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Research for Action

The Potential of Development Contracts and Conditionality:

Towards Sustainable Development Compacts

Lal Jayawardena

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A research and training centre of the United Nations University

UNU/WIDER was established in 1984 and started work in Helsinki in 1985. The principal purpose of the Institute is to help identify and meet the need for policy-oriented socio-economic research on pressing global economic problems, particularly those impacting most directly on the developing countries. Its work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating institutions and scholars around the world.

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CONTENTS

In Fond Memory of Saburo Okita

PREFACE

The final research conference during my tenure as Director UNU/WIDER took the form of a joint seminar with the World Bank and the UNCTAD G-24 Project on 6 February 1993. It was planned jointly with and hosted by the World Bank at its Washington, D.C. headquarters with financial support from the UNCTAD G-24 Project, and the Swedish International Development Agency (SIDA). The focus of the joint seminar was on the World Bank's 1991 World Development Report, entitled *The Challenge of Development,* which attempted to distil the accumulated lessons of 40 years of development experience for ensuring rapid development in the future. It recommended what has come to be known as the 'market-friendly' approach to development, meaning by this that governments ought to support rather than supplant markets, and intervene directly only when markets failed.

In my opening remarks to the seminar I chose, somewhat provocatively, to define 'market-friendly' policies as amounting to no more than the Washington consensus on Fund/Bank adjustment recommendations involving five basic principles: 1) budget balancing; 2) relative prices correction; 3) trade and foreign investments liberalization; 4) privatization; and 5) domestic market deregulation, supplemented by a defined role for government in the well-known areas of market failure, namely, investing in people in World Bank parlance, or human development in UNDP language, and in essential public infrastructure. No-one disputed this definition which we took as a working basis for the discussion.

The occasion for the joint seminar was that several academic members of UNU/WIDER's research network had mounted a reasoned challenge to this prescription for successful development. They contended, in particular, that the trade liberalization component of the Washington consensus could destroy industries which the Japanese and East Asian approach of 'picking winners' under a regime of import protection would, in contrast, nurture and preserve. UNU/WIDER academics, exemplified by two papers to the Seminar, one by Professor Michael Bruno[1] — a former Governor of the Bank of Israel — and the present monograph by me, also contended that too rapid an approach to budget balancing would compel governments to prune essential investment, both in public infrastructure, and in people. This would have damaging long-run consequences for development unless foreign finance was earmarked specifically for these activities as an integral part of the adjustment process, in recognition of progress in other areas of the Washington consensus. India, for example, was particularly well placed to become an important test case of successful development if it was not pressed to adjust too quickly, and if the donor community rallied in support of on-going reforms

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[1] Michael Bruno (1992), *Stabilization and the Macroeconomics of Transition - How Different is Eastern Europe?*, mimeo.

by providing financial support, both for an adequate social safety net, and for human development.

The ideas in this monograph were inspired by an attempt on the part of the Norwegian Foreign Minister Thorvald Stoltenberg to develop a framework for economic reform that would avoid the rigours of the adjustment experience of the 1980s, and help bring about a durable transition from stabilization and adjustment to sustainable development. This framework was described as a 'system of development contracts' embodied in reciprocal obligations between the parties to it, and was presented to the 25th anniversary symposium of the OECD Development Centre in February 1989.[2] My first attempt to build on these ideas in the context of Sri Lanka's adjustment experience is to be found in a previous monograph in UNU/WIDER's Research for Action Series entitled *A Global Environmental Compact for Sustainable Development: Resource Requirements and Mechanisms.*[3] It contains the text of a lecture delivered in Colombo on 19th August 1991 in memory of Dr. N.M. Perera, a distinguished scholar politician and former Finance Minister of Sri Lanka, with whom I had the privilege of working as Secretary to the Ministry of Finance for part of his tenure as Minister.

Drawing substantially on this monograph, the idea of a 'compact' was reformulated by the Secretariat of the United Nations Conference on Environment and Development (UNCED) and incorporated in its principal proposal to UNCED in the area of financing, as a 'partnership in additionality' involving 'contracts for accelerated and sustainable development' between a developing country and its donors. The entire notion of 'development contracts' acquired, as a result, considerable currency among the NGO community that played an especially active role behind the scenes in the deliberations of UNCED; and an important by-product of this interest was a Conference on the Feasibility of Development Contracts as an Alternative to Structural Adjustment Programmes, organized in Amsterdam on 12-13 November 1992, by two leading European NGOs — the European Network on Debt and Development (EURODAD) and the Dutch Association for North-South Campaigns (INZET).

This monograph contains the text of the keynote address that I was invited to present to this conference; as mentioned, it was subsequently also presented to the joint seminar with the World Bank which traversed similar territory. It proceeds in three parts. The first part seeks to extract the full implications of the 'development contract' concept as originally formulated by Minister Stoltenberg, and traces the manner in which the concept passed into international acceptance in the various preparatory phases of UNCED, eventually winning endorsement at the Earth Summit in Rio. The second part examines how India might use the springboard of its current bold economic reform

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2 Thorvald Stoltenberg (1989), 'Towards a World Development Strategy', in Louis Emmerij (ed.) *One World or Several?*, OECD Development Centre, Paris, p. 241-242.

3 Lal Jayawardena (1991), *A Global Environmental Compact for Sustainable Development: Resource Requirements and Mechanisms,* WIDER Research for Action Series, Helsinki. The parallel attempt by the OECD Development Centre to build on Minister Stoltenberg's ideas is to be found in F. Gerard Adams (1991), OECD Development Centre and University of Pennsylvania, *Toward A Concept of Development Agreements*, OECD Development Centre, Paris, mimeo.

programme, directed by its distinguished Finance Minister Dr. Manmohan Singh, to become an important first test case of a 'sustainable development compact'. The third part elaborates a possible tripartite operational mechanism for administering 'sustainable development compacts' involving the developing country concerned, the central UN system outside the Bretton Woods institutions (the IMF and the World Bank), and an institutional focal point which can accommodate the concerns of the international donor community as well.

Two extraordinary individuals whose lives have been intertwined with mine during my stewardship of UNU/WIDER — both, alas, no more — were associated with the evolution of the ideas in this monograph. The late Rector Soedjatmoko of UNU who persuaded me, in the summer of 1984, somewhat against my better judgement, to take on the UNU/WIDER assignment, was present with me when Minister Stoltenberg presented his ideas in Paris, and was enthusiastic about their potential application for humanizing development. We were not to meet again. The late Chairman of the UNU/WIDER Board, Dr. Saburo Okita, was quick to see the potential for adapting these ideas for the purposes of environmental protection. He took the initiative in placing before the Eminent Persons Meeting on Financing Global Environment and Development held in Tokyo on 15-17 April 1992, in preparation for the Earth Summit, an earlier draft of this monograph, featuring India as a potential test case of a 'sustainable development compact'.[4] They were both inspired and visionary thinkers, and innovative institution-builders, and this monograph is dedicated to their memory.

Lal Jayawardena
Director of UNU/WIDER
26 February 1993

[4] Lal Jayawardena (1992), *Financial Resources and Mechanisms for the 1990s*, Helsinki, March, mimeo.

I INTRODUCTION

It is a very special privilege indeed to have been asked to make the keynote presentation to this very important conference on Development Contracts as an Alternative to Structural Adjustment organized by the European Network on Debt and Development (EURODAD) and the Dutch Association for North-South Campaigns (INZET). It is doubly a privilege to be associated on the same platform with Ambassador Amir Jamal, who has distinguished himself for more than two decades now — in fact, since 1965, when he first became Finance Minister of Tanzania — as an outstanding international spokesman on behalf of the developing world. My own association with him owes something to the accident of alphabetical propinquity — Tanzania and Sri Lanka invariably sat next to each other at Commonwealth Finance Ministers' meetings during the 1970s, when Dr. N.M. Perera was Finance Minister of Sri Lanka, and I was a member of the Sri Lanka delegation. However, it owes much more to the common cause both our countries made in espousing in international forums, the need for self-reliant and human development strategies, at a time when these approaches were not really in vogue.

It is also entirely appropriate that we are joined by senior representatives of the Dutch Ministry of Foreign Affairs, which has long pioneered innovative approaches in the area of development cooperation of which its experimentation with the Dutch version of 'development contracts', namely, Bilateral Sustainable Development Agreements, constitutes only the most recent example. They are Mr. Frits Schlingemann, Head, Environment Programme, Ministry of Foreign Affairs, and Mr. Michel van Hulten of the Dutch office of the Global Coalition for Africa (GCA), Ministry of Foreign Affairs. I look forward very much to their contributions. I would very much hope that the result of this conference would be to stimulate Dutch interest both in expanding the number of their Bilateral Sustainable Development Agreements, and in extending their scope in relevant ways.

My presentation today divides like Gaul into three parts. The first part seeks to maximize the potential meaning that can be read into the first formulation of the 'development contract' concept by Norwegian Foreign Minister Thorvald Stoltenberg in his statement to the OECD Development Centre's 25th Anniversary Symposium held in Paris in February 1989;[5] and proceeds to trace the ways in which the concept was developed during the various phases of the deliberations of the United Nations Conference on Environment and Development (UNCED), culminating in its endorsement at the Earth Summit in Rio in June 1992. The second part of my presentation examines how this general endorsement of what might be styled long-term 'sustainable development compacts' (SDCs) might be translated into operational terms at

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[5] Thorvald Stoltenberg (1989), 'Towards a World Development Strategy', in Louis Emmerij (ed.) *One World or Several?*, OECD Development Centre Paris, p. 241-242.

the country level, taking India with its population of 800 million as an important potential test case. My third part deals with a possible tripartite operational mechanism for administering SDCs involving the developing country concerned, the central UN system outside the Bretton Woods institutions (the IMF and the World Bank), and an institutional focal point which can accommodate the concerns of the international donor community as well.

II THE ROAD FROM PARIS TO RIO (VIA HELSINKI, GENEVA AND TOKYO)

The concept of 'development contracts' was introduced by Norwegian Foreign Minister Stoltenberg in Paris in 1989 as an alternative to the failed stabilization/adjustment programmes of the 1980s. What it involves is a new bargain or compact between the North and the South made operational at the level of each developing country, with quite specific reciprocal obligations. It differs in a crucial respect from the compact that previously dominated development thinking and, therefore, by implication underlying the failed programmes of the 1980s. This was the notion of a 'partnership in development' that was presented in the Report of the Pearson Commission of 1968.[6] The distinctive element of this 'partnership' was that developing countries ought to make an effort substantially to mobilize additional domestic resources by tightening belts, i.e. reducing consumption and increasing domestic savings, in particular, public savings; and if this were to be seen to happen, then the donor community would respond reciprocally in substantial measure with additional aid support. In other words, a foreign savings effort would be forthcoming as a reward for a substantial domestic savings effort.

The difficulty with the conventional adjustment programmes of the 1980s was that they called not for a single bout but for repeated bouts of increased domestic savings effort in the face of a continually deteriorating external environment. Thus in the case of the typical African economy, when an external shock occurred, for example, an unexpected fall in the price of a commodity such as cocoa or coffee in a situation where export taxes were an important component of budgetary revenue, the readiest way of mobilizing savings and restoring fiscal balance, as needed in an adjustment programme, was to cut back on human and social development programmes. When these shocks were repeated and the social costs of adjustment proved too much to bear in political terms, the programme was often abandoned, but at the cost, of course, of risking generating an endemic inflationary process.

Stoltenberg accurately diagnosed the principal difficulty as being that 'the burden of responsibility for programme success [i.e. of an IMF/World Bank programme] was put on the adjusting governments, even though the likelihood of adjustment success depended fundamentally on the trade, and economic policies adopted in other countries'[7] — principally by the developed countries which would shape the international economic environment in which adjustment would have to occur.

The implication was that against the background of the repeated cut-backs in consumption and in income experienced during the 'lost' development decade of the

6 Lester B. Pearson (1968) et.al., *Partners in Development*, Oxford University Press.

7 Thorvald Stoltenberg, op.cit.

1980s, it would be inappropriate to launch a further effort at domestic resource mobilization at the commencement of the 1990s, as this would be disruptive in political and social terms; this would be especially the case in Latin America and Africa where the obligation to service debt in the face of declining commodity prices had meant a reverse transfer of resources in the 1980s.

In other words, the Pearson Commission compact would have to be abandoned so that during the 1990s, countries should move not so much in the direction of an additional bout of initial domestic resource mobilization but in the direction of setting up a *framework of incentives for expanding production.* This was the key idea in Stoltenberg's formulation of the 'development contracts'. A second important idea was that expanding production would be set in a *longer-term* context, as contrasted with the *annual ad hoc* context of existing Aid Groups which typically take no more than an annual view of a country's foreign resource requirements which donors pledge to meet; this was the principal limitation of existing arrangements though there are others.

In contrast, what was intended in Minister Stoltenberg's formulation was that the donor community would enter into a 'development contract' with each developing country which would be charged with setting its own priorities for development over the medium term. These priorities would in general imply the pursuit of what might be called 'a socially necessary rate of growth'. This growth rate would seek to embody at least three concerns: the need to emphasize basic needs and human development; the need to absorb a significant fraction of a country's unemployed labour force within a politically sensible time horizon; and the need to improve income distribution. But since at this initial stage further belt tightening was for political purposes in Minister Stoltenberg's view ruled out, what he argued was that developing countries should be locked into some form of continuing arrangement of a conditional nature with the Bretton Woods institutions which would initially focus *not* on additional resource mobilization but on creating a framework of production incentives extending over the medium term. It would include many of the conventional elements built into stabilization and adjustment programmes; it would imply an appropriate exchange rate regime, an appropriate structure of relative prices, incentives for production in both private and public sectors, and sound monetary and fiscal policies to contain inflationary pressures, but it would not be confined to these.

Indeed, seven specific departures are envisaged from current arrangements with the Bretton Woods institutions. First, the conditionality in the exercise would be of a self-imposed character, and would be formulated by the developing country concerned, rather than by the lending agency to ensure that the underlying policy package would be sensitive to the limits of political tolerance. This would have several advantages. It virtually guarantees the country's commitment to implementing its adjustment programme; it retains crucial elements of country specificity which the more stereotyped programme prepared by the lending agency might lack; it will have a more secure information base than is available to the lending agency; and finally it will embody the country's concern to ensure 'socially necessary growth' along with adjustment.[8] If the country's self-imposed design takes hold, and if the accompanying policy measures succeed in expanding income, then its own domestic savings could expand out of marginal income as income grows. But in the initial phase the developing country's obligation would be limited to putting together the necessary package of production incentives to be maintained over, as mentioned, a medium-term horizon. The country, however, would be required to engage in a continuing policy dialogue with the designated institutional focal point for administering 'development contracts' in order to ensure the implementation of its incentive package.

Second, since the response of production to a framework of incentives necessarily takes a period of time, it would be important also to ensure that a country's development strategy is not blown off course by external shocks of one kind or another. There would be a need to provide adequate compensatory or supplementary financing in order to safeguard the import capacity implicit in a country's development strategy by compensating for export shortfalls from reasonable expectations and for an erosion in its terms of trade.

Third, it would be no less important for there to be a systematic long-term assurance of annual aid flows over the period of a country's development strategy in order also to underpin its import capacity requirements.

Fourth, the *quid pro quo* which is offered to the developing country by its donors in the 'development contract' envisaged by Stoltenberg is, in my view, unusual and without precedent, namely *foreign savings support* for the human development or basic needs goals incorporated in its development strategy. Indeed the Stoltenberg formulation makes specific mention of 'bilateral grant elements for the basic needs components' of a country's development strategy.

Fifth, *foreign savings support* could also presumably be extended to meeting some minimum set of consumption 'entitlements' necessary for sustaining and expanding basic living standards, or at least the basic minimum necessary to enable people to function.[9] The 'entitlement' framework of thinking has recently been invoked also in the context of East European economic reform in support of

> establish(ing) the entitlements of all members of society to a *minimal standard of living* (defined in terms of Western European standards of essential consumption and social services) derived from their status as

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8 Dragoslav Avramovic (1989), *Conditionality: Facts, Theory and Policy*, WIDER Research for Action Series, Helsinki, p. 27-30.

9 On the issue of entitlements and living standards see, Jean Drèze and Amartya Sen (1989), *Hunger and Public Action*, WIDER Studies in Development Economics, Clarendon Press, Oxford, Chapter 13. See also Ehtisham Ahmad (1991) (eds.) et al. *Social Security in Developing Countries*, WIDER Studies in Development Economics, Clarendon Press, Oxford, particularly Chapter I by Jean Drèze and Amartya Sen.

citizens, to be derived from both their own 'resources' (particularly adequately waged employment) and public action.[10]

The implications of this argument both for the time-frame of transition to a market economy and for *foreign savings support* of minimum consumption entitlements are no less relevant for developing countries:

> The belief that 'reforms' based on privatization, low wages and budget cuts alone could lead to a rapid transition from industrially backward socialism to industrially advanced capitalism in a few years was always an illusion. *The enormous gap between productivity levels in Western and Eastern Europe locates the latter in a state of relative underdevelopment and requires a long period of directed industrialization to catch up — not central planning, of course, but rather the sort of strategy pursued by Japan, South Korea and Brazil.* Although EEEs (East European Economies) have a much more educated labour force than the MICs (Middle-Income Countries), and thus a greater capacity to absorb technology, massive investment is necessary to embody this technology — in a situation where the claims of the work force on resources for both private and public consumption levels comparable with Western Europe are equally pressing and cannot be simply dismissed as 'populism'.
>
> The resolution of the problem is not only crucial for economic policy but also for the legitimation of the post-Communist state and thus the continuation of the reform process itself. Appeals to 'realism', 'belt tightening' 'national sacrifice' and so on do not really face the central issue, which is need for an explicit social contract between management, labour and the state (see Janos Kornai (1990), *The Road to a Free Economy: Shifting from a Socialist System*, W.W. Norton & Co., New York). *The establishment of clear entitlements that this implies, however, may well imply the social planning of basic needs provision and will certainly require considerable budgetary support from Western Europe during the transition period — and thus implies the recognition of a wider concept of European citizenship itself.*[11]

A fortiori, foreign savings support for minimum consumption 'entitlements' would be particularly important for both African and Latin American countries which encounter serious difficulties in mobilizing domestic savings, against the background of the cut-backs in consumption sustained in the 1980s. At a minimum, this might take the

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[10] E.V.K. Fitzgerald (1991), *Economic Reform and Citizen Entitlements in Eastern Europe: Some Social Implications and Structural Adjustment in Semi-Industrial Economies*, Discussion Paper No. 27 of the United Nations Research Institute for Social Development, June, p. 15. The paper draws extensively on the Drèze/Sen WIDER Study previously cited, *Hunger and Public Action*, and has obvious implications for incorporating minimum social security and consumption 'entitlements' financed by *foreign savings* into developing country 'sustainable development' programmes.

[11] Ibid., emphases added.

form of foreign savings support for a social safety net to finance the transitional costs of adjustment, as for example in Poland, where a World Bank Structural Adjustment Loan (SAL) funded unemployment benefit payments. Alternatively, it might be possible for a 'development contract' to provide foreign savings support up to a specified maximum proportion of a country's GDP for a social security programme of the country's devising, as has happened in the case of Sri Lanka's Janasaviya and other subsidy programmes.

These are the elements of the 'development contract' framework that can be legitimately inferred from its original formulation in 1989 by Stoltenberg. Since then a major step forward towards the international acceptance of the concept has occurred during the run-up to the Rio Earth Summit, culminating in the endorsement at UNCED of a broadly formulated version of the concept. In that process important additional elements were added and it is these developments that we next review.

The UNCED Secretariat defined the bargain implied in the 'development contract' in a document presented to a meeting in Geneva of UNCED's Preparatory Committee as a 'partnership in additionality' involving 'contracts for accelerated and sustainable development' between a particular developing country and the donor community that participates in its development, and leading to substantial additional aid flows in response to a long-term 'sustainable development' strategy articulated by that country.[12] These may be styled by 'sustainable development compacts'. Typically, aid flows occur today within the framework of an aid group chaired by the World Bank as in the case of my own country, Sri Lanka, and the Indian subcontinent, but this mechanism alongside its many advantages also has several limitations (broadly summarized above), which the 'partnership in additionality' framework is designed to overcome.[13]

The idea presented by the UNCED Secretariat is simply that

> it might facilitate the provision of aid if developing countries were to put forward ambitious, accelerated and 'sustainable development' programmes, and if willing donors responded with additional funding.
>
> A 'partnership in additionality' would be based on a developing country's clear articulation of policies and strategies and a programme of action for their implementation. The strategies would be designed to enable full use of economic opportunities in a drive for fast growth in production levels, while at the same time re-ordering internal priorities toward a broad-based attack on poverty, concentrating, for example, on basic education, and rural infrastructure. Such strategies would be the basis for a

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[12] United Nations General Assembly Document for Preparatory Committee for the United Nations Conference on Environment and Development (3rd Session, Geneva 12 August - 4 September 1991), *Progress Report on Financial Resources: Report of the Secretary General of the Conference*, Document No. A/CONF.151/PC/51 of 5 July 1991, p. 18-19 section (vii).

[13] Lal Jayawardena (1991), *A Global Environmental Compact for Sustainable Development: Resource Requirements and Mechanisms*, WIDER Research for Action Series, Helsinki, p. 18-21, for a listing of both the advantages and limitations of the aid group mechanism.

commitment to increased funding from international and bilateral donor sources. A sustained commitment would be needed by both developing countries and by the donors. It would be essential for such programmes also to enjoy broad popular support since the donor-recipient relationship would be unlikely to endure any charge of unwanted conditionality.

Such a process could be coordinated through existing consultative group and round-table processes. However, in view of the broad nature of the funding required, a special process could be considered where periodically the 'contracting parties' could meet to discuss progress and agree on the solution of any emerging problems and on future plans.

Funds would need to be made available in a flexible way and on a sustained basis. Provided such funding was available to all countries where substantial poverty exists and especially those with sufficient management capacity and infrastructure to absorb the assistance quickly and efficiently, it would appear that substantial additional ODA could be readily absorbed. Very significant inroads could be made on the elements of poverty, in effect achieving the 'socially necessary' rates of growth which the UNU/WIDER study referred to in section 2 (above)[14] defined as necessary to achieve targets for health, education, poverty alleviation, employment and improvements in income distribution. The path through the demographic transition would be quickened. Combined with a concerted effort on capacity building outlined above, developing country population and governments would be made better able to cope with environmental issues.

A similar proposal has been put forward by Mr. Lal Jayawardena in the UNU/WIDER paper referred to earlier.[15] Earlier, it was put forward, in 1989, by Mr. Thorvald Stoltenberg, Foreign Minister of Norway, in a paper presented to the OECD Development Centre's 25th Anniversary Symposium and published in *One World or Several*, OECD, 1989. He called for financing medium- and long-term nature of the commitments to support the effort, ensuring a fair partnership and a central role for the developing countries in question. Participants would include the IMF, the World Bank, other major multilateral agencies and the bilateral donors. The premise of such a comprehensive and sustained system is that it would bring larger and more predictable flows of concessional resources.

Indeed, a sixth element would require to be added to the 'development contract' framework articulated in 1989 by Minister Stoltenberg in order to implement the 'partnership in additionality' envisaged by the UNCED Secretariat involving, as mentioned, 'sustainable development compacts'. This is simply to extend *foreign savings support* to include environmental protection as well. An important

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14 Ibid.

15 Ibid.

environmental problem, for example, is posed by population growth today and stabilizing world population by the year 2050 at 8 billion instead of 10 billion will absorb a significant fraction of the resources needed for environmental protection in the 1990s.[16] Insofar as countries commit themselves to a basic needs oriented human development strategy, this would itself release powerful forces making for slower population growth. Thus, the 'development contract' framework by ensuring foreign savings support for the basic needs components of a country's development strategy, would help indirectly to look after the environmental problem.

However, in order to implement the 'sustainable development compacts', there would, as argued by the South Commission for example, be a need to provide *foreign savings* support also to finance the 'cost of switching to environment sensitive patterns of growth and consumption in the South', as this 'calls for large scale investment which the South can hardly make unaided'.[17] In other words, if a country's indicative development strategy, whose formulation is part of its obligation under its 'sustainable development compact' were to encompass, in addition to provision for its basic needs components, every aspect of feasible environmental protection within its plan horizon, *determined according to its own priorities*, then the country would have a claim on *foreign savings* to finance the necessary expenditures.

Seventh, a special case of such a 'sustainable development compact' would seek to divert towards environmental protection, developing country debt service payments that would otherwise accrue as *potential foreign savings* to their creditors. This would involve in the aggregate a carefully staged writing down of the debts of the developing countries now totalling well over US$1.3 trillion against the *quid pro quo* commitments by debtor countries to implement 'sustainable development' programmes chosen by them which combine what I have called 'socially necessary growth' with environmental protection.

The next stage in the international consideration of the 'development contract' concept was the endorsement of the notion of a 'long-term compact' for 'sustainable development' by the Eminent Persons Meeting on Financing Global Environment and Development held in Tokyo on 15-17 April 1992. The meeting convened by the Secretary-General of UNCED, Mr. Maurice Strong was jointly hosted by two former Prime Ministers of Japan, Mr. Noburu Takeshita and Mr. Toshiki Kaifu, and by Mr. Gaishi Hiraiwa, Chairman, Keidanren (Japan Federation of Economic Organizations). It brought together seven former heads of government drawn from both developed and developing countries, two former presidents of the World Bank, several former Foreign and Environment Ministers including the Chairman of the UNU/WIDER Board, Dr. Saburo Okita, former Foreign Minister of Japan, and other distinguished personalities to pronounce on the financing issues before UNCED. They appealed 'to leaders of all governments to come to the Earth Summit at Rio prepared to commit themselves to the

[16] Ibid., pp. 9-11 and Tables 1 and 2.

[17] South Commission (1990), *The Challenge to the South*, Oxford University Press, pp. 259-60.

measures required to give effect to a new global partnership for sustainable development'.[18]

More specifically, they endorsed the concept of 'sustainable development compacts' in the following language:

> We call for establishment of a continuing process through which developing countries can enter into *long-term compacts* with donors for funding of their external needs for implementation of Agenda 21 measures under mutually-agreed conditions which ensure availability of such funds over time and their effective utilization. The World Bank Consultative Groups and UNDP Roundtables should be utilized for the country-level negotiations this would entail (emphasis added).

These concepts of a 'global partnership for sustainable development, and of 'long-term' commitments, were carried over into Agenda 21 as adopted by the Plenary of UNCED in Rio on June 14, 1992. Though the language became inevitably weakened during the negotiations, it still has sufficiently far-reaching operational implications.

The relevant decision incorporated in Chapter 33 of Agenda 21 on 'Financial Resources and Mechanisms' reads as follows:

> 33.9. For an evolving partnership among all countries of the world, including, in particular, between developed and developing countries, sustainable development strategies and enhanced and predictable levels of funding in support of longer-term objectives are required. For that purpose, developing countries should articulate their own priority actions and needs for support and developed countries should commit themselves to addressing these priorities. In this respect, consultative groups and roundtables and other nationally based mechanisms can play a facilitative role.

To summarize, the preceding discussion has shown that the broad reciprocal obligations required for implementing 'sustainable development compacts' have received international acceptance and gained the endorsement of governments at the Rio UNCED. What lies ahead is to translate this endorsement into operational terms by implementing such compacts in particular cases by utilizing the available mechanisms of consultative groups and roundtables.

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18 UNCED (1992), *Tokyo Declaration on Financing Global Environment and Development*, 17 April.

III THE POTENTIAL OF A 'SUSTAINABLE DEVELOPMENT COMPACT' FOR INDIA

Against this background, a particularly important test case of a 'sustainable development compact' is that of India, which has embarked last year upon a rather brave economic reform programme. Developments in India with its population of over 800 million (and in China with its population of over 1 billion), have particular relevance for sustainable development globally, because any acceleration of their growth processes following economic reform is, on the basis of traditional fossil fuel technologies, bound to have on available calculations a disproportionate impact on global climate change. The *Financial Times* of 30th January 1992 uses somewhat graphic imagery to describe the break with the past that last year's economic reform has initiated — the 'sundered chains' of the Indian elephant. For the first time a major country which has evolved under a broadly *dirigiste* economic regime since independence in 1948, has begun to move in the direction of a market economy, but at a pace and in a manner set by the policy makers' assessments of what is politically feasible and economically sensible to do.

The programme has in various quarters been caricatured as India's capitulation to the Bretton Woods institutions. I do not see it in that way; I see it rather as an attempt by the technocratic elements in the system, led by its distinguished Finance Minister, Dr. Manmohan Singh, and formerly Secretary-General of the South Commission, to embark upon a rapid transformation of the Indian economy by making a brave drive for growth designed to move the economy on to a path of 'socially necessary growth'. This involves, in the first instance, implementing part of the country's obligation in any future UNCED style 'partnership in additionality' framework involving 'sustainable development compacts', namely the 'clear articulation of ... strategies ... designed to enable full use of economic opportunities in a drive for fast growth in production levels.' So far, what we have seen being implemented is the short-term policy side of that strategy involving the exchange rate and the country's fiscal, monetary and trade policies.

The longer-term policy aspects, namely, 're-ordering internal priorities toward a broad-based attack on poverty concentrating for example on basic education and rural infrastructure' are, I believe, in the process of being articulated as part of on-going work on the current Eighth Five-Year Plan. In particular, serious attention is being given to strategies for resolving the unemployment problem by generating a hundred million jobs in rural agro-industry by the year 2000. A great deal would depend on the future willingness of the donor community to respond to these developments in the spirit of the Rio UNCED decision on financial mechanisms cited above, so that India can become an important test case of a 'sustainable development compact' for the 1990s with a special emphasis on basic education and rural infrastructure.

Let me focus on the Indian magnitudes in relation to this longer-term strategy. The problem is essentially one of the inadequacy of available resources. The draft Eighth Plan envisages an investment of 23% of GDP, requiring domestic savings of as much as 22% of GDP and relying on foreign savings, or net capital inflows, only for the residual 1.0%. If the Plan were to incorporate additional expenditure for a 'broad-based attack on poverty' and for 'switching to environmentally sensitive patterns of development', and if the proportion of *foreign savings* financing investment were, for example, to triple to realize these goals — rising, say, from 1.0% to 3.0% of GDP — then the resulting reinforcement of the momentum of the current reform process may well succeed in launching India on to a path of 'sustainable development'. In sum, the 'partnership in additionality' could mean for India an increase in foreign savings inflows from the recent levels of around US$5 billion to an amount in excess of US$15 billion (if foreign private investment is also to be taken account of), as the counterpart of a determined long-term 'sustainable development' strategy that builds upon the short-term reforms currently underway.

The availability of substantially increased external resources could, in addition, make all the difference to the political viability of the current economic reforms which, according to the *Financial Times* article cited, 'are advertised on New Delhi posters with the symbol of an unchained elephant'. The article warns:

> The powerful beast may turn on its new *mahout*. Next month's budget will be a test of the popular will and the opposition parties' patience. Further public expenditure cuts are required by the deal with the Fund. The government's objective is that the overall public sector deficit, which includes the states and public enterprises, is to be reduced from 12.5% of gross domestic product in 1990-91 to about 7% within four years. *British or American treasury officials could not promise the equivalent* (emphasis added).

If India were to become a test case for implementing the Rio Decision on 'sustainable development compacts', the challenge before both the government and the donor community may well be that of managing the reduction in the overall public sector deficit within a politically feasible time-frame. This ought, ideally, to correspond to the expansion of production that is likely to result from the short-term policy package being currently implemented, so that the entire development process can continue to be both politically as well as economically and ecologically sustainable.

The other important example of courageous economic reform in recent years is that of Mexico. In the *Financial Times* article cited, the Indian Finance Minister points out that 'Mexico took seven years — from 1982-89 — to come right'. He muses that 'India could take half that time'. The key consideration in both cases is the particular combination of bold economic reform and adequate external resources support needed to make the process politically sustainable, but thresholds of political tolerance vary as between countries and would affect the optimum mix. It can be argued that inadequate external resources compelled an unnecessarily painful transition in Mexico involving a halving of real wages over the period which the Indian political system may not readily tolerate. For the future, Mexico is the kind of country that could readily qualify for the debt relief route for implementing 'sustainable development compacts' previously discussed, leading to a revival of donor community sponsored commercial bank lending to the country rather than additional Official Development Assistance (ODA). The implication of the contrast between the differing thresholds of political tolerance affecting adjustment in India and Mexico suggests that each country ought to be left free to determine for itself its own pace of adjustment. There is also a case for a study group that would seek to define politically sustainable time paths of adjustment for various groupings of developing countries as a way of providing guide-lines for particular countries to follow.

The more general point that is being made is that if a country expresses a willingness to bite the bullet, as it were, and undertakes brave short-term reforms, it should be then encouraged to go ahead with a longer-term strategy for 'sustainable development', involving a focus on poverty alleviation, provision for basic needs and human development, minimum social security 'entitlements', and environmental protection. The articulation of this longer-term strategy should then cast an obligation upon the donor community to respond with a sufficiently large volume of additional foreign savings in order to make the strategy politically sustainable. These represent, in summary, the basic reciprocal obligations of the parties to a 'sustainable development compact'. What remains to be elaborated is a more precise operational mechanism whereby the existing institutional arrangements involving consultative groups and roundtables can be utilized for implementing 'sustainable development compacts'.

IV A TRIPARTITE OPERATIONAL MECHANISM

The starting point for any operational mechanism is the recognition of two phenomena of recent years. They are, first, the veritable 'silent revolution' now occurring in the developing world and in the former centrally planned economies whereby previously *dirigiste* regimes are seeking to transform themselves into market-oriented and outward-looking economies; and, second the innovations being steadily introduced by the Bretton Woods institutions themselves to prevent the breakdown of stabilization/adjustment programmes when their social costs became excessive. The first phenomenon means that over two thirds of all developing countries and virtually all the formerly centrally planned economies are either involved in, or contemplating coming under, IMF discipline and implementing the necessary policy understandings associated with IMF stabilization/adjustment programmes. The specific conditionality involved varies with the IMF facility being sought and the scale of the drawing on the IMF. In many cases the IMF programme is complemented by a World Bank Structural Adjustment Loan (SAL).

Just as the developing countries have moved away from *dirigiste* policies in recent years, Bretton Woods institutions (the IMF and the World Bank) have been engaged in a process of continuing evolution and innovation in introducing more effective development policies, deriving, as mentioned, in large measure from a concern with preventing adjustment programmes from breaking down when their social costs became politically unsustainable. It is worth listing, summarily, some of the innovations of recent years. The IMF has introduced two concessionary facilities for low income developing countries: the Structural Adjustment Facility (SAF) and the Extended Structural Adjustment Facility (ESAF) whereby resources are available at a concessionary interest rate of 0.5% but funds are limited. These facilities require countries to prepare, in consultation with the IMF and World Bank staff, a Policy Framework Paper (PFP) which examines their economic situation in some depth and outlines the macroeconomic and structural policies to be undertaken over a three-year time horizon. They constitute, therefore, a starting point for enabling countries to formulate the longer duration medium-term strategy that would be their obligation under a 'sustainable development compact'.

The IMF has also innovated in seeking to help the debt-ridden developing countries who were in arrears with the IMF and who were, as a result, precluded from borrowing from it. The innovation was that once these countries adopted IMF-monitored adjustment programmes, support groups drawn from the G-7 and other interested donor countries and multilateral agencies would be formed to assist them. The initial experiments were somewhat halting as many countries in arrears had virtually reached the end of their tether. The promise held out by this innovation, however, is that the adjusting countries would be assured of support from the international donor community if they persevered with their reform efforts. If circumstances changed as, for example, if an external shock occurred, consultations with the support group could allow the adjusting country to modify its programmes. A commitment to reform would elicit supporting assistance. One has here, therefore, an important element of flexibility of the kind that would characterize a 'sustainable development compact'.

The IMF has also reformed its previous compensatory financing facility in ways designed to help developing countries meet external shocks better. The new External Contingencies Facility provides in addition to coverage for export shortfalls, assistance to provide for terms of trade erosion, and crop failure. While moving in the desired direction, assistance remains quota related and, therefore, limited.

The World Bank has similarly innovated with its Structural Adjustment Loans (SALs) in support of medium-term microeconomic policies that supplement the IMF's stabilization programmes which seek to implement short-term macroeconomic policies. The goal of structural adjustment policies was to improve the efficiency of resource allocation within an adjusting country and a SAL would provide quick disbursing loans in support of these policies. Bank policy-based lending has placed increasing stress on taking a longer-term view of a country's prospects. In this respect also there has been movement in the direction required for 'sustainable development compacts'.

These developments have crystallized into what has become known as the 'Washington consensus' on Fund/Bank adjustment recommendations in which five principles are involved:

1. budget balancing;
2. relative prices correction;
3. trade and foreign investments liberalization;
4. privatization;
5. domestic market deregulation.

The result of the convergence of thinking that has occurred means that differences between developing countries and the Bretton Woods institutions in specific negotiations mainly affect two broad clusters of issues. The first cluster relates to matters arising from the *application* of the 'Washington consensus'; they concern (a) the pace of adjustment in respect of principles 1, 2, 4 and 5 above; (b) connected with (a) the scale of external resources available in support of adjustment; (c) the scale of the social safety net accompanying adjustment; and, (d) the scale of provision for human development goals which is connected with (b).

The second cluster of differences concerns the *principle* of the 'Washington consensus' itself; these relate (a) to the kinds of relative prices which may be left uncorrected from a development standpoint in a World Bank SAL, e.g. concessional interest rates for particular sectors; and (b) the extent of import liberalization permissible without destroying in the short run industries which could become viable over the medium-term with import protection.

These differences have received powerful support from influential quarters in Japan in recent years. As regards the first cluster of issues, e.g. the pace of adjustment, and the scale of external resources support, taking the case of the middle-income debtor countries of Latin America, a Study Group of the Japan Association of Corporate Executives (Keizai Doyukai) in a report entitled *Proposals for Solutions on International Debt Problems,*[19] found that the traditional re-scheduling packages implying short-term adjustment had reached the limits of political sustainability as a result of their fiscal austerity and income compression. They suggested that these packages should be replaced by an 'international cooperation committee' consisting of major governments, international organizations, and commercial banks to help the debtor countries evolve an economic reconstruction programme to improve their industrial structure for sustaining economic growth and strengthening export competitiveness, and provide *long-term* support for the programme.

As regards the second cluster of issues concerning the *principle* of the 'Washington consensus' itself, in an important recent paper, entitled *Issues Related to the World Bank's Approach to Structural Adjustment — Proposal from a Major Partner,*[20] Japan's Aid Agency (Overseas Economic Corporation Fund) makes several suggestions, all pointing to the need for a *longer-term* approach to development, if structural adjustment as implemented in World Bank SALs is to move countries towards sustained growth. In the first place, it questions whether the impetus for sustained growth can be created by structural adjustment, if it merely takes the form of introducing a market mechanism, and eliminating restrictions on the private sector. It argues for additional measures aiming directly at promoting investment, and patterned after Japan's fiscal and monetary policies in the post-war era, which were centred on preferential tax treatment and lending by development finance institutions.

Secondly, it challenges the third principle of the 'Washington consensus' which prescribes rapid and indiscriminate trade liberalization. It argues that effective development and industrialization involves deliberate state intervention and cannot be left automatically to the private sector, and advocates the temporary protection of selected domestic industries for relatively long periods of time in order to allow a viable industrial export sector to develop. The paper acknowledges the need to prevent the harmful effects of protection, and proposes as a preventive measure a 'Policy Dialogue on Industrial Development' between donors and each developing country in order 'to identify promising products'.

The concluding paragraph of the paper captioned 'Beyond the Decade of Efficiency' summarizes the viewpoint of an important donor that is especially relevant for the 1990s, in moving in the direction of 'sustainable development compacts':

> Although efficiency and fairness are the major objectives to be pursued in economic policy, there is sometimes a trade-off between the two. In the 1980s, economic theory as well as economic policy were heavily oriented

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[19] Keizai Doyukai (1987) (Japan Association of Corporate Executives), *Proposals for Solutions on International Debt Problems*, Tokyo, March.

[20] OECF Occasional Paper No. 1 (1991), *Issues Related to the World Bank's Approach to Structural Adjustment - Proposal from a Major Partner*, The Overseas Economic Cooperation Fund, October.

toward the pursuit of efficiency. In this sense, it was a unique period. However, this period has come to an end. What is now needed is a policy well balanced between efficiency and fairness in order to improve the welfare of the entire society. The World Bank's approach to structural adjustment may have to be changed reflecting the change of streams.

Against this background, the 'sustainable development compact' becomes a device for overcoming the limitations of present IMF/World Bank procedures. For the principal problem with implementing the 'Washington consensus' within existing external resource constraints is, as noted, the fragility of economic reform efforts in the face of a deteriorating external environment. As a result, developing countries are compelled to make repeated acts of adjustment involving repeated cut-backs in income and consumption, thereby increasing the social costs of adjustment to the point when the political consensus in favour of reform breaks down. Even given a favourable external environment, a second problem is the substantial period of time which typically elapses before stabilization and structural adjustment give way to sustainable growth.

What is needed is to supplement the relevant parts of the 'Washington consensus' with the elements required for sustainable development, while retaining a minimum continuing commitment to economic reform. This commitment to reform would be ensured by requiring a country to be either engaged in an IMF monitored adjustment programme of its choice, or to be seriously seeking to negotiate such a programme, or to be otherwise in good standing with the IMF, in order to qualify for becoming a party to a 'sustainable development compact'. This requirement would, in practice, provide encouragement for a country to have early recourse to the IMF on a basis of minimum conditionality by putting forward a programme that it finds politically feasible to implement, as soon as it encounters balance of payments difficulties. Such a programme should enable a country to qualify for an ESAF or to make a first credit tranche drawing. It would not, as a rule, require a country to implement an import liberalization programme, which is one controversial element in the 'Washington consensus'. When a country's economic difficulties are more advanced, a test of the seriousness of its commitment to reform would be its willingness to present to the IMF a detailed adjustment strategy judged feasible with part of its programme already implemented, as has happened in the case of India.

Since for low income countries, an IMF drawing requires nowadays a minimum three-year planning horizon for an ESAF, for example, the second necessary condition of a sustainable development strategy is the extension of its time horizon to cover a period *long enough* to bridge the transition from stabilization through structural adjustment to sustainable growth. This strategy might be articulated possibly over two to three medium-term periods of five years each, in the form of a 'minimum socially necessary rate of growth' of GDP that would reflect its own internal political consensus. This consensus would determine the trade-off between the short run and the long run, the acceptable changes in income distribution, the minimum goals of human development and satisfaction of basic needs to be pursued, the determination of a minimum set of consumption 'entitlements' for the poor etc. Its main ingredient might be the reduction of unemployment to a minimum tolerable level during the first five years. Its other principal ingredient might be a commitment to human development objectives in the form of a set of minimum social goals to be reached in the areas of education, especially primary education, health, especially primary health care and portable water, family planning, poverty alleviation, the eradication of hunger, and the elimination of serious malnutrition. There would obviously also be provision for the development strategy to be sufficiently broad-based so as to improve income distribution; and provision for an adequate measure of environmental protection. The industrial development component of the strategy could provide for an interventionist approach to industrialization of the kind advocated by Japan's Aid Agency and successfully implemented in East Asia.

In the Stoltenberg formulation of the 'development contract' concept, there has been a concern with finding a role for the wider United Nations system as contrasted with the Bretton Woods institutions, which are, of course, an integral part of the UN system though not always perceived as such. This role could be found, in part, by charging the central United Nations Secretariat (including the UNDP) with the responsibility for providing the developing country, on request, with the technical assistance needed to formulate its longer-term 'sustainable development' strategy. The UN system would draw, as appropriate, on the unique capabilities of the specialized agencies and other organs of the United Nations system in providing this support which would be especially valuable in helping formulate the country's minimum employment and social goals, having regard to country specificity and political neutrality. In the case of Sri Lanka, for example, an employment strategy mission organized under the auspices of the ILO's World Employment Programme in 1971 helped in the formulation of an employment-oriented development strategy which enabled the country to improve its negotiating position with the Bretton Wood institutions in the subsequent years, and eventually helped clinch a four-tranche drawing on the IMF along with access to the Extended Fund Facility essentially on the basis of self-imposed conditionality.

Indeed an important similar initiative has been taken by UNDP this year in fielding missions which helped a selection of countries — Bangladesh, Columbia, Ghana and Pakistan — elaborate comprehensive medium-term human development strategies as part of its attempt to operationalize the concerns expressed in its innovative series of Human Development Reports, which commenced in 1990, under the direction of Dr. Mahbub ul-Haq, a former Finance Minister of Pakistan and a member of UNU/WIDER's first Board. If the international community can agree upon the 'Human Development Compact' suggested in its most recent 1992 Report encompassing global goals to be met by the year 2000, then these goals can also be built into individual country strategies. If an explicitly environmental protection dimension is added to these strategies, they can readily be transformed into 'sustainable development compacts'.

Any such sustainable development strategy articulated by a developing country in terms of its own priorities with technical assistance from the central UN system (including UNDP) could provide the basis for the country to enter into a policy understanding with an institutional focal point which can accommodate the concerns of the donor community as well. This might be the World Bank designated as the lead agency administering the 'sustainable development compact', with the IMF also being involved as appropriate, and the understanding could be about the domestic policies necessary to implement the country's chosen strategy over the initial five year period.

Alternatively, it is possible to take the view recently expressed in an OECD study[21] that 'sustainable development compacts' (styled 'Development Agreements' in the OECD study) 'call for institutional backing which is different in financing and philosophy from that of the Bretton Woods organizations' and the question has been raised, for example, whether the UNDP should have a co-ordinating role.[22] One pragmatic possibility might be for the policy understanding to be negotiated with the World Bank in the case of aid groups it chairs, and with the UNDP in the case of the roundtables it chairs.

The OECD study settles for a design whereby 'the Development Agreement between the beneficiary country and its financial contributors would be managed by a jointly appointed Development Commission ... consisting of senior officials appointed by the beneficiary country government, staff from the financing organizations or governments, and jointly chosen third parties'.[23]

The role for third party members evidently derives from previous history with independent groups that have tried *ad hoc* to mediate in disputes between a developing country and the Bretton Wood institutions, (e.g. Tanzania) and determine a fair balance between effort by the country and by the donor community. A similar honest 'broker' role was played by the ILO's Employment Strategy Mission to Sri Lanka in 1971 led by a distinguished development economist, the late Professor Dudley Seers, where I served as his substantive counter-part at the Sri Lankan end. Third parties would also aid the objective evaluation of performance by both the developing country concerned and by the donor community under a 'sustainable development compact'. The device could well provide an operational role for the Committee of Development Planning (CDP) comprising distinguished high-level academics and policy makers in their personal capacities, which today only plays a deliberative role in giving general guidance to the Secretary-General of the UN on economic policy matters. Provision for third parties would also permit representatives of the non-official private and NGO sectors to participate in Development Commissions, possibly in the capacity of observers. Whatever formula is eventually chosen — and three possibilities have been listed above — any operational mechanism would require determining in advance an institutional focal point with which the 'sustainable development compact' is to be negotiated by a developing country.

The reciprocal commitment by the international donor community is to make the agreed long-term sustainable development strategy proof against the vagaries in the external environment taken into account by the country in framing that strategy. External shocks can range all the way from natural disasters to an unforeseen erosion in

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21 F. Gerard Adams (1991), OECD Development Centre and University of Pennsylvania, *Toward a Concept of Development Agreements*, OECD Development Centre, Paris, mimeo, 28 June.

22 Ibid., p. 15.

23 Ibid., p. 15.

a country's terms of trade. In practice, natural disasters apart, this solution amounts to a commitment by the donor community to protect the real import capacity implied in the country's sustainable development strategy from unforeseen fluctuations in the components that determine it, namely fluctuations in aid flows, export proceeds, and terms of trade, from some norm of 'reasonable expectations' of these variables that would have been built into the strategy. If, for example, the medium-term development strategy is formulated over a five-year time horizon, premised on an assurance of a defined volume of aid support for the period, then all that will be required is provision for compensating the country against unexpected movements in its terms of trade and/or a shortfall in export proceeds from reasonable expectations, in order to maintain the real import capacity needed for implementing the strategy.

The commitment by the donor community to protect the underlying real import capacity of a country's agreed sustainable development strategy would of course be contingent on the country implementing the policy understandings that form part of its 'sustainable development compact' in good faith. Periodic reviews of performance in respect of these policy understandings would provide the flexibility for implementing any mid-course correction to the strategy; for example, if a commodity producer found itself threatened by a much cheaper substitute which was not anticipated when its medium-term strategy was first articulated, the provision of 'supplementary' financing to protect its import capacity would be accompanied by a revised policy understanding regarding a diversification programme to develop alternative export capabilities with whatever exchange rate correction would be warranted.

This framework represents an adaptation to the case of a medium-term development strategy (straddling the transition from stabilization through adjustment to sustained growth) of the idea of the Support Group evolved by the IMF, to enable countries in arrears with the IMF to implement IMF monitored stabilization programmes under circumstances where the IMF was itself precluded from providing supporting finance. However the transition from support for a mere stabilization programme to support for a development strategy means the assumption of an additional set of obligations by the donor community, akin to those expected of the traditional aid group as in Asia, or the roundtables as in Africa, with the difference that they would be mandated to take a longer-term view of the development process. This would naturally shift the institutional focal point of the negotiation away from the IMF to the World Bank, the UNDP or Development Commission, as the case may be. In particular, the 'sustainable development compact' framework would seem to provide the ideal long-term setting for the 'Policy Dialogue on Industrial Development' between each developing country and its donors that has been advocated by Japan's Aid Agency.

The discussion has not sought, so far, to focus on the more explicit political dimensions which might be incorporated in a 'development contract' of the kind often mentioned elsewhere,[24] involving commitments to political pluralism and representative government, and reduced levels of military spending. On the face of it, it

[24] A. Ofstad, A. Tostensen and T. Vraalsen (1991), *Towards a 'Development Contract*, Chr. Michelsen Institute, Fantoft-Bergen, Norway

would appear unreasonable for a country seeking a long-term 'development contract' to treat its current level of military expenditure as being somehow sacrosanct while making a claim on additional donor support for its sustainable development programme premised upon an otherwise credible commitment to economic reform. What can reasonably be built into a 'sustainable development compact', on the other hand, is a commitment to reduce military spending over a period of time, so that during the initial five-year period of the compact, for example, it falls to a level widely canvassed as being an acceptable maximum of no more than 2% of a country's GDP.

Commitments to political reform may turn out to be more problematic as indicated in recent conflicting policy advice given to US President Clinton on the same opinion page of a recent weekend's International Herald Tribune. Former US Ambassador to the UN, Ms. Jeane Kirkpatrick would have the US 'condition economic aid on progress towards democracy' in the case of Africa.[25] In contrast, Jusuf Wanandi, Chairman of the Supervisory Board of the Center for Strategic and International Studies, in Djakarta, expresses concern over 'the priority ... placed on advancing human rights and democracy' by President Clinton, 'if it seeks to force other countries to accept Western values' and fears that such a 'policy will create frictions that could spill into other areas'.[26] Once again, the specification within a 'development contract' of a sufficiently long time-frame within which political reform can occur *pari passu* with accelerated economic development, might provide a way of resolving the dilemma in particular contexts.

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[25] Jeane Kirkpatrick (1992), 'Cautions for Clinton on Foreign Policy', *International Herald Tribune*, 7-8 November.

[26] Yusuf Wanandi (1992), 'From Asia, Three Tests For a New White House, *International Herald Tribune*, 7-8 November.

V CONCLUSION

To summarize, the operational mechanism is tripartite in character involving the developing country, the central UN system, and the donor community. The first *minimum* obligation of the developing country entering into a 'sustainable development compact' is to articulate its medium-term development strategy, encompassing two to three successive five-year periods; this would incorporate the elements required for 'socially necessary growth' and environmental protection in a manner reflecting its own internal political consensus, in the context of this longer-term perspective. Its second *minimum* obligation is to enter into appropriate policy understandings with the Agency that would administer the compact, namely the World Bank/UNDP/Development Commission, as the case may be, in consultation, as necessary, with the IMF.

The *minimum* obligation of the central United Nations Secretariat/UNDP would be to provide the country, on request, with technical assistance support in formulating its development strategy, drawing on the resources elsewhere in the United Nations system, especially in the area of the social goals of the strategy, having regard to country specificity and political neutrality; this support would also be available for negotiating the policy understandings involved in the 'sustainable development compact' with the institutional focal point.

The *minimum* obligation of the donor community is to protect the country's import capacity for the duration of the compact by providing the necessary assurance of long-term aid support and of 'supplementary' financing in support of the underlying export and/or terms of trade expectations, provided the policy understanding was being implemented in good faith. A *further* obligation, with a critical political sustainability dimension, to be incorporated into the compact, might be foreign aid support for minimum social goals, and for targeted minimum 'entitlements' aimed at, for example, poverty alleviation and the elimination of serious malnutrition, together with foreign aid support for the environmental protection goals of the strategy. In addition, the industrial development strategy built into the 'sustainable development compact' would provide, for the kind of policy dialogue advocated by Japan's Aid Agency. Provision for periodic review of the policy understanding, in the light of changing circumstances, would provide the necessary flexibility for ensuring the transition from stabilization to sustained growth. Finally, political reform might be dealt with by the incorporation of a suitable time-frame for desirable changes.

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