6

Mobilising Official Development Assistance for Financing Development

6.1 A Contextual Digression on Whether Aid Works

As far as developing countries and the agencies, bilateral and multilateral, that intermediate official aid flows are concerned, increasing official (tax-funded) resource transfers, and particularly concessional ODA resource transfers, from developed to developing countries is the raison d'être for holding UNCFD. Such agencies include the UN, the IMF and the World Bank, the three principal scriptwriters (as well as aspiring stars, directors and producers), of the UNCFD play. Their role as intermediaries inevitably creates a bias toward arguing for increased official flows as the most critical issue in FfD. That bias is reflected in the SGR and ZPR, despite attempts to obscure it by packaging this core issue inside five others.

At the risk of being accused of heresy, the experience of the last 50 years makes it reasonable to ask: Do official government-to-government resource transfers really promote development? Or do they hinder it by providing a soft option and delaying the economic, political and social adjustments that need to be made for sustainable development to occur? Would such adjustments occur automatically and swiftly (even if painfully) without, or with less, aid? Is official aid more a vehicle for conducting political relations – attempting to wield political influence on the part of the donor government and avoiding painful political decisions on the part of the recipient government – rather than a vehicle for attaining rapid development?

Despite the generally accepted official line that ODA is crucial in financing development, and must therefore be increased, the hard evidence that aid works is not clear-cut. Innumerable studies, at project, community, sector, country, regional and global levels, have been carried out between 1970–2000 to determine the outcomes and effectiveness of aid.[41] Their results are mixed and sometimes confused. Most such studies have been financed, if not conducted, by aid agencies or by academics and research institutions with a vested interest in an affirmative answer. Unsurprisingly, such studies have concluded that the bulk of ODA does work under the right conditions. But such circumstances do not apply at most times in most developing countries, although conditions are improving with the prolonged period of policy reform that began in the mid-1980s and is continuing.

What such studies do not address convincingly are the more difficult, embarrassing questions. If aid does work, why have so few developing countries actually developed over the last 50 years? Why have those countries that have developed between 1950–99 been less reliant on aid than on trade earnings, domestic savings

41 Concern about whether official aid worked has dated back almost to the beginnings of the modern 'aid-era' in 1950 with considerable theoretical debate about the merits of the two-gap theory. The landmark studies which have been done, and the literature on the subject, are too voluminous to mention or enumerate in a bibliography. This work has been done elsewhere. The classics on the subject apart from work done for the Pearson and Brandt Commissions in 1969 and 1980 are: Cassen, R. and Associates. *Does Aid Work?* Oxford University Press, 1986; and Riddell, R. *Foreign Aid Reconsidered.* London: James Currey, 1987. The World Bank has done and commissioned hundreds of such studies (with work done at the Bank by David Dollar and his associates being frequently quoted) as have the bilateral aid agencies of major donor countries.

and foreign private investment? Why have so few developing countries eliminated their reliance on aid flows that were supposed to be a temporary palliative? If aid works, why have so many low-income countries (especially in Africa) actually increased their reliance on aid between 1980–2000 with no exit from chronic, acute aid dependency in sight?

The few independent studies that have been carried out do not support the traditional consensus that aid, despite all its faults, has, by and large, worked.[42] They suggest that aid may provide a soft option that can retard rather than accelerate development. The problem seems to lie in the nature of the government-to-government transfer process. It appears to operate with incentives that militate against success. Official aid mixes uncomfortably with the privately motivated engine of development. At the same time, fungibility results in the dilution of its effects, when associated with a fiscal framework that does not prioritise public expenditures in a development-friendly direction. Such findings (and the protagonists of this heretical view) have been derided in an international development community that sees its vested interests threatened by such reasoning. But they appear to have won the argument effortlessly in the court of global public opinion.

The risk for UNCFD would be to ignore the perception of the global public that official aid by and large does *not* work; or, if it does, it must work badly for so much aid (estimated at $1.2 trillion provided between 1950–99 measured in 1999 dollars) to have achieved so little. Aid agencies are at pains (and on the defensive) in making the case that the glass that seems half-empty is actually two-thirds full. The arguments they use are seen as disingenuous; they do not resonate. Regrettably, the tax-paying public in industrial countries is less interested in the intricate hair-splitting that is conducted within the aid and academic communities about whether aid works. The overall picture they see (usually on their television screens) is neither convincing nor edifying in supporting the case that it does.

UNCFD would be taking a serious risk if the sceptical viewpoint were dismissed in an off-handed manner as being uninformed and ignorant. If ODA is to be increased in the coming decades, that will not happen simply by browbeating Finance and Aid Ministers in the industrial world to meet the official aid target or to accept conventional wisdom that is not strongly supported by evidence. It will only happen if the evidence results in global public conviction being reversed, and if public demand for renewed aid is expressed as a clear political preference that governments in the industrial world must accommodate. In the prevailing climate it is difficult (but not inconceivable) to see that happening. The arguments made below need to be viewed in that practical context.

6.2. Issues Raised by SGR/ZPR on Increasing Official Resource Flows

SGR makes 17 recommendations on improving international development co-operation; 5 of these are focused on increasing ODA. Most of the recommendations are general exhortations that are not very useful. ZPR (and SGR) argues that official resources to finance development are needed in four priority areas to: (a) initiate development in low-income countries and help them achieve IDG-2015 targets; (b) cope with humanitarian crises; (c) finance recovery from financial crises; and (d) provide global public goods. It emphasises that:

42 The names most associated with the sceptical genre are Peter Bauer and Deepak Lal whose work at the London School of Economics has taken a more jaundiced view of the merits of official aid. The number of sceptics has grown considerably since. The latest work by William Easterly (formerly of the World Bank), published under the title of *The Elusive Quest for Growth* (MIT Press, 2001), also raises serious questions about the effectiveness and impact of aid on development that the 'development community' finds difficult to answer.

Table 12. Official Financing Requirements for the Four Priority Areas of ZPR
(Incremental costs in $ billion)

Purpose	Item	Annual Cost
1. Meeting IDG-2015 Targets	Halving Extreme Poverty	20
	Universal Water Supply and Sanitation	00
	Universal Primary Education	9
	Reducing Infant Mortality by two-thirds	n.a.
	Reducing Maternal Mortality by three-quarters	n.a.
	Achieving Gender Equality	3
	Halting and Reversing HIV/AIDS	7–10
	Urban Slum Upgrading	4
	Meeting Human Development Goals	n.a.
	Total Order of Magnitude ZPR Estimate	**50**
2. Coping with Humanitarian Crises		3–4
3. Recovery from Financial Crises[43]		0
4. Providing Global Public Goods		15
Total Incremental Official Financing Requirements:		70
Existing Annual ODA Flows		55
Total Annual Official Financing Requirement:		**125**

Source: Technical Report of the High Level Panel on Financing for Development. UN, 2001

The world has a crucial interest in seeing these four roles funded on an adequate scale. A primary aim of [UNCFD] *should be to secure adequate mechanisms to achieve this. In particular, every country that seriously pursues the International Development Goals should be assured that their achievement will not be thwarted by a lack of external finance.* (Chapter 4)

In assessing the amounts needed for these four purposes, ZPR 'reviews the present state of evidence' (acknowledged to be incomplete) on the estimated costs of the four items listed above. It presents the breakdown shown in Table 12 for *incremental* costs over what is already being spent in the areas concerned. In offering these figures, ZPR recognises that for many items the assumptions used to derive estimates are untenable (for example estimating the cost of reducing infant and maternal mortality). In many instances, there is no valid basis for deriving global estimates in the absence of detailed studies in each developing country that determine itemised costs for meeting these targets. Nevertheless, its crude global estimate arrives at an incremental requirement of about $70 billion annually. Added to the average annual level of ODA in recent years (about $55 billion), that amounts to total official resource transfers of about $125 billion annually in nominal dollars.

ZPR calls attention to the fact that 10 per cent of the present ODA budget is absorbed by *humanitarian assistance and emergency relief*, although that proportion results in meeting only half of the amount actually needed. It does not mention that the *costs of administering aid*

43 The IMF considers that it has adequate resources at hand to meet these needs.

($3 billion in 1999) now absorb 6 per cent of the total ODA budget (compared to 3 per cent in the 1980s) or that the total administrative costs involved in running the UN system and its specialised agencies, the IMF and all the MDBs, amounts to a further $8 billion annually.[44]

Current spending on GPG already absorbs another 15 per cent of total ODA and technical assistance a further 24 per cent. Debt relief now absorbs a further 4 per cent of ODA. That leaves about 40 per cent of ODA available for financing development investment. Growing global awareness of the need for financing GPG to a larger extent might result in a further diversion of ODA funds from financing development investment unless ODA is increased.

Reflecting on the desultory ODA performance of donors in the 1990s,[45] ZPR hopes (over-optimistically) that endorsement of the IDG-2015 targets at the Millennium Summit will rekindle political momentum to increase aid. It notes that if the aid target of 0.7 per cent of GNP were to be met, an extra $100 billion in resources would materialise to cover more than the official financing needs that ZPR estimates. Its sanguine wistfulness overlooks the fact that neither the bilateral nor multilateral aid machinery that exists to channel current volumes of aid, nor the aid-receiving machinery in developing countries, have the capacity to handle such a large increase in official flows without incurring the risk of substantially increased waste, fraud, corruption and a large increase in administrative costs.

Conceding the reality that ODA is unlikely to increase significantly from present levels, ZPR looks to new sources of financing through various forms of global taxation. It reconsiders the 'Tobin Tax' on cross-border currency transactions, looking at both sides of the argument. Its treatment suggests that the demerits of such a tax outweigh its alleged advantages. Confusingly, ZPR recommends that further study be carried out on the feasibility of imposing such a tax, but with a hint of scepticism, asking 'whether a currency transactions tax is really the only option, or whether other potential tax bases exist that might be harnessed to raise revenue to pay for global public goods?' Such prevarication is odd. It reflects divided views in the Panel that could not be reconciled. ZPR answers its own question by recommending consideration of a Global Carbon Tax as an alternative.

The issue of global taxation as a means of financing development is dealt with later in this paper. But the paper suggests that Commonwealth Finance Ministers should be wary of endorsing either of these recommendations. Under present circumstances it would be difficult to reach a global agreement on the nature, design, level, collection machinery and eventual use of the proceeds from either of these taxes. Global public opinion would, with rare exceptions, be opposed to taxation levied at a supranational level for use by international institutions that do not have mechanisms for transparency and democratic accountability in place.

A more practical suggestion is ZPR's revival of the idea behind a new issue of IMF Special Drawing Rights (SDRs). This proposal is likely to be opposed by Germany and Japan for the same ideological reasons that they have repeated on every occasion this idea has been

44 In the case of the IMF and MDBs, part of that amount is paid for out of the gross incomes of these multilateral financial institutions, although the cost related to the concessional resources provided by the MDBs is a charge to ODA. That income is derived from interest payments and financial charges paid by developing countries and by earnings generated from investment of liquid funds.

45 ODA stagnated a time when the GNP of industrial countries as a whole was increasing at an average of 2.5 per cent annually (growth in the USA averaged an unparalleled 4.5 per cent annually over the decade, in Europe it averaged 2 per cent but Japan registered no growth) and when their fiscal budgets were coming into balance.

mooted. But it is an idea that may go part of the way toward increasing resources available for development in a manner that is unlikely to arouse global public opposition. ZPR's argument for a new SDR issue is persuasive and compelling. It deserves the support of Commonwealth Finance Ministers.

ZPR also draws attention to various problems relating to aid expenditures:

- Political or trade-related motives resulting in a distribution of ODA across countries that compromises its impact on both reducing poverty and promoting growth;
- Conditionality being applied to aid unrelated to the specific purposes for which it is being provided and imposing a crippling and counter-productive administrative burden on recipient governments and agencies;
- Increased donor propensity to micro-manage aid programmes and projects in ways that inhibit skill transfer, result in priority needs not being met and in a high proportion of ODA being absorbed by administrative costs;
- Initiatives for greater 'ownership and participation' by recipients not going far enough to result in meaningful improvements. To overcome this problem, and that of donors becoming over-involved with micro-management, ZPR supports the 'common-pool' approach[46] for all aid other than that intended for financing global public goods;
- For global public goods, ZPR suggests providing funds to developing countries in exchange for contractual commitments to provide the goods in question with all developing countries (middle- and low-income) being eligible to bid on an equal basis;
- Developing countries should not be required to borrow funds (official or private) for the production of GPG.

Finally, ZPR argues that: (a) the concessionality of ODA and of multilateral concessional funds (for example IDA, AsDF and AfDF) should be increased significantly; and (b) UNCFD should reaffirm the 0.7 per cent ODA/GNP target supported by a public campaign in donor countries to revive broad-based public support for aid. On the concessionality issue, this paper would go further than ZPR in suggesting that Commonwealth Finance Ministers press for the threshold of concessionality for funds classified as ODA to be increased from a grant element of 25 per cent to a grant element of at least 50 per cent. For comment on reaffirming the 0.7 per cent ODA/GNP target see below.

6.3. Prospects for Increasing ODA and Other Official Resource Flows

At the beginning of the twenty-first century the situation surrounding ODA is quite different from that in the three decades 1960–90. In real terms, aid increased by over 30 per cent between 1960–70. It increased again by 53 per cent between 1970–80 and by 32 per cent between 1980–90. Between 1990–2000, aid fell by 25 per cent in real terms while private flows increased fourfold. Net transfers from official sources have fallen even more precipitately. After a decade of dominance by private flows, the decline in ODA has become a permanent feature of the development-financing scene, not just a temporary inversion. Notwithstand-

46 This approach was suggested in Kanbur, R. and Sandler, T. *The Future of Development Assistance: Common Pools and International Public Goods*, Washington DC, ODC, 1999. Essentially it involves recipient countries elaborating their own development strategy, programmes and projects in consultation with their own populations and in a dialogue with donors. It would present its final plans to donors as a group. If they approved and supported these plans, donors would put their individual contributions into a common pool of financing that would not be restricted by further conditionality. Together with domestic resources mobilised by the government through taxation, the common pool would finance the overall development strategy. Though presented as an entirely new approach, this proposal is simply a recycled version of what has been attempted before in the 1960s and 1970s as budget-support programme aid.

ing the unmet aid needs of low-income developing countries, there has been a structural change on the supply-side. After 50 years of development assistance, support for ODA in supplying countries is on the wane despite hopeful but marginal reversals in countries such as the UK.

The reasons for this have been mentioned earlier. They include: (a) the collapse of the Eastern bloc in 1990 reducing pressure on major donor countries to continue using aid as a strategic tool to influence governments in the developing world and achieve geopolitical advantage; (b) cessation of ODA from the Eastern bloc to developing countries; (c) 'aid fatigue', giving way to a perception of 'aid failure', in policy-making circles and in traditional constituencies for providing aid in the industrial countries; (d) growing resistance to increased tax burdens in OECD countries with public pressure for revenues to absorb a lower proportion of GDP; (e) the outbreak of civil strife in the Balkans and in all the sub-regions of Africa, together with the continued waste of resources on futile confrontations over 53 years in the Middle East and South Asia; and (f) visible development failure between 1950–90 on the part of too many developing countries, particularly in Africa, but also in South Asia and many island economies.

Under these circumstances, developing countries, the UN system, and the Bretton Woods Institutions, as well as aid ministries in donor countries, face an uphill battle in making a forceful renewed case for the continuing and critical importance of official finance and especially of concessional ODA flows. To the *cognoscenti* in the aid community it is axiomatic that increased ODA is needed for a large number of poor developing countries that are being by-passed by private capital flows. These countries are not in a position to attract FfD from the global capital market. But what is also obvious is that many poor developing countries are in this situation not just because they lack finance. They also lack the capacity (and sometimes the intent) to use it to good effect.

Thus the case for increasing ODA results in a Catch-22 argument: desperately poor countries need more aid because of their poverty, but aid is insufficient and has not lifted them out of poverty. Without the capacity to use aid properly it will continue to be wasted, with the poorest countries remaining poor. So why provide more ODA? This circular argument also presents the dilemma of whether ODA allocations should be based on needs or on performance, i.e. should more ODA go to countries that perform well so as to encourage them to perform better, or should performing countries get less ODA because their needs are not as urgent as those of non-performing countries? These circularities have been debated *ad nauseam* but clear solutions remain elusive. Fashions shift by decade from addressing urgent needs to rewarding good performance and back again.

The ODA volume implications that arise make it necessary to reconsider the 0.7 per cent of GNP target for ODA at UNCFD rather than automatically reaffirm it as ZPR and SGR suggest. Developing countries should not perceive a review of this target as a threat to rigid development ideology and dogma that is sacred and inviolable. The target needs to be reconsidered on pragmatic grounds. There is no possibility that the large donor countries (in particular the USA) will ever legitimise this target by accepting it consensually at UNCFD or at any other time. If the target is 'reaffirmed' by a majority vote of the developing countries it will remain meaningless in a substantive sense. Continual reference to it will not result in the desired effect. No large donor country will be embarrassed into meeting it. If that were likely, it would have happened by now.

When an international target is violated more than it is honoured over a prolonged period (in

Table 13. Net Official Resource Flows to Developing Countries 1990–2000[47]

(Amounts in US$ billion)

	1990	1992	1994	1995	1996	1997	1998	1999	2000
Official Financial Flows	**55.2**	**56.5**	**48.0**	**55.1**	**31.9**	**42.8**	**54.6**	**45.3**	**47.1**
of which									
Non-Concessional Loans	12.0	10.1	–0.1	8.9	–7.8	7.2	16.2	5.0	5.5
Bilateral	2.9	4.5	–2.6	5.2	–12.4	–6.5	–4.4	–7.1	–5.5
Multilateral	9.1	5.6	2.5	3.7	4.6	13.7	20.6	12.1	11.0
Financial ODA Flows	**43.2**	**46.4**	**48.1**	**46.2**	**39.7**	**35.6**	**38.4**	**40.3**	**41.6**
of which									
Financial Grants:	28.2	30.5	32.7	32.7	28.1	26.1	27.3	28.9	29.6
Bilateral	24.6	23.9	24.6	26.1	21.8	19.8	20.5	22.0	22.6
Multilateral	3.6	6.6	7.9	6.6	6.3	6.3	6.8	6.9	7.0
Concessional Loans	15.0	15.9	15.4	13.5	11.6	9.5	11.1	11.4	11.7
Bilateral	8.3	8.5	6.5	4.9	3.0	1.5	3.1	4.3	5.1
Multilateral	6.7	7.4	8.9	8.6	8.6	8.0	8.2	7.1	6.6
Technical Assistance (TA)	14.1	17.7	16.9	20.0	18.7	15.7	16.2	16.6	17.1
Memo Items:									
Financial ODA + TA =	57.3	64.1	65.0	66.2	58.4	51.3	54.6	56.9	58.7
ODA as reported by DAC	n.a	58.3	59.6	59.1	55.8	47.7	49.7	51.3	n.a
IMF Flows	0.1	1.1	1.6	16.8	1.2	14.7	19.3	–12.6	n.a
Debt Service Payments*	164.2	167.2	199.2	241.9	279.4	305.2	316.1	349.4	n.a
Profit Remittances on FDI	17.6	20.9	24.9	26.5	30.4	31.4	35.2	41.6	n.a

Source: From GDF-2001 (draft mimeo) World Bank (Table 4.1) and also GDF 1999 and 2000 for annual figures

Note: These figures have been prepared by the World Bank based on OECD data and adjustments made by its own staff on debt data. They show some discrepancies with OECD data and exclude export credits and grants by NGOs.

* Debt service payments include principal and interest paid by all developing countries in those years.

this case over three decades) it loses relevance and credibility. Simply chanting it as a mantra annually and using it as a benchmark for gauging ODA performance does nothing to resuscitate its significance. Although some small donors (three Nordic countries and the Netherlands) are committed to meeting the target, several donors who once aimed to achieve it no longer even refer to it, for example Canada, Japan and the UK.

For the three years 1997–99 the aid efforts of all ODA donors together amounted to 0.24 per cent of their GNP, having fallen from 0.27 per

47 The ODA efforts of donors, as reported by OECD-DAC, do not translate directly into aid received by developing countries. The aid efforts of donors include the costs of administering aid (over $3 billion in 1999) and of technical assistance ($13 billion). Over two-thirds of these amounts are spent in donor countries ($11 billion) with only a third being expended in developing countries ($5 billion). Thus the direct economic benefits from these expenditures are derived in large part by the donor countries themselves although developing countries do receive indirect benefits (if aid were not administered there might be no aid). What developing countries receive to finance development is the transfer of ODA directly from donors, through their bilateral aid agencies, and the ODA transfer intermediated by multilateral agencies. Thus while the OECD DAC reported total ODA of $51.3 billion in 1999, the World Bank recorded a financial transfer of ODA to developing countries in that year of $40.3 billion or $11 billion less than the aid effort.

cent in the previous three-year period and from 0.33 per cent in the three years before that. The average has kept declining in a secular fashion from 0.41 per cent in the mid-1980s when ODA reached its peak. If ODA were to reach the 0.7 per cent target, in dollar terms it would translate into a total of over $160 billion instead of the $55 billion that was actually provided.

Whatever developing countries may think about the desirability of tripling ODA by donors meeting the ODA/GNP target, it would not be feasible in practical terms. As indicated earlier, the institutional machinery does not exist (bilaterally, multilaterally or in developing countries) to handle such a volume of funds productively. The risk is that tripling ODA could result in quintupling the waste factor inherent in its deployment. At most, the existing aid machinery would be able to handle between $70–80 billion without cracking at the seams.

In general, countries that provide high levels of ODA provide relatively low levels of private capital flow. Conversely, countries that provide a low level of ODA provide quite a high level of private flows. Some countries are exceptions to the general rule – the Netherlands, Sweden and Switzerland provide high levels of ODA and of private flows. For that practical reason it might make more sense to propose a *composite target of 2 per cent of GNP for total resource flows including private as well as ODA flows with the proviso that, within that overall 2 per cent target, ODA should be at least 0.50 per cent of GNP.* Such a target would be more realistic and achievable by the donor community. Donors that are below that composite target could pledge to meet it by 2010 at UNCFD.[48]

Concerns might arise that dropping the 0.7 per cent ODA/GNP target would provide a disincentive for the few donors that already meet the target or aim to do so (for example Ireland). It might dissuade them from doing more or, worse, encourage them to do less. That is unlikely. High-aid countries are unlikely to reduce their aid effort because of a change that requires them to give *at least* 0.5 per cent within an overall resource flow target of 2 per cent. It is of course the case that in these countries the ODA/GNP target provides a key benchmark when the government is persuading its legislature for aid appropriations in a given year's budget. What the composite target allows for is recognition that the ability of 'high-aid' governments to provide high levels of ODA lies in a social consensus and in factors that do not exist to the same extent in other donor countries. In the latter, the social and political preferences of the polity are quite different. A composite target caters to the circumstances of both types of donors in a way that the present ODA/GNP target does not.

High-aid countries are usually characterised by: (a) relatively small, homogeneous social market economies, with high levels of average adult education, that rely on co-operative principles, a sense of community and on socialism as a basic principle of cohesion; (b) an accompanying fundamental belief in the moral and social case for providing aid through taxation, thus applying accepted principles of domestic redistribution through taxes on an international scale, however small that scale may be;[49] (c) a disproportionately large government sector and a bilateral aid programme within

48 For the ODA/GNP ratio for all donors to increase from the present average level of 0.24 per cent to 0.50 per cent, the annual increment (for the donor community) would be 0.035 per cent annually between 2002–2010. That rate of increase is within fiscal reach for the donor community as a whole, taking into account the present fiscal situation and capacity of every donor. The composite target of 2 per cent of GNP for total flows, with at least 0.5 per cent being provided by way of ODA, would inject a note of welcome pragmatism into what developing countries should be seeking to achieve.

49 It has to be acknowledged, however, that even in the few high-aid countries, populations are becoming increasingly disenchanted with the non-performance of developing countries and of aid.

that sector compared to the size of their economies; (d) an acceptance in the population of relatively high levels of domestic taxation, as well as a belief in use of taxation for social engineering; (e) less belief in and reliance on private flows as a catalyst for development. The same attributes do not characterise other donor countries, for example the USA and UK, that evince large flows of private capital (some of it being round-tripped from developing countries through the financial centres of London, New York and Miami) but relatively low flows of ODA as a proportion of GNP. (In the UK this has been changing since 1997.)

A composite target would provide donor governments with greater flexibility in the arguments they might choose to make to their public and legislatures for enhancing resource flows to developing countries. It would give donors a choice between: (a) encouraging a larger quantum of outward *private* flows in keeping with their market ethos with their aid effort being made through tax-breaks for such flows (thus implying tax-revenue foregone); and (b) maintaining or increasing high ODA flows, with the aid effort being made through higher levels of direct public expenditure, in donor countries where belief remains in the value of governments as actors in development.

What would a composite target translate into in dollar terms? In 1999, the collective GNP of high-income countries was about $23 trillion. Assuming it had been met, the '2 per cent total flow' target would have implied a resource flow (private and official) of $460 billion. That figure compares with resource flows to developing countries in 1999 of about $250 billion, i.e. 55 per cent of the target amount. However, when total flows reached their peak just prior to being thrown off their rapidly rising (1991–97) trajectory by the Asian crisis in 1997, they amounted to $335 billion when the collective GNP of high-income countries was $20 trillion. That is a proportion of 1.67 per cent of collective GNP, i.e. within striking range of the 2 per cent target proposed. Assuming that the nominal GNP of the 'high-income world' grew by about 5 per cent per annum (2.5 per cent real and 2.5 per cent inflation), the restoration of the pre-1997 trajectory would result in the 2 per cent target being achieved by 2005. Achieving the 0.5 per cent ODA target within that composite target would take longer.

6.4. Global Taxation as a Means for Financing Development

Globalisation is contributing to the greater interconnectedness of countries and economies. Does it offer any potential for financing development in different ways through globally levied taxes? The idea of global taxation to raise resources for financing GPG was first mooted at the 1972 UN Conference on the Human Environment. It has been in cold storage since then. Is it now becoming a practical possibility? In theory, such taxation could be multifunctional. For example, James Tobin's proposal for a minuscule uniform tax on each transaction in the foreign-exchange markets, in the spot as well as the forward markets, including trade in derivatives, was endorsed by the Millennium Summit. It was intended as a way of dampening speculative flows while raising resources for general tax revenue and providing a new source of FfD. In the same way, global carbon taxes could discourage pollution and end energy profligacy in high-income lifestyles while adding to the resources available for financing development. International taxes could also tap new economic activities such as e-commerce transactions.

The financial resources generated from global taxation might create additional, and potentially significant, sources of funds for development, and for meeting other specific targets and programmes identified and agreed to by the international community. Global taxation, even on a microscopic scale, would contribute to greater balance in the global sharing of resources and benefits. It might help to redress the imbalances which globalisation and liberalisation are exacerbating, with the benefits being captured overwhelmingly by private corporations that have a head-start in the contest that has been unleashed for achieving global competitiveness. If the right protocols for global tax collection and sharing of the revenues could be worked out, it would mark the entry of the international community into more advanced forms and structures of co-operation.

But the time has not yet come for proposals on any kind of global taxation to be taken seriously by industrial countries – despite the sympathies of some of their more radical thinkers. It would be unfortunate if developing countries were to press prematurely for proposals on global taxation at UNCFD only to be branded as a collective that 'did not come across a tax they did not like'. It would be an odd position to take up with the entry of a new political regime in the USA that is determined to embark on one of the largest tax-reduction programmes in recent history. It is unlikely that such an administration, having agreed to UNCFD being a conference instead of a 'high-level event', would play a constructive part in the conference if the UNCFD agenda included proposals on global taxation.

Moreover, many governments in developing countries have embarked on tax-cutting programmes aimed at making their economies globally competitive. It would seem incongruous for them to argue for increasing the overall tax burden with global taxation at the same time. Thus, however attractive the concept of global taxation may be in theory, it would be wise to strike a cautious posture and avoid the risk of losing the larger war to achieve important FfD priorities and objectives because of an unfortunate proclivity to start an irrelevant and untimely battle on the global taxation front.

Sooner or later, the world will have to confront the reality of taxing transactions to replace direct and indirect taxation as the most efficient way of collecting revenues. Sooner or later, governments will have to recognise that a globalising world may well require global taxation. At some time in the future, a major paradigmatic shift may take place with the attendant institutional changes it entails. But that time has not come yet. With the prospect of a global slowdown looming on the immediate horizon, industrial countries face a number of serious economic problems that they need to grapple with before addressing what, in their view, may be an untimely distraction.

Premature proposals for global taxation risk being seen as opportunism to counter an environment in which support for ODA funded through national taxes is diminishing. Proponents see global taxation as having unarguable economic, political, distributional, moral and ethical roots. Opponents see it as an abomination that irresponsible governments with a chronic inability to control public expenditure should not be permitted to activate at any time for any reason. Given the intensity of feeling on the part of proponents and opponents, any discussion of global taxation is likely to result in more heat than light at UNCFD. If developing countries are to champion the cause of global taxation, they should eschew doing so at UNCFD. Instead, they should take time out to lay the preparatory intellectual groundwork, begin building alliances with influential parts of civil society in industrial countries and launch a global debate on the issue. Although nothing is as powerful as an idea whose time has come, it is equally true that nothing is as counter-productive as an idea that is too far ahead of its time.