2015. To achieve this, the participants would need to commit themselves initially not only to honour their Monterrey offers but also to increase them in real terms at 4 per cent a year for at least 15 years, with rolling commitments that would need to extend for a further 15 years if the increased rate of disbursements were to be maintained until 2015. But the additional aid disbursements provided would be essentially bilateral in that the donor countries would each decide individually the projects or programmes for which the funds raised by virtue of its guarantees of servicing payments would be spent. Any joint organization would be a purely financial intermediary, with no allocative function. It would issue bonds in the commercial markets, and would service them from the funds provided by the donor countries. At the same time it was intended that a certain degree of coordination of allocation among the donors would be achieved and a number of specific rules of good aid practice observed. The laudable aim was thus to gain substantial benefits for 'development' without the normal political costs: to improve the quality and coordination of aid while not requiring donors to vote funds to international institutions; to increase greatly the quantity (immediately) disbursed to recipient countries without increasing greatly the amount (immediately) voted by the donors.

However, there would be inevitable doubts over how far the legislators of donor countries could bind their successors far into the future to meet the obligations required—and how far the markets would believe them if they purported to do so. As security against default, the projections suppose that only 80 per cent of the funds committed in advance by donors would be necessary to meet servicing costs: a sensible precaution but one that implies that the commitments by the donors can not be assumed to have a cast-iron character. There were also misgivings expressed from the first over the projected pattern of cash flows to recipients in the form of aid, which would fall sharply after 2015. The Landau and Quadripartite Reports (France 2004a: 24-6; 2004b: 46) suggest that some other new source such as a tax might need to come, or to have come, on stream at that time in order to avoid such a fall. An apparent advantage over some other proposed innovative sources was that the scheme could work if necessary with a small number of donor participants.

The fact that donors participating would need to commit their countries (eventually for 30 years if the full programme with safety margin were to be completed by 2015) to increase the post-Monterrey segment of their annual aid appropriations by 4 per cent in real terms each year, would mean that that segment would have risen by about 224 per cent (that is to over three times its initial real value) at the end of the 30-year period. As time went on, this segment might well come to represent a very large part of their total annual aid appropriations, and still in the early 2030s they would have no discretion whatever over how it would be applied: it would be committed to servicing debts already incurred.

In early 2004, it appeared that only France and the UK among potential donors were committed to the IFF. By early 2005 at the Davos meeting, France and Germany were not ruling it out though they were mainly backing other innovative methods. Yet, as mentioned above, a pilot IFF scheme for immunization supported by Germany and France was put on the agenda of the July 2005 G8 Summit and is now underway.

- *Agreements among governments that each should impose a tax for global use on some negative externality or untapped base (such as carbon emissions, arms sales, airline fuel, air tickets):* Some or all of these are considered attractive because they are held to offer the (armchair) advantage of ‘double dividends’: charging for a negative ‘externality’ as well as raising revenue.

Though these various possible bases have their own differing advantages and difficulties, they also present certain problems in common. None of these tax-bases can be regarded as *intrinsically* global: a considerable amount of revenue can probably be raised from each of them by individual governments without international cooperation. In addition, each government will need to apply the tax individually if the base is to be adequately covered across the world. (In both these respects they differ from a CTT.)

Anything resembling a consistent global tax on any of the bases will require legislation and the relevant administrative arrangements on the part of nearly two hundred separate states. Any lack of confidence among the world’s governments that the cover will be substantially complete may affect their willingness to take part: the doubts will tend to be self-fulfilling.

There is another awkwardness. There is no natural link between imposing the tax and directing its proceeds to global purposes. A government that imposes the tax within its jurisdiction may see no powerful reason why it should not keep the revenue for itself. The distribution of the tax burden in relation to income across countries from a constant *ad-valorem* or specific tax on any of these bases is also not likely to be progressive in relation to income. In fact a uniform carbon tax would be highly regressive across certain rich-poor pairs of countries (such as China-Japan, India-USA). Or the incentive effect of the tax may bear especially hardly on particular groups of poorish countries, as an air-travel tax is likely to do on small island-states specializing as tourist destinations. In summary, considered as world taxes, levies on these bases are unlikely to be equitable. If it is good to impose them for the sake of charging for negative externalities, there is still no good reason why the proceeds of *those* taxes, rather than graded income-based levies on the various states, should be devoted to global purposes. It would be surprising if the anomalies of any such proposed arrangement did not assume political importance.

It would also be only by very good luck that the two elements of the ‘dividend’ could be made simultaneously significant, while also satisfying the requirement that the tax should not be so severe as to put it outside the realm of political feasibility: a total of three demands upon it. It is not difficult, for example, to think up a rate of additional carbon tax small enough not greatly to annoy consumers and at the same time large enough to make a substantial contribution to global funds, even if levied only within rich countries, but such a rate would have little impact on carbon use.

Though, as noted above, Germany and France are actively supporting the use of a tax on air tickets, the Quadripartite Report (France 2004b: 36-41) considers from among this group only *taxes on arms sales*—sales in general, not simply exports—and the device supposed seems to be in effect a uniform tax on value-added in armaments, which is equivalent to a uniform tax on final price. The Report treats the possibility as important, but its own discussion suggests that implementation would be riddled with difficulties. An underlying anomaly is that the governments, the taxing authorities, are also the main users of the taxed articles. While arms taxes are supposed to be attractive on the ground

that we all want armaments to be discouraged by increasing their cost, governments will inevitably have been geared in the past to keeping the cost *down* and getting as much weaponry as they can from any outlay. There may also be powerful military vested interests that simply want more lethal hardware as toys for themselves regardless of what other states are doing. It may still be rational for a government to raise the cost of procurement against itself if it sets some value on what will be done with the proceeds of the tax, believes that the world including its own constituency will be safer if there are proportionately less armaments all round, and at the same time believes that others are very likely to comply and that its own compliance will increase the likelihood of compliance on the part of its potential enemies. But that is a large number of *ifs*. Free-riding, especially if it can be concealed, may well be attractive. Often there will be wide scope for doubt and argument about what is a market-price, especially but not only when a government is producing arms for its own use. The market for large-scale armaments is far from perfect.

A world arms tax for global purposes on the lines envisaged by the Quadripartite Report will require two hundred or so states, producers and non-producers, net exporters and net importers, to legislate for, and administer, complex internationally-compatible value-added-type tax arrangements, under which the major producing and exporting countries (a few rich states plus Israel, Russia, and China) will have by far the greatest opportunities for fudging. After charging the costs of administration, all would then remit the rest of the proceeds to an international authority. It would not be at all surprising if a number of poorish countries would under the arrangement be bearing a larger burden as a proportion of their own incomes than a number of rich countries.

The arms-sales tax sounds politically attractive as a disembodied idea. The closer we come to envisaging it in practice, the less compelling the attractive features seem.

A coordinated *tax on aircraft fuel* would certainly raise less practical problems. And its global assignment would be more acceptable on equity grounds. By a strange anomaly, aircraft fuel has long been free of duty under international agreements. For the most rudimentary reasons, it is inefficient that aircraft fuel should be tax-free while fuels for competing modes of transport are taxed, as they mostly are in rich countries. This is quite apart from the important negative externality involved in all hydrocarbon burning because of its contribution to climate change.

There are good grounds for scrapping the exemptions; for taxing aircraft fuel; and for doing so uniformly. To agree on that would be an achievement. But it would be another big step politically to devote the proceeds to global purposes. However, the distribution of the burden across countries will be in general positively, and quite possibly progressively, related to income. Any inequities are likely to be much less glaring than with assignment of a uniform carbon tax or a uniform arms-sales tax to global use. There would be vested interests in a number of countries against it, and probably a modicum of grumbling everywhere about higher air fares. Cheap tourist destinations might suffer differentially. But the welfare case for the tax itself could be presented so that it would be difficult to gainsay through any intellectual argument. And, if the international purpose for which it would be used could also be effectively presented to the relevant publics, its global assignment might even on balance be popular. If the fuel were to be taxed everywhere at rates similar to the highest applied to petrol for road vehicles in Western Europe, the contribution that the proceeds could make to filling the Sachs Report gaps could be significant.

An alternative, with broadly similar advantages and drawbacks, would be a uniform *tax on all airfares*, a proposal actively supported at the time of writing by France and other governments, as already mentioned. However, the case for it would be less strong because the lack of a tax on aircraft fuel can be readily presented as an anomaly, and on environmental grounds it is more efficient to tax the particular polluting input rather than the output.

- *Regular issues of SDRs, and their recycling*: Despite the almost consistent opposition on the part of the US, Japan, Germany, and the UK over most of the past quarter-century, the regular creation of SDRs would appear to have virtually all the characteristics listed above for qualifying as a soft target.

First, though some firms in the financial sector may consider they have interests against it, the only arguable national interests against are those of the countries, mainly the US, that are able to continue accruing short-term debts as foreign holdings of their currencies expand. Foreign holdings of these currencies, even official foreign holdings taken alone, will continue to grow in the face of the annual amounts of SDR creation generally discussed—and in fact to grow by larger absolute amounts than the stock of SDRs. In any case it is dubious whether adding to these holdings without limit is an unalloyed boon to the countries issuing the currencies held—let alone something that they can consider a right.

Second, SDR creation would make a contribution to the world public-good of economic stability. The issue of SDRs not only increases the real income of most developing countries by reducing the costs they incur for holding reserves, but also, insofar as it leads them to increase their reserve holdings, contributes to the stability of their currencies, failings in which, as the East Asian crisis of 1997-98 showed, might have important implications for the world economy. (The contribution to world macroeconomic stability could, on the face of it, be considerably increased if, as the Quadripartite Report (France 2004b: 48-49) suggests, the issue and withdrawal of SDRs could in part be managed counter-cyclically; but this would require alterations in the IMF's working rules and possibly also in its Articles of Agreement; and there would undoubtedly be knee-jerk reactions against.)

Third, the 'path to implementation' for regular 'allocations' of SDRs could hardly be clearer or simpler. IMF staff moreover have often been favourably inclined.

Fourth, in spite of the fact that the conservative US Congresses of the late 1990s chose to frustrate the attempt of the Clinton Administration, backed by most of the rest of the world, to increase the stock of SDRs significantly and also to make their cumulative distribution more equitable, the issue can hardly be said to have generated ideological fervour.

Several of the same advantages can be predicated of the proposed 'recycling' of the 60 per cent or so of each allocation of SDRs that would pass to rich countries, which have no use for them. Recycled SDRs would be most obviously 'global-provenance funds', necessarily available for international use. Making them the basis of low-interest loans for global purposes—more or less as proposed by Soros (2002), and endorsed by the Quadripartite Report (France 2004b: 48)—would appear to have no readily detectable costs for any 'nation'. It could be used, to take one example, as an effectively no-cost way of reducing the burden of the deadweight debt of certain poorish countries, with

advantages not confined to those countries alone. There would admittedly be institutional paths to be worked out, but they do not seem intrinsically difficult. Allocation of the recycled SDRs might be managed by the mechanism outlined in part B below. Countervailing fervour seems unlikely to be serious.

Altogether the ramparts against the regular issue of SDRs and their recycling seem intrinsically weak. But nothing is likely to happen in the near future unless the major developing countries take the issue on board as a matter for serious and assertive negotiation.

- *E-mail levy*: A tiny levy on e-mails, administered by the ISPs, and having the public-good impact of reducing ‘spam’, is an attractive idea but perhaps needs further exploration. Part of its political attraction is that it would not need to involve governments. But that emphasizes the major ground of doubt about its practicality: that it would depend on the voluntary cooperation of a number of private firms—on their readiness both to make and to observe an agreement for imposing the levy, and also to remit its proceeds to some world body for allocation. However, the history of the internet has displayed some striking examples of apparently disinterested behaviour. And perhaps some arrangement could be found—some system of charging senders and/or recipients—whereby those ISPs that failed to charge would lose customers through failure to discourage spam. Devoting the proceeds of the levy to global use would be a further step. But perhaps, if the use could be one segregated in such a way as to have enough moral/emotional appeal, that too could have a commercial advantage, or at least no significant disadvantage, for the ISP. Again appropriate segregation of funds by class of use may be crucial.

- *Deep-sea mineral rents*: Though this is not an issue at the moment, it is important that campaigning NGOs, developing-country governments, and all those concerned about either development or rudimentary justice, make clear that they will be adamant in support of the arrangements approved under the 1978 International Law of the Sea Convention for treating any economic rents of these deposits as a world resource. There will be vested interests keen on upsetting these arrangements for their own benefit. But it is a case in which international law, natural justice, and the purposes covered by ‘development’, all point in the same direction, and there is no coherent ideological position on the other side. Attempts to nullify the exercise of the world interest in these resources can readily be, and must be, exposed as simple plunder.

- *Currency-transaction tax*: Given the way its implementation can now be envisaged, a general CTT as a source of global funds has a number of intrinsic political advantages. Its costs, though real and concentrated to some extent on the financial sector, will be otherwise highly diffused nationally and individually, and, because of that concentration on the financial sector, will on the whole be mildly progressive across nations. It appears now that it could be imposed given only the active cooperation of five monetary authorities, with a few others ready to cooperate if need be. This is all that will be required if the method adopted for imposing the tax is to collect it on settlements of transactions within banking systems (Schmidt 1999, 2001). And it now seems that this is the method by which a CTT could most securely be implemented. This mode of imposition appears to be accepted as a possibility within the IMF staff (Ter-Minassian 2003), and it is presented in the Quadripartite Report (France 2004b: 32) as probably the most reliable method. Objectively the political odds would appear to be fairly heavily in its favour. It might look quite like a soft target.

We have argued for the advantages springing from the fact that a source of funds is of 'global provenance', which means in effect that it must be allocated under global authority. A CTT (most clearly if it is collected at the point of settlement) has to be so regarded. Those authorities collecting it can not be deemed to own it. The world will be asking them to collect the tax on its behalf. Their own peoples will bear only part of its burden, and the administrative costs of collection by the settlement method will be small. If they were to keep for themselves more than a tiny fraction of the revenue they had collected, this would simply be theft.

Yet at the moment there are two difficulties: one technical, the other political.

The technical difficulty is that there is no approach to certainty on how activity in the currency markets, and hence the revenue collected, will respond to different rates of tax. This might be overcome by starting with a tax at an extremely low rate and raising it gradually and experimentally. But this, however rational in principle, would probably seem a strange proceeding, readily open to contumely from interested opponents. Econometric research now under way, however, may before long provide reliable enough estimates to justify less tentative implementation.

The strictly political difficulty is this: the cooperation of the US will be essential whatever the method of collection. Yet the fact that in 1995-6 the UN Secretary-General, Boutros Boutros Ghali, had merely mentioned the possibility of a CTT and a UN Specialized Agency had run a conference to discuss the idea and published the papers and debate covering a variety of views, led to the violent reaction mentioned above in the US Congress. This response probably drew on fairly deeply rooted attitudes in a number of the members of the very conservative 104th Congress, and the fact that it took flight depended partly on ideology, partly on ignorance. Greater clarity and consensus on how the tax will actually be imposed and what its impact on the markets is likely to be may eventually enable a more rational debate to take place. But time may be needed before that clarity and consensus can be reached. Just now, there may be no great advantage in trying to negotiate it—in spite of considerable support in a number of rich countries—given that US Congressional approval will be crucial. It is not yet a soft target.

So a CTT, possibly the most promising of all the innovative methods on a longer perspective—not least for what may eventually prove political advantages—will probably have better prospects when some more systematic work has been completed on its revenue possibilities; when there is more clarity and agreement in sympathetic circles on its mode of administration; and when the aftershocks of the ill-informed hysteria attaching to its 1996 exposure have had more time to subside.

Maybe, after the completion of empirical research now in progress and further study over the next four or five years, it will be worthwhile bringing the CTT again into the arena.

6 Conclusions on eligible sources and tactics

Two sorts of conclusion arise from this discussion: on (i) which devices for increasing funds appear politically within range and, given their other advantages, justify

concentrated assault; and on (ii) which strategies or tactics are particularly likely to help.

(a) *Eligible devices for targeting*

The most eligible immediate targets seem to be those that approach win-win (Pareto-type) improvements, at least as far as concerns the various nations taken as wholes. A prospective gain all round may sometimes result from the fact that the method for enhancing development resources also serves to advance some (other) global public-good. On these grounds we should aim at:

- International tax cooperation toward certain ends, in particular (i) blocking paths to the evasion (and incidentally concealment for other purposes) achieved through capital flight and the use of tax havens; and (ii) removing the incentives from host countries for competitive reduction of business taxes for the purposes of attracting foreign investment.
- Measures to maintain the value of migrants' remittances.
- Regular issue of SDRs, and recycling of those that are 'surplus'.

Among the various suggestions for coordinated taxes across the world on certain untapped bases or negative externalities, the most promising politically and administratively of those mooted seemed to be:

- A universal and equal duty on aircraft fuel; with a tax on all airfares a possible substitute but one that is less environmentally efficient but in mid-2005 appears to have more political support.

From the same category, we were highly dubious about a universal tax on arms sales for both administrative and political reasons.

- A further possibility discussed, with *prima-facie* political appeal, is a uniform additional carbon tax, which could on principle realize large amounts of revenue from fairly trivial rates of levy, even if only the rich countries complied. (It would in fact raise problems of inequity *unless* it was confined to rich countries.) Administration within each complying state would not be difficult, but, as with the rest of this class of tax proposals, getting sufficient agreement to tax *and* to devote the proceeds to global use might be daunting.
- An e-mail tax, administered entirely by ISPs voluntarily, might be worth investigating to see whether incentives, reinforcing goodwill, could be devised so as to discourage free-riding.
- On current evidence we doubt that the IFF, *as a widely supported scheme channelling a large share of the ODA from most donor countries*, has enough political attractions—for enough of those that would have to finance it—to compensate for the demands that it would make upon them and its other arguable drawbacks. Support for the proposed pilot on immunization, however, might demonstrate further possibilities.

- A CTT, perhaps the most promising of the innovative methods in the somewhat longer term, seemed eminently worth further work now, so that agreement might be reached on its mode of imposition, and greater certainty over its revenue possibilities and impact on the markets. But active attempts by interested governments to bring it into being might best wait for say four or five years, in order to give these developments in knowledge and thought time to mature, and to give hostile knee-jerk reflexes in the US Congress time to die down.

(b) *Elements of strategy and tactics*

Four elements have been emphasized, all obvious enough when enumerated but, we suggest, too little considered so far in the context of increasing and improving aid. The cases for the first three are inter-connected, and the argument for each would be strengthened by the presence of the other two. These are:

- Professional, but scrupulously honest and accurate, public-relations material, financed if possible by private sources, combining a few hard quantified facts with personal and grassroots stories and pictures;
- Special attention to those ‘innovative’ sources of finance that must or can be allocated globally, so facilitating both a coherent anti-poverty strategy and coherent presentation of its elements;
- Segregation of the globally allocated finance into two or more funds according to the uses to which they will be put, with possible assignment of particular innovative sources to each;
- Mobilization, as far as possible under the leadership of major developing-country governments, of both official and non-official support for additional development finance, and in particular for the tapping of innovative sources, with a solid source of research and intellectual back-up and a readiness for assertive negotiation in which development finance is considered together with other objectives valued by poor or rich countries or both.

PART B

A GLOBAL ALLOCATING MECHANISM

Part A of this paper argued that it was desirable, and implied that it was not necessarily for ever impossible, to obtain funds for development finance whose collection or generation depended on international cooperation or whose burden fell significantly and necessarily on the residents of a number of countries, or both (what we called *global-provenance funds*): funds which, for either or both of those reasons, could not be regarded as the property of any particular state. And there might be other funds which, though their realization did not actually *require* international coordination, various countries might agree to collect under agreed terms for international use. In fact ways of obtaining such funds were under consideration on the part of a number of governments in late 2004 and early 2005, when this paper was being drafted, as evidenced by the

Quadripartite Report put forward by two major developing, and two major developed countries' governments, and the New York Declaration (Brazilian Mission to the UN 2004) on the part of 113 governments that it inspired. It would seem necessary, before a decision was made over mobilizing these funds for global use, to agree on a way in which they could be allocated through international institutions.

Suppose for example that a method were to be agreed for raising, by intrinsically international action, some part of the additional US\$50-75 billion or so a year that the Sachs report (UN 2005; see above) considers necessary (from sources outside developing countries) over the various years from 2006 to 2015, and unlikely otherwise to be provided by additional ODA, in order to achieve the MDGs. One or more of the mechanisms discussed above for raising the funds might be applied.

These sums might be accessible in the form of grants or of low-interest loans. (Recycled SDRs would probably have to be available as loans at the SDR rate.) The question considered here is how these funds, considered a global possession, might be allocated. Even if it had been agreed that they were to be administered by various global institutions, there would at least need to be one procedure for deciding *which* international bodies should have the disposition of the funds and in what amounts.

Indeed, the possibility that such sums could be raised might very well *depend on* a reasonably clear idea of the purposes for which, and the mechanism by which, they would be allocated. A popular groundswell in favour, comparable to the Jubilee movement over debt—or serious consideration by governments—might well have to await coherent and realistic agreement on these two questions.

There are many ways in principle by which these questions might be answered. We believe that it would be helpful in the debate about additional sources of finance to have at least one plausible and reasonably thought-out answer. Any answer propounded for this purpose should not pretend to be the only possible one or necessarily the best, let alone the one (if any) that would ultimately be adopted. But, to make a good case for saying that there is a (politically as well as administratively) plausible answer (*at least one*) would remove one debating-point against any of these methods of funding and would enhance the credibility of all of them.

What we offer here is a sketch of what might be a plausible method for *defining the purposes* for which the funds would be allocated and *specifying any other limitations* on their use, and also for *actually allocating* them.

1 Political issues in the choice of institutions of allocation

In order to be *plausible*, any scheme must have a reasonable prospect of being generally *acceptable*, especially to the governments of those countries that would see themselves on balance as donors. To be acceptable, it must combine *trust*, *legitimacy*, and a reasonable prospect of *efficiency*. Preferably too it should involve *no unnecessary leap into the dark*.

Trust means that the institution making the allocative decisions is seen as likely to have reliable procedures that meet acceptable standards of transparency and integrity, and also that it will not depend on values or views of how the world works widely different

from the values and assumptions of those that need to approve it. There might be difficulties in establishing the necessary degree of trust on the part of the US, and possibly of some other countries on the donor side, if the procedure were left to certain institutions in the UN system. And on the other hand there might be mistrust on the part of some developing countries, and of campaigning NGOs whose pressure may have some importance in advocacy, if it were entirely in the hands of the Washington multilaterals.

Legitimacy would require that the decisions should be in the hands of a body generally regarded as properly authorized to act on the world's behalf.

Efficiency would again require regular and transparent procedures not likely to be subject to corruption or favouritism; adequate sources of information and experience for assessing funding applications and possibilities; and no more than the necessary minimum of additional bureaucratic infrastructure.

Stating the requirements in this way narrows the possibilities. In the solution proposed below, it is intended that the demand for *trust* and *legitimacy* should be met in part by dividing the critical decisions—in a consistent way, with a definite rationale—between the UN system and the Washington multilaterals. Other aspects of the demand for *trust*, and at the same time the demand for *efficiency*, would be met by putting the operative management of the allocation in the hands of an existing institution with considerable relevant expertise, knowledge and experience upon which to draw.

2 Choices to be made about the uses of the funds: policy limits and guidelines

We refer in what follows to three levels on which decision would be required: (a) on essentials of the understanding on which the mechanism is set up, the '*initial bargain*'; (b) on general *policy and rules* over allocation of the funds, as determined *under* the mechanism; and (c) on *specific allocations*. To put it another way, there would be constitutional, policy, and management decisions. Policy questions—over the potential uses of the funds (which sectors of activity should be eligible); over the forms (loans or grants) in which they should be released; and over the kinds of institution that should be eligible recipients—might, however, be decided either as part of the initial bargain or else under the arrangements set up by that bargain.

For what purposes? One way or another, a decision would have to be made over the eligible purposes of the funds: should they be available to be devoted, for example, at the discretion of the body actually *managing* the allocation, to *any* of the functions commonly covered by 'development assistance' in the broadest sense? These would include the three categories proposed above: (a) emergency humanitarian help in the wake of wars, famines, or natural disasters; (b) medical, general-education, water, sanitation and similar needs of the highest consumer value but for the most part having only longish-term impact on productive power; and also (c) power and transport infrastructure, technical-training, technical consultancy, and similar inputs to production, with relatively quick dividends in output and income—investments and functions, moreover, of which a number might potentially be financially self-supporting. Or should only a subset of these be included—for example, only those with an immediate and obvious humanitarian purpose, or only those with no chance of being

acceptably self-supporting: probably on either criterion those in the first two of the categories mentioned? (Most of the MDGs refer in fact to the purposes included in the second category.)

It is also not out of the question that some purposes not normally included in 'development' but with high immediate humanitarian importance, such as UN peacekeeping, might be included. The extra might perhaps enable the UN to engage in forms of peacekeeping or peace-enforcement more ambitious than has been possible in the past. (Peacekeeping, alternatively, might be excluded on the ground that including it might lessen the sense of responsibility for it on the part of governments; or because balancing its demands against 'development' needs would be unfamiliar territory to any allocative body whose expertise was in assessing only the more familiar claims on a development agency; or because of the urgency of the peacekeeping demands when they arise and at the same time the long-term commitments that they often involve.) Or the fund might be agreed to be potentially available for debt-mitigation or debt-forgiveness—or for environmental outlays beyond those attending to immediate need such as domestic water-supply and sanitation: flood control, or forest-conservation, for example. Cases could be made for or against the inclusion of a number of these elements. Or, as suggested in Part A, two or more separate funds might, for presentational reasons, be set up, each possibly assigned a particular source of finance but all administered by the one set of machinery.

Such limitations on the uses of the funds might be part of the initial bargain, for example if there were strong views among major potential participants that some possibility should be excluded or included. Or they might be imposed by the policy-making body set up *under* the initial bargain. *Which* categories were excluded or included *as part of the initial bargain* would probably depend in part on the range that the initial negotiators considered would command sufficient support among the populations that would have to bear the burden of any measures for raising the funds.

In what form? A further question that would arise *either* in the making of the initial bargain *or* as a matter of policy subsequently would be whether the funds should be disbursed wholly as loans, wholly as grants, or in principle as either, with the decision between them purely one of management. Inclusion of 'surplus' SDRs as a source of funds under present arrangements would make it virtually inevitable that *some* of the finance should come in the form of low-interest loans, so that their proceeds would probably have to be allocated in the form of loans. (World Bank thinking—no doubt inspired in part by the difficulties bequeathed by official loans to a number of poor countries—appears latterly to favour a greater use of grants, which at the moment are not allowed to be provided by the World Bank Group except to certain countries poor enough to qualify for IDA terms.)

To or through whom? Should the immediate recipients of the funds be confined to governments, as has been the case with the IBRD, IDA, the regional development banks, IMF, and UNDP? Or should other possibilities be admitted? Might the first-level administrator of the funds (inevitably a multilateral institution itself) be allowed to channel them through other multilaterals; through multi-stakeholder global funds (such as the Global Fund against AIDS, Tuberculosis and Malaria); through other multinational networks; through sub-national and local governments; through NGOs; through research institutes; or through private firms? (For the sake of transparency and preventing misappropriation, it might in fact be increasingly recognized as necessary in

certain cases to give an entity in the recipient country other than the national government some involvement in the disposal of the funds: somewhere in a range from rights of scrutiny to executive control.) If the range of permitted direct recipients went beyond national governments, should a government have a veto over any allocation made within its jurisdiction?

Again this could be either part of the initial bargain or be left as a policy decision to be made under the machinery set up.

It has been represented to us that the IMF would demand control of the allocation of any funds generated through the recycling of SDRs—with the implication that this demand would be irresistible. Within the politics of international agencies, this might turn out to be so. But any claim of *right* on the part of the IMF (in effect of IMF staff) to control the allocation of these funds—on the ground presumably that they (the IMF staff) created the SDRs by their own efforts—is surely ludicrous. It is comparable to arguing that foreign-exchange dealers should control the allocation of the proceeds of any CTT. This could be regarded as a claim over allocation of resources that went even beyond ‘producer-choice’: allocation in the interest of the producers rather than of the consumers of goods. Current IMF staff would not have produced SDRs through their own labour and sacrifice.

The IMF and World Bank are almost exactly parallel in their main governing structures and the shares of the various governments of the world in their control. Relevant differences are between their respective staffs’ particular expertise—and probably also their prevailing outlook—because of the differences in the tasks that they perform. In assigning allocation of certain funds (generated as a by-product of world arrangements for economic stabilization) to one of the two organizations rather than the other, the world would *not* be making a decision in favour of the views of one group of governments over another: merely between cadres of staff with differing expertise, and coincidentally perhaps with a difference in outlook that follows from it. The decision ought surely to be determined according to which body of expertise is more relevant rather than according to the supposed rights of one or another set of officials.

3 Constitutional matters: essentials of the ‘initial bargain’

Constitutional questions would need to be settled in the ‘initial bargain’. What is supposed by that term is a set of arrangements for establishing the fund. These arrangements would need the agreement of the organizations that would be required to play a part in implementation. In the scheme foreshadowed below, these would include the UN General Assembly and the World Bank. The arrangements might in principle be proposed to the General Assembly by any one or more of its members. But, in order to have a realistic expectation of acceptance, a major proposal such as this would need to come with prior consensus in principle among the major players: presumably the members of the G8 and at least a group of developing countries such as those that have played a leading role on ‘North-South’ issues recently such as China, India, Brazil, and South Africa. This agreement might be worked out extensively behind the scenes, or in part within one of the various forums available, such as the original (1999) Group of Twenty, which comprises the G8 and twelve developing countries.

Whatever the means by which the proposal was derived, it would come then with support in principle from a group of countries that would have agreed to further it in its essentials within the UN and, where relevant, within the Washington multilaterals.

The proposal, as envisaged here, would probably entail the General Assembly's inviting the World Bank (and possibly also the IMF) to play a role in the working of the fund. The arrangements projected would doubtless be scrutinized (for practicalities, legalities, and conformity to existing policies and practice) by the UN Secretariat and the World Bank and IMF staffs, and might be referred to the Economic and Social Council (ECOSOC). Under the constitutional scheme mooted below, not only the General Assembly but also the Executive Board of the World Bank would need to assent.

For the content of the constitutional arrangement, we propose the following division of functions.

In order to meet the requirements set out above for trust, legitimacy, and efficiency, we propose that, of the broad policy questions—about the purposes and limits of the uses to which the funds might be put, and the forms in which, and the immediate recipients to whom, they might be disbursed—any that are not embodied in the initial bargain should be decided by *the UN General Assembly* on a recommendation from *an Inter-agency Drafting Group of professionals* representative of the UN Secretariat, the World Bank Group, and the IMF. The General Assembly might either accept the recommendation or send it back, with advice on its own preferences, for reformulation. A mechanism similar to this was used in the preparation of Secretary-General's report to the International Conference on Finance for Development held at Monterrey in 2002 and the draft of the Monterrey Consensus.

Approval by the General Assembly would, in the view of many, set the best available seal of *legitimacy* on any policy adopted. But, because of the nature of the General Assembly, with its nearly 200 members—among whom the vote of Equatorial Guinea or the Solomon Islands counts formally as highly as that of India or Germany, with small, poor countries carrying between them a weight proportionately far ahead of their share of population, let alone of economic size—trust and efficiency may require additional safeguards.

The use of an Inter-agency Drafting Group of professionals was judged to have been effective in the Finance for Development process. Not only was it held to increase mutual understanding among the staffs of the organizations. It was also said to have produced greater coherence in the international economic policies of their individual member-countries. Whereas a country's foreign ministry that instructed its Permanent Representative to the UN might have in the past taken a different position from its finance ministry or central bank that had the responsibility for its World Bank and IMF representation, the fact that the three organizations were deliberating together on given questions obliged the country to decide on a self-consistent position.

But the main purposes of the arrangement here would be, first, to ensure that whatever package went to the General Assembly for consideration would have been seriously vetted on grounds of practicality; and, second, to reassure those who set more trust in the Washington multilaterals than in the UN Secretariat that policy recommendations were likely to be acceptable to both sides.

At the same time we propose that the agency that actually makes the allocation decisions day to day should be *a component of the World Bank Group*—either the IDA with a modified mandate or a new function or arm of the Bank comparable within the organization to the IBRD, IFC, or IDA. The constitutional form of the allocating agency as a subsidiary or operative function within the World Bank could be decided by agreement between the World Bank and the General Assembly on the basis of a draft from the same Inter-agency Drafting Group.

The argument for siting the executive/administrative process of allocation within the World Bank is this. First, it is better—on grounds of economy and to avoid a leap in the dark—to use an existing institution than to create one afresh. Second, among the existing institutions that might be considered, the World Bank has overwhelmingly the most professional resources relevant to the task. Third, it is necessary to satisfy above all the major net-‘donor’ governments and their constituencies that the executive body is sound; the World Bank seems the most likely of the relevant organizations to meet this test.

Yet the World Bank also arouses its share of suspicion and hostility among developing-country governments and among some NGOs and students of development in both rich and poor countries. It would be good to be able to show that the big decisions—relating to the limits and guidelines over allocation—would not be made within the World Bank: that it would play, through its staff, a part, but not an exclusive or ultimately decisive part, in these decisions.

It is appropriate that ‘the world’ should set the guidelines over how funds raised by and for the world are to be spent. The General Assembly on the one hand, and the World Bank and IMF on the other, can each claim to represent the world, though with vastly different voting weights and different functions that have led them to build up cadres of staff with different cultures and outlooks, all of which may easily lead them to give different verdicts on important questions. The method suggested makes the General Assembly the ultimate arbiter over these guidelines. But (i) the method allows it to make a positive decision only on the basis of an agreed recommendation from a committee of professionals from various multilateral institutions, and otherwise (in its instructions to this professional committee) only to express its preferences in fairly general terms; (ii) it will be clear where the major donor countries stand over any motion contemplated, and it is very likely that the drafting group will refrain from any recommendation, and the General Assembly will avoid any decision, that seems likely to alienate these members. So the method probably gets the best of General Assembly participation without its risks.

Auditing of the allocating agency might best be undertaken through the World Bank’s own processes.

Monitoring (from outside the World Bank) of the executive agency seems desirable. A *monitoring committee*, representing the General Assembly might be formed to express an outside view on the executive/administrative process of allocation and its results and to verify that any policy rules and guidelines laid down were being observed. It would need full access to all the activities of the allocating agency.

Objections that the World Bank by its constitution is over-dominated by the industrialized countries can perhaps be met (i) by the provisions proposed above for

determining the rules and policies under which allocations would be made; (ii) by the monitoring process outlined above; and (iii) by the plausible prospect that, in response to much recent critical discussion of the constitution of the BWIs, governance in the World Bank may before long be modified to give more weight to the positions and views of developing and transitional countries and to be more susceptible to consultation with other international bodies.

Should the allocating agency operate, partly or exclusively, by financing other multilaterals? This would be a new departure, but seems a not-impossible arrangement. Furnished with sums of the order that we are contemplating, the allocating agency would have very great bargaining power. It would be able to exercise considerable influence over what was done by any receiving multilateral with the funds allocated. And restricting it to dealing directly *only* with other multilaterals could be supported on grounds of economy: duplication of appraisals, monitoring, and the like would be reduced; in addition the other multilaterals would become the agency's clients, having incentives for cooperation with it, rather than being competitors in the same game. Indeed *confining* the allocations made directly by the agency to other multilaterals could well be desirable if it tended to reduce duplication of effort and inter-agency rivalry.

However, one of the attractive features of the possibility of substantial global-provenance funds is that they make possible a coherent international strategy for delivering targets such as the MDGs. Equipped with considerable resources, and insulated from the particular diplomatic and other motives not directly related to development and welfare with which national governments are often burdened, the operating agency could concentrate its allocations at points where they were likely to be effectively used, and could focus on filling critical gaps or providing incentives for them to be filled. This would be a heavy responsibility for the agency but also an opportunity that should not lightly be squandered. To meet the challenge the agency would need to be aware of political *constraints*, but as far as possible insulated from political *pressures* that might operate improperly in favour of, or against, particular potential beneficiaries. On the whole, these considerations tell largely in favour of the World Bank. At least, there is no obvious candidate that would fit the requirements better. Providing it with funds that could be used as grants, rather than only as loans, would extend greatly the Bank's capacity to support areas of activity such as many aspects of health and education that can not be, or are best not left to be, financially self-supporting.

Detailed guidelines as matters of policy? Whether on balance it would be good or not for the guidelines to extend beyond the broad decisions outlined above on purposes, forms, and immediate recipients, of the allocations, the possibility that the General Assembly might want to extend them in this way could presumably not be excluded by the initial bargain. Yet it might well be difficult for guidelines of this sort to be tight enough to be operationally meaningful without the risk of distorting decisions away from what would appear to be the optimum in particular cases. Perhaps the best compromise might be an expressed understanding in the initial bargain that the General Assembly might propound objectives for the use of the funds in rather general terms, and otherwise rely for scrutiny and criticism on the proposed monitoring committee. That committee would represent the General Assembly, and, with or without participation by some other bodies, it could at least lay the policy and practice of the allocating agency open to debate.

4 Summary of elements in the proposed arrangement

1. An ‘initial bargain’, probably agreed in broad principle among major high-income and developing countries before its submission to the UN and other multilaterals, would embody the main constitutional elements that follow, together possibly with some main policy rules; and those making the bargain would undertake to pursue agreement to these provisions in the UN General Assembly and in the World Bank Executive Board and Board of Governors.

2. The UN General Assembly would be the body ultimately responsible for setting limits to the powers of the executive body, including the purposes for which, the forms in which, and the recipients through which, it should be authorized to allocate funds; giving it any guidelines for allocation; and, in agreement with the World Bank, fixing its constitutional form.

3. A subsidiary or operative arm developed for the purpose within the World Bank Group—or possibly the IDA with a modified brief—would be the agency with executive responsibility for allocation of the funds.

4. An Inter-agency Drafting Group of professionals from the UN Secretariat, the IMF, and the World Bank would be responsible for formulating proposals to the General Assembly under 2 above. The General Assembly would either accept the draft presented or send it back with a general direction on how it should be amended.

5. A Monitoring Committee, representing the UN General Assembly, would scrutinize, and report on, the procedures and decisions of the executive agency.

PART C

CONCLUSION

The overall message

The message of this paper is predominantly one of hopefulness for those who, like the authors, believe that there should be a large and reliable increase in the funds made available internationally for development and welfare in low-income and middle-income countries, and who look moreover for an effective international strategy within which the funds can be applied.

The need to pursue a *strategy* argues strongly for a significantly large source of funds to be available *for global disposal*, and that in turn is likely to depend on so-called ‘innovative’ sources of finance, especially what we have called finance of ‘global provenance’. There are a number of possible ways around the obstacles to these outcomes. They would draw more or less on the forces we have identified that support increases in aid. Several of the possible ways of surmounting the obstacles seem potentially to be highly relevant, some especially relevant to sources of funds for global disposal.

Much depends on the readiness of the developing-country governments to build effective alliances: alliances prepared to make use of support from campaigning NGOs and to draw on the expertise, ingenuity and other relevant resources of international secretariats and of potentially sympathetic research institutions and charitable foundations. To be effective, the alliances will need to be sufficiently institutionalized to be able to negotiate forcefully and rationally over sources of development finance together with other objectives of interest to various groups of rich and poor countries. It will help if an alliance has a fairly high-level secretariat of its own.

The campaigning development-oriented NGOs also have a role: in ensuring that as far as possible they throw their weight in a concentrated fashion behind objectives that are coherent and realistic. Identifying what are politically soft targets is important for both governments and NGOs. It will be useful if they can make common cause over certain objectives rather than operating at cross-purposes. And there is a variety of possible tactics that may circumvent some of the obstacles.

To the objection that there is no machinery by which the world could administer a large access of funds available for global purposes, we have suggested one plausible way in which the machinery could be acceptably set up.

In early 2005 a debate appears to have started among the leaders of some large European economies *over the methods to be adopted* for releasing considerable additional funds in order to help finance a coordinated attack on the extremes of world poverty through pursuit of the MDGs. The main alternatives have been the IFF and forms of internationally agreed taxes, though with some recognition that the former of these would need to be complemented by the latter. As mentioned above, some middle-income countries have played a leading role in this debate, and there has been an unusual degree of consensus between the European powers promoting the moves and major developing-country governments. Devices that had seemed visionary only three years earlier at the time of the Monterrey summit have now come to be debated for their relative advantages. And the champions of each method (as at the Davos meeting in January 2005) have been prepared to accept combinations of their favoured solutions with others.

That is one change. A second tending to reinforce it is the increasing interest on the part of governments of developing countries in tapping innovative sources of development finance, combined with an increasing readiness of certain major developing countries to play an active and concerted role in international negotiation.

The possibility of substantial additional finance in the form of global-provenance funds, or of other funds that might be used under international agreement for global purposes, seems to have come closer.

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